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TRADE POLICY REVIEW

European Communities[1]

Report by the Secretariat

This report, prepared for the Trade Policy Review of the European Communities, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government the European Communities on its trade policies and practices.

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Document WT/TPR/G/136 contains the policy statement submitted by the Government of the European Communities.

[1] Previous Trade Policy Reviews of the European Communities had used the "European Union" in the title. At the request of the Commission, the title has been changed to the "European Communities".

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 Communities.

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SUMMARY OBSERVATIONS

(1) THE ECONOMIC ENVIRONMENT

1. The internal economic integration process of the European Communities (EC) was advanced by the adoption of a single currency in the euro area on 1 January 2002. The EC has also enlarged to 25 member States, with ten new members (C-10) since 1 May 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia. With the C-10, the EC population increased by 20%, its land area by 23.1% and its GDP by 5%. In the main, this seventh Trade Policy Review (TPR) of the EC covers the trade policies and practices of its 15 member States (EC-15), before enlargement.

2. The EC-15 has pursued its monetary discipline, which, combined with the appreciation of the euro against major currencies, helped to reduce inflation from 2.2% in 2001 to 2% in 2003. In 2002, the EC-15 registered its first current account surplus since 1998 (€ 57.2 billion, equivalent to 0.7% of GDP), followed by a surplus (€ 49.7 billion) in 2003. This was partly due to a trade surplus (€ 4.8 billion in 2002), derived from the negative growth differential between the EC-15 and its main trading partners (with buoyant demand, notably from the United States and Asia), and the lagged pass-through effects of the appreciation of the euro on the trade balance.

3. The EC's GDP growth rate has slowed since 2001 (from 3.6% in 2000 to 0.8% in 2003), reflecting slower productivity growth, structural rigidities, a reduction in investment expenditure, and lagging private consumption. The decline in economic growth translated into an increase in the unemployment rate, which rose from 7.6% in 2001 to 8.1% in 2003. The ratio of the public deficit to GDP increased from 1% in 2001 to 2.6% in 2003, as a result of both revenue decrease and expenditure increase, with some member States breaching the Stability and Growth Pact (SGP) with repect to fiscal accounts. Long-term sustainability of public finances in the EC-15 is also made difficult by the relatively high levels of government debt in certain member States, to some extent because of ageing populations.

4. In the Broad Economic Policy Guidelines (BEPG) for 2003-05, the Council emphasized that measures identified, under the 2000 Lisbon strategy, to make the EC the most "competitive and dynamic knowledge-based economy in the world by 2010", should be speedily implemented. Recent trends in the EC's trade performance have raised hopes of the recovery of its economy in the coming months.

(2) INSTITUTIONAL FRAMEWORK

5. The most important change to the institutional framework of the EC since its last Trade Policy Review, in July 2002, has been the entry into force of the Treaty of Nice on 1 February 2003, to gear the workings of the EC institutions to its enlargement. Under the Treaty, the EC's competence has been extended to cover the negotiation and conclusion of agreements on trade in services and commercial aspects of intellectual property. Reforms to simplify and improve the regulatory environment and promote a culture of dialogue and participation have also been ongoing.

6. The EC's trade policy is geared towards the liberalization of its trade regime, through both the multilateral and preferential routes. At the multilateral level, the EC continues to be a key player, including in the launch and ongoing implementation of the Doha Development Agenda (DDA). It accords at least MFN treatment to all WTO Members. In general, the EC meets its WTO notification obligations, thereby contributing to the transparency of its trade regime. The EC and its member States are leading contributors to the WTO's Global Trust Fund for technical cooperation. The EC is also a leading user of the WTO dispute settlement system; during the period under review, it was a complainant in seven cases and a third party in 19 disputes, *most of which were against the United States. As a consequence of its enlargement to 25 members, procedures relating to a re-negotiation of the EC's tariff concessions have commenced; the EC's preferential trade relations were consolidated, as the Europe and Association Agreements concluded with the acceding countries were terminated, and the new members have adopted the EC's acquis communautaire.*

7. The EC has in place several preferential trade agreements (PTAs), and negotiations for new PTAs are ongoing. During the period under review, the EC concluded agreements with Chile, Egypt, Jordan, and Lebanon. Negotiations are ongoing with Albania; Syria; MERCOSUR; countries in the Gulf region; and with groups of African, Caribbean and Pacific (ACP) States, under the economic partnership agreements. However, in order to focus efforts on the multilateral negotiations, no new negotiations were commenced during the period. The EC continues to offer non-reciprocal trade preferences to almost all ACP countries under the Cotonou Agreement; and to developing countries in general under its GSP scheme, including its "Everything But Arms" initiative for tariff- and quota-free access to almost all exports from least developed countries.

8. Currently, the EC's purely MFN regime applies to nine WTO members, which account for some 36% of its merchandise trade. The EC's preferential trade agreements have so far resulted in free trade with the concerned partners in industrial goods and limited liberalization of trade in agricultural goods, i.e. a certain share of its trade with preferential partners is still under the MFN regime. Some PTAs also provide for liberalization of some services subsectors. Under its reciprocal preferential agreements, liberalization is undertaken asymmetrically, with the EC liberalizing at a faster speed. Increasingly, its PTAs are taking into account trade rules (e.g. trade defence instruments, standards and technical regulations) and environmental considerations, and are with or seek to encourage other regional groupings.

(3) TRADE POLICY INSTRUMENTS

9. The EC's MFN tariff has remained largely unchanged since its last TPR. The average applied MFN tariff rate has remained fairly stable at 6.5% in 2004. However, the tariff structure remains complex, particularly on agricultural products. Non-ad valorem duties, applied on some 46% of agricultural tariff lines, comprise specific, mixed, compound and "entry price" (variable) duties; and in some cases, these duties are applied according to the technical content of products and could vary with the season. Agricultural products attract the highest tariff rates, reaching up to an ad valorem equivalent of 209.9% on whey and products consisting of natural milk constituents. In aggregate, due to the relatively high protection of agricultural products, the tariff shows mixed escalation, negative from the first stage of processing to semi-processed goods, and then positive to fully processed products. Export subsidies (mostly on agricultural products), though on the decline, remain relatively high.

10. Import prohibitions maintained in the EC are generally based on international agreements. Import licences are required for surveillance, quota management, and safeguard purposes. Tariff quotas maintained on textiles and clothing are due to expire by 31 December 2004. Other tariff quotas, applied to some 89 agricultural products, are filled at about 67%.

11. Customs procedures are harmonized amongst EC member States, although their uniform implementation remains a challenge. Under its "Customs 2007 programme", the EC is improving its customs administration through, inter alia, the implementation of various communication and information exchange systems to support the creation of a paperless (electronic) customs environment. Similar information technology systems are being implemented to improve the administration of VAT and excise duties, both *of which apply to imports and locally produced goods at the same rates, though not fully harmonized among EC member States. During the period under review, directives were adopted to ensure that VAT is collected at the place where certain services are consumed (recipients destination).*

12. The EC remains a leading user of contingency trade remedies; in 2002 and 2003, it initiated a total of 27 anti-dumping, 4 countervailing and 3 safeguard investigations. Technical regulations remain partially harmonized among EC member States. At the Community level, the Old-Approach Directives specify detailed technical requirements, and the New-Approach Directives specify the essential requirements. Conformity assessment is carried out by bodies designated by member States; however for some products, the EC accepts the supplier's declaration of conformity. Some developed countries take part in the EC's conformity assessment activities through mutual recognition agreements. The EC is also engaged in several assistance programmes with developing countries in the field of technical regulations. On food safety, the EC attaches great importance to the need to maintain a high level of safety at all levels of the food chain. To this effect, Community-wide legislation on sanitary and phytosanitary standards has been adopted. Concerns have been raised by third countries about some of these regulations.

13. The EC has taken measures to simplify, modernize, and make more flexible its public procurement regime. In May 2004, reforms relating to the coordination of public procurement procedures were approved. Measures taken in the area of competition policy include: legislative reforms aimed at modernizing the enforcement system for EC competition rules, and reducing the incidence of anti-competitive practices in the motor industry and air transport sector; block exemptions in specified areas; and a revision of the merger regulation. On intellectual property protection, legislation was adopted on, inter alia, the registration of EC designs; protection of geographical indications and designations of origin for agricultural products and foodstuff; and on measures to combat counterfeiting and piracy.

(4) SECTORAL POLICIES

14. Since its last TPR, the EC has continued to reform its Common Agricultural Policy (CAP) by lowering distortions, achieving greater market orientation, and reducing agricultural support, mainly through the decoupling of payments from production. However, tariff protection at an average rate of 10% for agriculture (major division 1 of ISIC, Revision 2), or 16.5% using the WTO definition of agricultural products, and domestic support, coupled with the limited liberalization of trade in agricultural products under the EC's preferential trade agreements, continue to limit foreign competition and to generate surpluses of some products. The policy has made subsidies important for exports of certain surpluses, as well as of some processed agricultural products.

15. Since 2003, the EC has a new Common Fisheries Policy (CFP), aimed at achieving biologically, environmentally, and economically sustainable fisheries by, inter alia, better conserving fish stocks, protecting the marine environment, and ensuring the economic viability of the European fleets. The main changes to the previous CFP are: the adoption of a long-term approach to fisheries management; a new fleet policy; socio-economic measures; access to waters and resources; and involvement of stakeholders in decision-making.

16. The EC has an energy-intensive economy, which is about 50% self-sufficient in energy. Support is still granted for, inter alia, more efficient environmental friendly energy. Modifications to the energy policy guidelines are envisaged to achieve security of energy supply, complete the EC internal market, and enhance competition in the subsector. Under recently enacted legislation, the electricity and natural gas markets have been further liberalized and made more efficient.

17. EC's productivity growth in manufacturing has continued to decelerate. The sector is also a major beneficiary of state aid. The EC is implementing wide-ranging programmes to make manufacturing more productive. Tariffs on manufactured imports (major division 3 of ISIC, Revision 2) average 6.4%, with relatively high rates on some processed food products.

18. The services sector is, by far, the most important contributor to the EC's real GDP and employment. Nevertheless, the sector has lagged behind others in creating a single market, largely because of differences in regulation across member States. The EC has taken steps to address some of the structural problems in certain services subsectors, particularly through the Financial Services Action Plan (FSAP), the reform of the regulatory framework on telecommunications, and progress on the Action Plan for Transport. Further liberalization of services is considered as the most important mid- and long-term goal of EC reforms, since it would boost the overall "competitiveness" of the economy.

(5) TRADE POLICY AND TRADING PARTNERS

19. The EC has a long-standing commitment to the multilateral trading system and participates actively in various PTAs. It was fundamental in building support for the launch of the DDA and has been instrumental in advancing it by tabling proposals in several areas. The unrelenting commitment of the EC to the WTO is vital to a successful conclusion of the DDA.

20. Enlargement has consolidated trade relations within Europe. Enlargement and the EC's PTAs have also contributed to further improving competition in the economy. However, the wide variety of PTAs, with different trade liberalization agendas and trading rules (including rules of origin) further complicates the EC's trade regime. Moreover, for preferential trading partners, absence or delays in alignment of their regimes may lead to trade diversion to the detriment of their exports. Nevertheless, the decision by the Council not to launch new preferential trade negotiations may relax pressure on demand for administrative and negotiating resources.

21. The EC market is open for non-agricultural products and somewhat protected for agricultural goods. The EC is the world's leading exporter and the second-largest importer of goods. This is indicative of the importance of trade to the EC, and of the significance of the EC market for the world at large. Therefore, further simplification of the EC's trade regime, notably of its tariff structure on agricultural products, harmonization of trade-related procedures at the EC-25 level, and the continuation of structural reforms would substantially contribute to the promotion of world trade and to the improvement of the EC's resource allocation.

I. ECONOMIC ENVIRONMENT

(1) MAIN CHARACTERISTICS

1. The 15 member States of the European Communities (EC-15) cover a land area of 3.2 million km^2 and have a combined population of 380.8 million (Table I.1).[1] France is the biggest country in surface and Germany the most populated, while Luxembourg is the smallest in both area and population. In 2002, the GDP of the EC-15 was € 9,170 billion (26.7% of world GDP). Its per capita income was € 24,310 (more than four-fold the world average) in 2003; Luxembourg ranks first, followed by Denmark and Ireland.

Table I.1
Selected indicators of the EC-15, euro area and the C-10, 2003

	Area	Population	GDP per capita		Share in gross value added (per cent)		
	('000 km^2)	(million)	Euro	PPS[a]	Agriculture, hunting, forestry and fishing	Industry[b]	Services
EC-15	**3,154**	**380.8**	**24,310**	**24,300**	**2.0**	**26.7**	**71.3**
Euro area	**2,458**	**306.9**	**23,500**	**23,800**	**2.3**	**26.9**	**70.8**
Austria	84	8.1	27,670	26,910	2.3	30.5	67.2
Belgium	31	10.4	25,620	25,860	1.2	26.1	72.7
Denmark	43	5.4	34,730	27,190	2.1	25.1	72.8
Finland	305	5.2	27,510	24,500	3.4	29.9	66.7
France	544	59.9	25,170	25,120	2.6	24.2	73.2
Germany	357	82.5	25,800	24,050	1.1	28.6	70.3
Greece	132	11.0	13,960	17,940	6.7	22.9	70.4
Ireland	70	4.0	33,710	29,600	3.2	40.5	56.3
Italy	301	57.5	22,390	23,910	2.5	26.6	70.9
Luxembourg	3	0.5	51,240	45,270	0.6	16.7	82.7
Netherlands	34	16.3	27,880	26,570	2.5	24.9	72.6
Portugal	92	10.5	12,730	16,830	3.6	27.5	68.9
Spain	505	41.0	18,210	21,270	3.2	28.5	68.3
Sweden	411	9.0	29,850	25,460	1.8	27.2	71.0
United Kingdom	244	59.5	26,790	26,830	0.9	25.9	73.2
C-10	**739**	**74.1**	**5,850**	**11,860**	**3.5**	**31.3**	**65.2**
Cyprus	9	0.7	15,850	18,870	4.3	20.2	75.5
Czech Republic	79	10.2	7,410	15,550	3.4	38.4	58.2
Estonia	45	1.4	5,470	10,250	5.4	29.3	65.3
Hungary	93	10.1	7,120	13,430	3.7	30.7	65.6
Latvia	65	2.3	3,940	9,080	4.5	24.5	71.0
Lithuania	65	3.5	4,490	10,050	7.1	30.5	62.4
Malta	0.3	0.4	11,330	16,800	2.8	28.2	69.0
Poland	313	38.2	4,830	10,400	3.1	30.0	66.9
Slovak Republic	49	5.4	5,360	11,730	3.9	32.0	64.1
Slovenia	20	2.0	12,280	16,950	3.0	35.2	61.8
Memorandum:							
United States	9,373	288.6	33,340	33,710	1.3	21.6	77.1
Japan	378	127.4	29,910	24,840	1.3	29.1	69.6

a In euros, measured on the basis of purchasing power standards (PPS).
b Including construction.

Source: Eurostat (2003), *50 years of figures on Europe*; Eurostat (2004), Newcronos Theme 2: *economy and finance*; Eurostat (2004), *First results of the demographic data collection for 2003*; ECB (2004), *Statistics Pocket Book*; and information provided by the EC authorities.

[1] Since 1 May 2004, the EC is an entity with 25 member States, ten members having acceded on that date. In the main, this report covers the 15 members (EC-15) prior to 1 May 2004; the ten members that acceded to the EC on 1 May 2004 are refered to, for purposes of this report only, as the C-10.

2. With the ten acceding countries (the C-10) – Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia – the EC population was enlarged by 20%, its land area by 23.1% and its GDP by 5%[2]: on average, the C-10's GDP per capita is about one-quarter of the EC-15's. Poland contributes almost half of the EC increase in population and land area, while Cyprus and Slovenia have the highest per capita income. In 2001, average labour productivity in the C-10 was 52.2% that of the EC-15's.[3] Trade Policy Reviews (TPRs) of four of the C-10 (Estonia, Latvia, Lithuania, and Malta) were done before their accession to the EC; appendix Tables present data on their trade and economic situations prior to their accession.

3. Services constitute by far the most important sector in terms of employment and contribution to gross value added (GVA) in the EC-15. The same applies for the C-10. In 2003, services accounted for 71.3% of the EC-15's GVA and employed 68% of its labour force (about the same as in 2000); in the C-10, the corresponding figures were 65.2% and 54%.[4] Industry and construction contributed 26.7% to the EC-15's GVA in 2003, and employed 28% of the population, with the remainder attributed to agriculture, hunting, forestry and fishing (Chapter IV(2)).

4. The economies of the EC-15 range from the more agriculture-oriented, relatively labour-intensive, low-skill and low-wages "EC-South" (e.g. Greece, Portugal, and Spain), to the industrially more advanced, services-oriented, capital-intensive and high-wages "EC-North" (e.g. Belgium, France, Germany, Netherlands, and the United Kingdom). The EC-15 is also characterized by substantial diversity in wealth, with "competitiveness" conditions differing substantially between countries.[5]

5. Some of the acceding countries (e.g. Hungary, Estonia, the Czech Republic, and the Slovak Republic) have been rapidly adjusting their industrial structures to those of the more developed EC-15 members. They have reduced their specialization in labour-intensive, low-skill production, moving towards more sophisticated, technology-intensive industries, and upgrading their exports product quality. Other C-10, such as Latvia and Lithuania, are still more labour-intensive or natural-resource-intensive, and continue to exhibit low-skill patterns of specialization.[6]

6. Twelve EC member States - Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Spain, and Portugal - form the "Euro area", with the euro as their national currency. To be able to adopt the euro, member States outside the euro area have to meet the Maastricht convergence criteria: price stability (the average inflation rate should not exceed by more than 1.5 percentage point that of, at most, the three best performing member States in terms of price stability); sustainable fiscal position (deficit not exceeding 3% of GDP or close to that limit, and the ratio of general government debt to GDP not over 60% or approaching that level); exchange rate stability through participation in the Exchange Rate Mechanism II (ERM II), respecting the normal

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[2] Compared to previous EC enlargements (i.e. from six to nine members in 1973; from nine to twelve in 1981-86; and from twelve to fifteen in 1995), the 2004 expansion is not the biggest in terms of either population, surface, and GDP. The 1973 enlargement has been the largest in terms of population (an increase by 25%), and GDP (20%); while the accession from nine to twelve members added the largest surface (30%). WTO (2003c), Box IA.2.

[3] European Commission (2003g).

[4] OECD (2003b).

[5] The process of convergence has been slow and, therefore, fostering regional cohesion remains a critical policy challenge for the EC. Some of more successful EC-15 regions (e.g. Oberbayern and Darmstadt in Germany; Sterea Ellada in Greece; Ile de France in France; and Niederosterreich in Austria) benefit from, *inter alia*, good transport and communication networks; strong entrepreneurial culture; high-tech clusters; and links between the academic and business communities (European Commission, 2003g).

[6] European Commission (2003g).

fluctuation margins without severe tensions for at least two years[7]; and low interest rates (the average nominal long-term interest rate should not exceed by more than 2 percentage points that of, at most, the three best performing member States in terms of price stability). The common monetary policy is managed by the Eurosystem, which consists of the independent European Central Bank (ECB) and the National Central Banks of the member States that have adopted the euro.

7. Denmark, Sweden and the United Kingdom (UK) have retained their own national currencies. Denmark and the UK have an opt-out clause from euro area participation, i.e. they have the right to remain outside the euro area even when all convergence criteria are met. Sweden does not have such a clause and is therefore expected to join the ERM II at some stage and subsequently adopt the euro, subject to the fulfilment of the necessary conditions.[8] The C-10 entered the EC as member States with a derogation; they participate in the coordination of economic policies to the extent required by the Treaty and are expected to work towards fulfilling the Maastricht convergence criteria.

8. The Economic and Monetary Union (EMU) is a unique policy framework: it has a centralized monetary policy framework but decentralized budgetary policies. Fiscal policy has been left to the national authorities of each member State on the basis of the Stability and Growth Pact (SGP), adopted in 1997. The SGP aims to ensure that sound fiscal policies confer credibility on the euro.[9] The euro is now the second most widely used currency worldwide, and about half of the area's external trade is euro denominated.[10] Since the last TPR of the EC, the euro has appreciated significantly against major currencies (Table I.2).

[7] The ERM provides the framework for coordination of exchange rate policies. It was formed in 1979 in an attempt to create a zone of exchange rate stability, a prerequisite to the introduction of the euro. A new exchange rate mechanism (ERM II) came into force as from 1 January 1999. It aims to ensure that member States outside the euro area, but participating in the mechanism, orient their policies towards stability and foster convergence, which should help them in their efforts to adopt the euro. At the same time, the mechanism is intended to help protect the member States adopting the euro from unwarranted pressures in the foreign exchange market. Since Greece joined the euro zone on 1 January 2001, Denmark is currently the only country in the ERM II (the Danish krone may fluctuate +/- 2.25% of the Euro) (European Commission, *New exchange-rate mechanism (ERM II)*, [Online]).

[8] To participate in the euro area, member States must fulfil legal convergence as well as the convergence criteria on price stability, government budgetary position, exchange rates, and interest rates. In 2002, Sweden fulfilled all convergence criteria, except that on exchange rates; and legal convergence had not been achieved. The Commission, therefore, concluded that there should be no change in the status of Sweden as a member State with a derogation. In a referendum on adoption of the euro, held in Sweden on 14 September 2003, a majority of Swedes voted against adoption (European Commission, *Sweden: Convergence report 2002*, [Online]).

[9] The SGP has to be seen against the background of the third stage of EMU. It specifies the procedure to be followed in case a member State breaches the 3% public deficit limit, on the basis of the Excessive Deficit Procedure (EDP), as laid down in the EU Treaty. It also specifies the procedure for the Council to impose a penalty, which initially would take the form of a non-interest-bearing deposit with the Community, but it could also be converted into a fine if the excessive deficit is not corrected within two years.

[10] According to IMF estimates, 18.7% of the official foreign exchange reserves of IMF member countries were denominated in euro at the end of 2002 (IMF, 2003). Some one-fifth of global foreign exchange trade involves the Euro (WTO, 2003c).

Table I.2
Euro exchange rates, 1996-03
(Period averages)

	Effective exchange rate of the euro[a]				ECU or euro exchange rate[b]
	Narrow group		Broad group		(U.S. dollar)
	Nominal	Real	Nominal	Real	
1996	108.1	108.7	95.4	105.9	1.2697
1997	99.1	99.4	90.3	96.6	1.1340
1998	101.5	101.3	96.5	99.2	1.1211
1999	95.6	95.7	96.5	95.9	1.0658
2000	85.4	86.1	88.0	86.0	0.9236
2001	87.0	88.4	90.8	87.7	0.8956
2002	89.7	92.3	95.4	91.6	0.9456
2003	99.9	103.6	106.8	102.0	1.1312

a The nominal and real effective exchange rate indices of the euro are based on weighted averages of bilateral euro exchange rates. They all refer to the Euro 12, i.e. Greece is treated as a euro area country prior to January 2001. Weights are based on 1995-97 manufactured goods trade with the euro area's main trading partners and capture third-market effects. The narrow group is composed of the United States; Japan; Switzerland; the United Kingdom; Sweden; Denmark; Norway; Canada; Australia; Hong Kong, China; Republic of Korea; and Singapore. The broad group includes 26 additional countries. Real rates are obtained by deflating the nominal rate by consumer price indices (HICP for EU countries, CPI elsewhere).

b Until December 1998, rates for the ECU; from January 1999, rates for the euro.

Source: ECB (2004), *Statistics Pocket Book*, March, p. 16, Frankfurt.

(2) RECENT ECONOMIC DEVELOPMENTS

9. The EC-15's economy has generally been in growth slowdown since 2001. The reasons for the subdued economic activity are mainly domestic: continuous deceleration of productivity growth[11]; structural rigidities, especially concerning labour costs; reduction in investment expenditure because of declining corporate profitability and the increased cost of capital due to the severe stock market contraction of 2002[12]; and low private consumption partly as a result of uncertainty regarding future labour and pension income. Moreover, the continuous appreciation of the euro against major currencies (the U.S. dollar in particular) has weakened the "competitiveness" of European exports. As a result, the real GDP growth rate fell from 3.6% in 2000 to 0.8% in 2003 (Table I.3).[13] However, the EC economy experienced a turnaround in the third quarter of 2003, driven by a surge in foreign demand and a revival in industrial production and investment.

10. Low economic growth over 2001-03 was translated in an upward trend in the unemployment rate in the EC-15, which went from 7.6% in 2001 to 8.1% in 2003 (14.2 million people). In 2003, the highest unemployment rate was recorded in Spain (11.3%), followed by Greece, Germany, and France; Luxembourg (3.7%) recorded the lowest unemployment rate. Among the C-10, Poland has an unemployment rate of 19.8%, and the Slovak Republic 17.1%; Cyprus has the lowest rate (4.4%) (Table I.4).

[11] EC's overall productivity growth has slowed markedly since 1995, largely as a result of difficulties in taking advantage of information and communication technologies (ICTs), and slow innovations. European Commission (2003g).

[12] In 2002, the total market capitalization of all major EC-15 stock exchanges fell by 31%, from € 7,661 billion in 2001 to € 5,300 billion in 2002 (DG Economic and Financial Affairs, 2002).

[13] In the euro area, GDP growth decreased from 1.4% in 2001 to 0.4% in 2003, its weakest economic growth rate since 1993. Regarding C-10, GDP growth rates ranged from 6.5% in Latvia to 1.3% in Malta in 2003.

Table I.3
Growth in real GDP and expenditure components of EC-15 and euro area, 2000-03
(Percentage changes; base year: 1995)

	2000	2001	2002	2003
EC-15:				
GDP	3.6	1.7	1.0	0.8
Domestic demand	3.1	1.4	0.5	1.2
Household	3.1	2.0	1.1	1.4
Government	1.9	2.3	2.8	2.0
Gross fixed capital formation	4.9	0.6	-1.8	-0.7
Exports	12.1	3.1	1.4	0.1
Imports	10.9	2.1	0.8	1.5
Euro area:				
GDP	3.5	1.6	0.9	0.4
Domestic demand	2.9	1.1	-0.2	1.0
Household	2.7	1.8	0.5	1.1
Government	2.1	2.5	2.9	1.7
Gross fixed capital formation	5.0	0.0	-2.6	-1.3
Exports	12.6	3.3	1.7	0.0
Imports	11.2	1.8	0.1	1.5

Source: Eurostat, *Gross Domestic Product 2002*, Theme 2 – 56/2003; and information provided by EC authorities.

Table I.4
Key macroeconomic indicators, 2002-03

Country	Real GDP growth rate		Inflation rate (HICP annual change)		General government debt (% of GDP)		General government balance (% of GDP)		Current account balance (% of GDP)		Unemployment (% of labour force)	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
EC-15	**1.1**	**0.8**	**2.1**	**2.0**	**62.5**	**64.1**	**-1.9**	**-2.6**	**0.7**	**0.2**	**7.7**	**8.0**
Euro area	**0.9**	**0.4**	**2.3**	**2.1**	**69.2**	**70.4**	**-2.3**	**-2.7**	**1.3**	**0.5**	**8.4**	**8.8**
Austria	1.4	0.7	1.7	1.3	66.6	65.0	-0.2	-1.1	0.5	-0.4	4.3	4.4
Belgium	0.7	1.1	1.6	1.5	105.81	100.5	0.1	0.2	5.1	3.7	7.3	8.1
Denmark	1.0	0.0	2.4	2.0	47.2	45.0	1.7	1.5	2.0	2.9	4.6	5.6
Finland	2.3	1.9	2.0	1.3	42.6	45.3	4.3	2.3	7.4	5.5	9.1	9.0
France	1.2	0.2	1.9	2.2	58.6	63.0	-3.2	-4.1	1.6	0.9	8.8	9.4
Germany	0.2	-0.1	1.3	1.0	60.8	64.2	-3.5	-3.9	3.1	2.6	8.6	9.3
Greece	3.9	4.2	3.9	3.4	104.7	103.0	-1.4	-3.0	-5.2	-7.0	10.0	9.3
Ireland	6.9	1.2	4.7	4.0	32.3	32.0	-0.2	0.2	-0.7	-0.9	4.3	4.6
Italy	0.4	0.3	2.6	2.8	108.0	106.2	-2.3	-2.4	-0.3	-1.2	9.0	8.7
Luxembourg	1.3	1.8	2.1	2.5	5.7	4.9	2.7	-0.1	..	..	2.8	3.7
Netherlands	0.2	-0.8	3.9	2.2	52.6	54.8	-1.9	-3.2	2.1	1.5	2.7	3.8
Portugal	0.4	-1.3	3.7	3.3	58.1	59.4	-2.7	-2.8	-7.4	-5.0	5.1	6.4
Spain	2.0	2.4	3.6	3.1	54.6	50.8	0.0	0.3	-2.7	-3.2	11.3	11.3
Sweden	2.1	1.6	2.0	2.3	52.6	51.9	0.0	0.7	5.1	5.5	4.9	5.6
United Kingdom	1.6	2.2	1.3	1.4	38.5	39.7	-1.6	-3.2	-1.7	-1.7	5.1	5.0
C-10	**2.4**	**3.6**	**2.7**	**2.1**	**39.4**	**42.2**	**-4.9**	**-5.7**	**-5.4**	**-3.7**	**14.8**	**14.3**
Cyprus	2.0	2.0	2.8	4.0	67.1	72.2	-4.6	-6.3	-5.3	-4.4	3.9	4.4
Czech Republic	2.0	2.9	1.4	-0.1	28.9	37.6	-6.4	-12.9	-6.2	-6.5	7.3	7.8
Estonia	6.0	4.8	3.6	1.4	5.7	5.8	1.8	2.6	-12.2	-13.7	10.5	10.0

Table I.4 (cont'd)

Country	Real GDP growth rate		Inflation rate (HICP annual change)		General government debt (% of GDP)		General government balance (% of GDP)		Current account balance (% of GDP)		Unemployment (% of labour force)	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Hungary	3.5	2.9	5.2	4.7	57.1	59.0	-9.3	-5.9	-4.0	-5.7	5.6	5.8
Latvia	6.1	7.5	2.0	2.9	15.5	15.6	-2.7	-1.8	-7.6	-9.1	12.6	10.5
Lithuania	6.8	8.9	0.4	-1.1	22.8	21.9	-1.4	-1.7	-5.4	-6.1	13.6	12.7
Malta	1.7	0.4	2.2	1.3	61.7	72.0	-5.7	-9.7	-4.7	-5.5	7.5	8.2
Poland	1.4	3.7	1.9	0.7	41.2	45.4	-3.6	-4.1	-2.6	-2.0	19.8	19.8
Slovak Republic	4.4	4.2	3.5	8.5	43.3	42.8	-5.7	-3.6	-8.2	-0.9	18.7	17.1
Slovenia	2.9	2.3	7.5	5.7	27.8	27.1	-1.9	-1.8	1.7	0.2	6.1	6.5
Memorandum:												
United States	2.2	3.1	1.6	2.3	61.0	..	-4.5	-4.7	-4.5	-4.7	5.8	6.0
Japan	-0.4	2.7	-0.9	-0.3	149.4	157.3	-7.9	-7.7	2.8	3.1	5.4	5.1

.. Not available.

Source: European Commission (2004), *Economic Forecasts, Spring 2004*, Brussels; and information provided by the EC authorities.

11. Monetary discipline, combined with the appreciation of the euro against major currencies, helped to contain inflation pressures coming largely from higher oil prices due to the war in Iraq. Inflation in the EC-15, as measured by the Harmonized Index of Consumer Prices (HICP), decreased from 2.2% in 2001 to 2% in 2003. In the euro area, HICP inflation declined from an annual average of 2.3% in 2002 (unchanged from 2001) to 2.1% in 2003. The euro cash changeover in 2002 had a temporary and modest impact on overall euro area inflation.[14] In 2003, the inflation rate varied across member States, from 4% in Ireland and 3.4% in Greece, to 1% in Germany. Inflation in the C-10 averaged an estimated 2.1% in 2003; the lowest inflation rate was recorded by Lithuania (-1.1% in 2003), while the highest was by the Slovak Republic (8.5%) (Table I.4).

12. The primary objective of the ECB is to maintain price stability in the euro area (defined as year-on-year increase in the euro area HICP by below but close to 2%, over the medium-term). As a result of the economic slowdown and reduced inflationary pressures, the ECB has been easing its monetary policy stance: its key interest rate was reduced from 3.25% on 8 November 2001 to 2.75% on 5 December 2002 and 2.5% on 6 March 2003; its present level of 2%, since 5 June 2003, is the lowest rate in any member State for some 50 years.[15]

13. At the time of the last TPR of the EC, the euro had depreciated continuously against the U.S. dollar[16], from its initial level of US$1.17 to US$0.87 in February 2002. Since then, the euro has appreciated almost continuously, reaching US$1.29 on 17 February 2004, its highest rate ever; it had declined to US$1.19 by the end of April 2004. The nominal and real effective exchange rates of the euro reveal a similar picture, with the former appreciating by 17.6% during 2002-03, and the latter by

[14] The introduction of the euro on 1 January 2002 ended the transition process during which, national currencies had co-existed with the euro as "expressions of the same currency". See WTO (2002).

[15] Nominal interest rates in member States have not been so low since the 1950s, and real long-term interest rates since the late 1970s. European Commission (2003t).

[16] The ECB, in concert with the monetary authorities of the United States, Japan, Canada, and the UK, intervened to support the euro when it depreciated significantly (WTO, 2002).

16.3% over the same period (Table I.2).[17] The appreciation of the euro against the U.S. dollar is, among other things, widely attributed to the fiscal and current account deficits of the United States.

14. In the context of a protracted economic slowdown, fiscal policies have deteriorated, leading to breaches of the SGP. On 25 November 2003, the Council of Economic and Financial Affairs Ministers (Ecofin) decided to suspend the rules and procedures that govern the SGP as a result of excessive public deficits in France and Germany.[18] Indeed, public deficit to GDP in the EC-15 increased from 1% in 2001 to 2.6% in 2003, and in the euro zone from 1.6% to 2.7% over the same period. In 2003, the public deficit to GDP ratio in France, Germany, Greece, Netherlands, and the UK reached or exceeded the 3% limit (Table I.4). The widening of public deficits was caused by both revenue decrease and expenditure increase. This deterioration was due, not only to the support of economic activity in time of economic difficulties, but also to discretionary loosening in countries that can ill-afford it, as they suffer from high structural deficits.[19] Furthermore, the failure to comply with the SGP risks undermining the credibility of the institutional framework and the confidence in sound public finances of member States across the euro area. The ECB has urged member States to regain control over spending trends so as to put them back on a more sustainable course.[20] Among the C-10, the Czech Republic has the largest public deficit (12.9% of GDP), followed by Malta and Cyprus; Estonia has a surplus (2.6%).

15. Long-term sustainability of public finances in the EC-15 is hampered by the relatively high levels of government debt, partly due to ageing populations. In 2003, public debt remained above 60% of GDP in six member States, particularly Italy (106.2%), Greece (103%), and Belgium (100.5%). Despite recent pension system reforms undertaken by Austria, Finland, France, Greece, Portugal, and the UK, the ratio of government debt to GDP in the EC-15 increased from 63% in 2001 to 64.1% in 2003, while in the euro zone, it rose from 69.4% to 70.4%. Overall, the ratio in the EC-15 and in the euro zone is above that of the C-10; Cyprus (72.2%) and Malta (72%) exceed the 60% benchmark.

16. In the Broad Economic Policy Guidelines (BEPG) for the period 2003-05, adopted on 25 June 2003, the Council emphasized that the current economic situation enhances the need for a speedy implementation of the Lisbon strategy, as the euro changeover, the EC enlargement[21], and the global economic uncertainty have placed the EC in a "crucial juncture in its history".[22] Especially important to the Council is sustainable growth. In order to promote it, the Council has proposed, *inter alia*, to: foster employment by implementing labour market reforms (especially improving work incentives, reviewing overly restricting regulations, facilitating labour mobility, and investing in physical and human capital); encourage competition in goods and services markets; accelerate the integration of

[17] These effective exchange rates of the euro take into account a broad group of 38 countries. The real rate is obtained by deflating the nominal rate by the consumer price index.

[18] In the meeting, euro zone countries voted against the Commission's recommendation to fine France and Germany for breaching the budgetary rules and procedures of the SGP. Instead, a "political declaration" was made indicating how the two countries are projected to overrun the pact's deficit targets for the third consecutive year in 2004, citing that "too great a consolidation effort in one year may prove economically costly". On 13 January 2004, the Commission decided to challenge such a Council decision in the European Court of Justice (European Commission Press Release IP/04/35, 13 January 2004).

[19] DG Economic and Financial Affairs (2003b).

[20] ECB, Press Release, 26 November 2003.

[21] The BEPGs are to be extended in spring 2004 to explicitly cover the C-10.

[22] Council of the EC- General Secretariat (2003a). In addition to the EC's general objectives of economic policy, the 2000 Lisbon European Council set a new strategy (the Lisbon strategy) in its annually adopted BEPG, which aims to make the EC the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable growth, with more and better jobs and greater social cohesion.

EC capital markets; reduce administrative burdens for entrepreneurs and small and medium-sized enterprises (SMEs)[23]; strengthen corporate governance; and invest more in research and education by increasing the contribution of the public sector.

17. Recent trends in external accounts, despite the continued appreciation of the euro, have raised hope of the recovery of the economy in the coming months (sections (3) and (4) below).

(3) TRADE PERFORMANCE AND INVESTMENT

18. The EC-15's deficit in transfers and income accounts, and its fluctuating trade balance have generally contributed to its current account deficit, despite the surplus of its services account. In 2002, the EC-15 registered its first current account surplus (€ 57.2 billion, equivalent to 0.7% of GDP) since 1998; the current account deficit of € 20.5 billion in 2001 was turned into a surplus, mainly as a result of the trade balance which shifted from a deficit of € 38.2 billion in 2001 to a surplus of € 4.8 billion in 2002, despite the effective appreciation of the euro that year. The trade surplus in 2002 was largely due to the large negative growth differential between the EC-15 and its main trading partners (with sluggish demand and dampened imports in the EC-15, and buoyant demand, notably in the United States and Asia), and the lagged pass-through effects of the appreciation of the euro on the trade balance. In 2003, the EC-15 also had a current account surplus of € 49.7 billion. In percentage of GDP, Finland and Sweden had the largest current account surplus in 2003 (5.5%), followed by Belgium (3.7%); the largest deficits were registered by Greece (7%) and Portugal (5%). With the exception of Slovenia, which had a current account surplus of 0.2% of GDP in 2003, the C-10 countries had current account deficits, partly financed by FDI inflows (section (3) below). The largest deficits were in Estonia (13.7%), Latvia (9.1%), and the Czech Republic (6.5%).

(i) Trade in goods

19. Excluding intra-EC trade, the Community continues to be the leading merchandise exporter in the world (with a 20% share in 2002), and the world's second importer (19%). Individually, Germany ranks second as exporter of merchandise goods, with France fifth, and the United Kingdom sixth. Germany also ranks second in the world for goods imports followed by the United Kingdom and France. Among the C-10, Poland is the largest merchandise trader; the Czech Republic and Hungary come next.[24] Based on 2001 world trade values, the C-10 will increase the share of intra-EC trade in EC's total merchandise trade from nearly 62% to 67%, while the share of the EC in world merchandise exports (including intra-EC flows) will reach 41%.[25] Excluding intra-EC trade, the share in world merchandise exports is about 20% for EC-15 , and 18% for EC-25.

20. External shocks, such as high and volatile oil prices, geopolitical tensions, and world economic recession, have negatively affected the EC's trade since its last TPR.[26] The appreciation of the euro has somewhat undermined the price competitiveness of EC exports.[27] In 2003, the

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[23] SMEs employ less than 250 people, and constitute the backbone of the EC-15 enterprise culture, with over 99% of businesses.

[24] WTO (2003a).

[25] WTO (2003c).

[26] Heightened concerns about oil supplies lifted oil prices in 2002-03, to reach their highest level for 13 years in early 2003. The threat of terrorism also increased risk premiums in international transactions, and affected trade through, *inter alia*, more cumbersome procedures and delays. During 2001-02, world trade, in volume terms, grew only by about 1%. WTO (2003c).

[27] At the end of 2003, the euro area "competitiveness" (based on unit labour costs, and measured against 12 industrialized countries) was 2% worse than its 1980-02 average, and had deteriorated by 10%

Communities' merchandise exports (extra-EC) amounted to € 976.2 billion, up from € 882.5 billion in 2001, and merchandise imports rose from € 920.7 billion in 2001 to € 987.8 billion in 2003. The EC-15's merchandise trade deficit decreased from € 38.2 billion in 2001 to € 11.6 billion in 2003.

21. The United States remains the EC-15's main trading partner, accounting for 23.9% of merchandise exports in 2002 (down from 24.4% in 2000), and 17.5% of goods imports (compared with 19% in 2000) (Chart I.1, and Tables AI.1 and AI.2). Switzerland is the second most important destination of EC's merchandise exports (7.1% of the total in 2002), and China remains the second most important source of EC's goods imports (8.3% of the total in 2002, against 6.8% in 2000). While Japan's share in both EC's exports and imports of goods has weakened somewhat, the Russian Federation has increased its importance as an EC trade partner. In 2003, the United States was estimated to account for 22.6% and 15.3% of EC-15's merchandise exports and imports, respectively, while the EC-15 imported 9.6% of goods from China (P.R.).

22. The bulk of EC-15's merchandise exports in 2002 was machinery and transport equipment (45.5%, down from 46.6% in 2000), followed by chemical products (15.4%), other semi-manufactures (9.2%), agricultural products (6.8%), textile and clothing (4.3%), and mining (4.3%) (Chart I.2 and Table AI.3). EC-15's goods imports in 2002 primarily consisted of machinery and transport equipment (36.1%, down from 38.2% in 2000), mining (17.6%), agricultural products (9%), chemicals (8.2%), textile and clothing (7.4%), and other semi-manufactures (6.7%) (Table AI.4). In 2003, machinery and transport equipment were estimated to account for 47.5% and 44.1% of EC-15's exports and imports, respectively.

(ii) Trade in services

23. The EC-15 is the world's leading services trader. Excluding intra-EC trade, it accounted for 25% of exports and 23.8% of imports in 2001.[28] Nevertheless, free movement of services within the EC is to be further improved. Moreover, the EC-15's trade in services has been affected by, *inter alia*, the appreciation of the euro, and by the fear of terrorism that followed the 11 September 2001 attacks. Indeed, receipts from travel (exports) fell from 24.2% of total EC-15's services exports in 2000 to 20.9% in 2002 (Table IV.5)[29], while the euro appreciation over 2002-03, also deterred travel, both by tourists travelling to the EC and EC tourists (Chapter IV(6)(v)).

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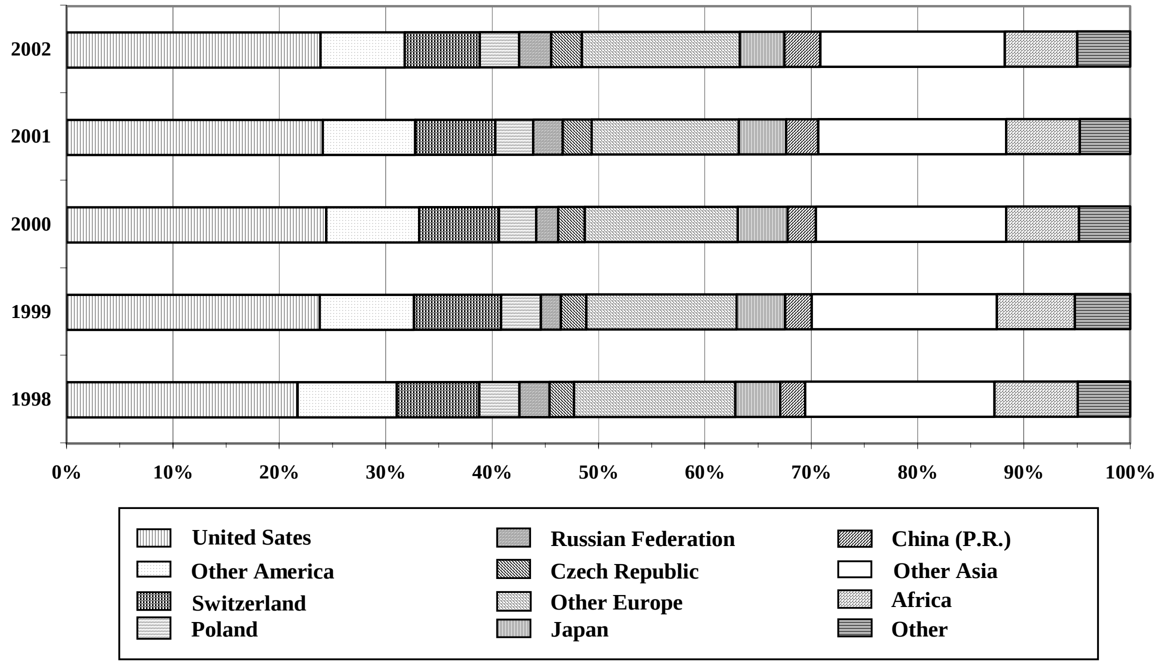
relative to 2002. Compared to that of the euro area, Denmark's "competitiveness" has remained roughly stable in recent years; Sweden's "competitiveness" was 4% better at the end of 2003 than in 1980-02; and the United Kingdom's "competitiveness" was about 10% less favourable at the end of 2003 than in 1980-02, despite the depreciation of the pound sterling against the euro and the U.S. dollar in 2003 (European Commission, 2004a).

[28] In 2001, intra-EC services exports and imports amounted to US$ 345.8 billion and US$ 351.6 billion, respectively (OECD, 2003e).

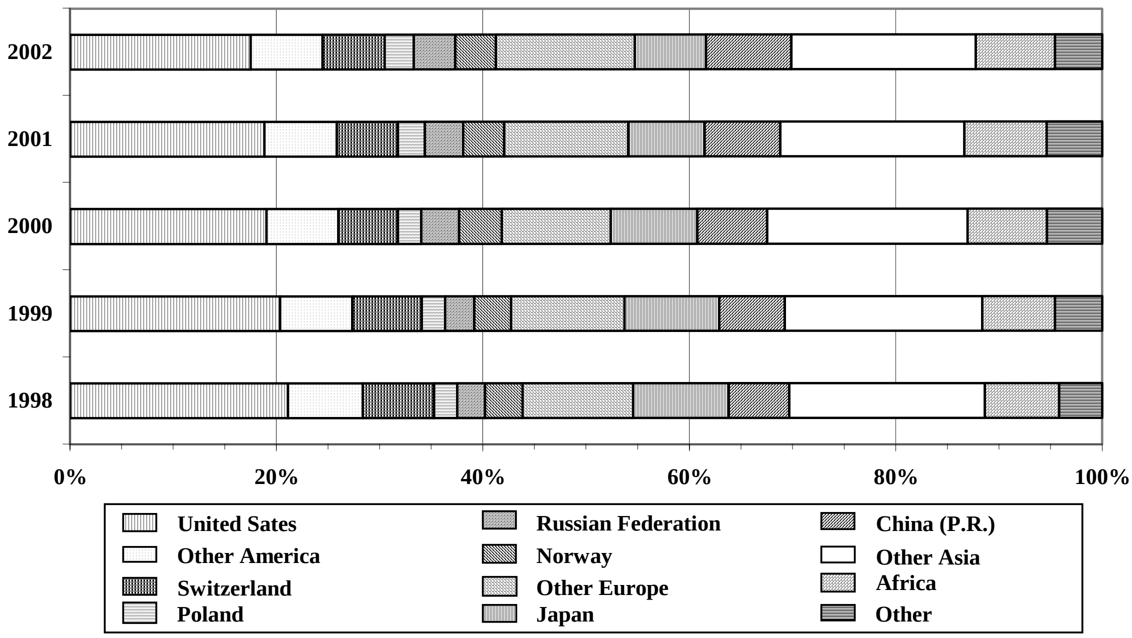
[29] The volume of tourism to Europe from the United States, Japan, and the Middle East dropped, on average, by 30% immediately after 11 September 2001 (European Commission, 2001b).

Chart I.1
Direction of EC's merchandise trade[a], 1998-02

(a) Exports



(b) Imports

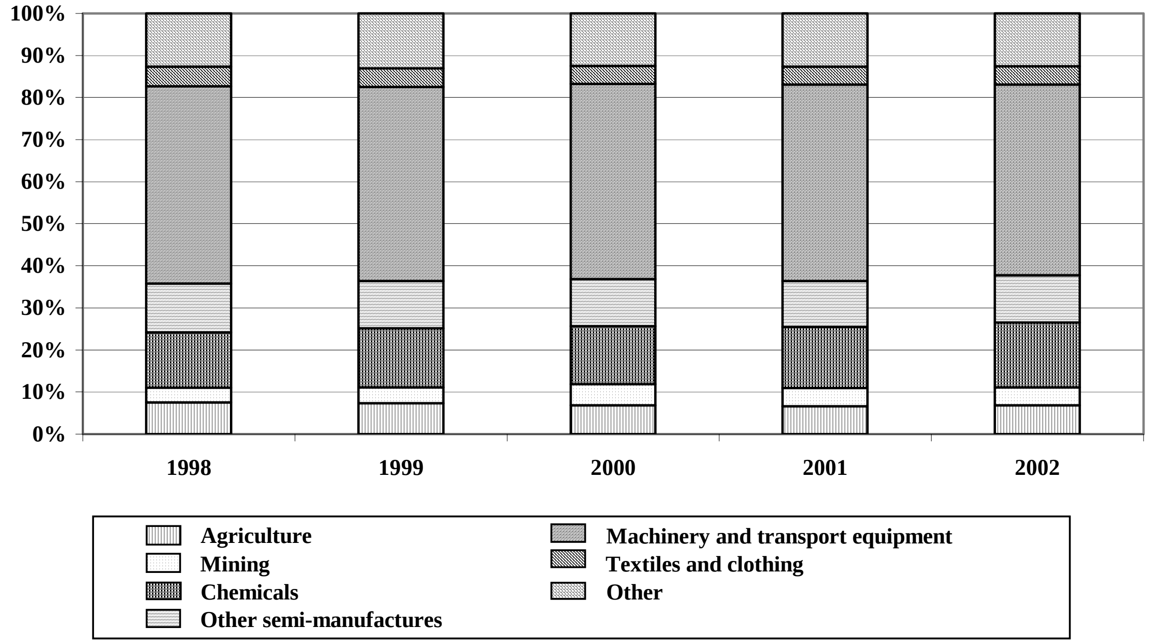


a The data are on extra-EC trade.

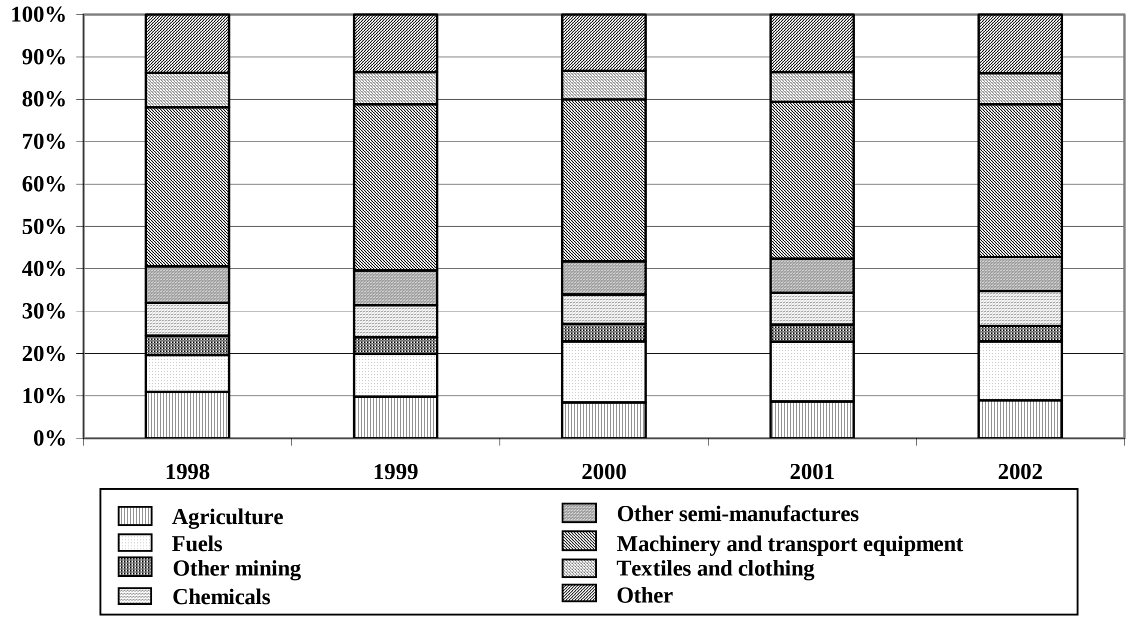
Source: WTO Secretariat calculations, based on Eurostat data (SITC Rev.3).

Chart I.2
Structure of EC's merchandise trade[a], 1998-02

(a) Exports



(b) Imports



a The data are on extra-EC trade.

Source: WTO Secretariat calculations, based on Eurostat data (SITC Rev.3).

Table I.5
EC-15's trade in services, 1999-02
(€ million)

	EC-15 Exports				EC-15 Imports			
	1999	2000	2001	2002	1999	2000	2001	2002
Total (extra-EU)	**264,214**	**310,675**	**327,392**	**336,273**	**256,801**	**303,260**	**317,349**	**311,923**
Transportation	64,891	81,375	79,156	78,913	60,473	73,260	72,607	73,075
Travel	63,018	75,404	73,123	70,274	72,080	83,293	85,511	82,231
Other commercial services	129,961	147,378	163,651	174,506	118,721	140,634	148,793	147,100
Government services	6,336	6,516	7,413	8,749	5,523	6,073	6,885	5,746
Main trading partners								
United States	96,136	118,267	117,275	119,355	101,338	115,926	121,011	110,582
Switzerland	..	35,415	39,739	38,119	..	29,918	32,074	33,082
Japan	16,305	18,720	18,282	17,471	8,732	10,280	10,983	8,994
Norway	..	7,211	9,696	11,907	..	7,340	7,493	8,133
Canada	5,627	7,244	7,007	7,809	5,942	6,596	6,886	7,107
Turkey	2,753	3,180	2,780	3,005	4,825	6,553	7,361	7,515
Hong Kong, China	..	..	4,667	4,830	..	..	4,473	5,400
Australia	4,520	4,910	6,174	5,609	3,715	4,570	4,469	4,597
China (P.R.)	2,740	3,454	4,197	5,262	2,871	3,517	3,926	4,596
Russian Federation	3,202	3,777	5,394	4,747	3,654	4,596	4,704	4,777
Singapore	..	..	4,887	4,553	..	..	4,539	4,521
Poland	3,389	3,999	4,206	4,079	3,772	4,499	5,078	4,733
Brazil	3,023	3,622	3,131	3,350	2,545	3,176	3,101	3,109

.. Not Available.

Source Information provided by the EC authorities.

24. In 2002, the EC-15 exported services for € 751.1 billion (including intra EU-trade), an increase of 10.2% over 2000, and imported € 734 billion (up 9.1% from 2000). Individually, the UK is the second largest exporter of services in the world, followed by Germany and France. In terms of imports of services, Germany ranks second in the world, while the United Kingdom is fourth and France fifth. Among the C-10, Poland is the largest trader of services (32nd in the world in 2002), followed by Hungary and the Czech Republic.[30]

25. The most important trading partner of the EC-15 in services is by far the United States, which in 2002, was the destination of 35.5% of EC-15 exports and the origin of 35.4% of EC-15 imports (Table I.5). The second most important partner is Switzerland, accounting for 11.3% of EC-15 exports and 10.6% of imports in 2002.

(iii) Foreign direct investment

26. Excluding intra-EC flows, the Community is the world's biggest recipient and supplier of foreign direct investment (FDI). In 2002, the EC-15 contributed 37.8% to the world's inward FDI stock and 50.2% to outward FDI stock; it is a net investor in the rest of the world. In 2002, EC-15's FDI outflows and inflows were equivalent to 1.5% and 0.8% of its GDP, respectively. Individually, the United Kingdom, Spain, and France were the main net investors (of FDI) within the EC-15 during

[30] WTO (2003a).

2001-02; Sweden and Belgium were the main net recipients. According to UNCTAD, Austria, Greece, and Italy are "below-potential" countries (i.e. have high FDI potential but low FDI performance), while the other EC-15 members and the C-10 (with the exception of Slovenia) are "front-runners" coupling high FDI potential and performance.[31]

27. In 2002, EC-15's FDI inflows and outflows (extra-EC) decreased for the second consecutive year: inflows fell by 35.1% compared with 2001, and outflows by 47.5% (Table IV.6). Consequently, EC-15's net FDI registered a sharp fall from € 150.2 billion in 2001 to € 64.2 billion in 2002. Some of the main factors that have affected EC-15's FDI flows are: the reduction of market values of EC corporations listed on global stock markets as a result of the stock market contraction of 2002; the fall in business confidence partly because of the geopolitical tensions linked to the Iraq war, and the negative climate generated by corporate scandals; and the decline in the level of global FDI due to the slowdown in world economic activity.[32]

Table I.6
EC-15's and C-10's FDI inflows and outflows, 2001-02
(€ million)

Country	2001		2002	
	Outward flows	**Inward flows**	**Outward flows**	**Inward flows**
EC-15	**267,495**	**117,345**	**140,407**	**76,217**
Austria	3,283	1,607	4,616	956
Belgium	..	..	2,752	6,211
Belgium/Luxembourg	41,878	34,323	38,092	32,859
Denmark	7,783	4,066	1,736	2,692
Finland	1,608	-389	3,231	307
France	36,220	8,306	28,287	11,893
Germany	61,491	7,852	3,455	4,930
Greece	464	77	326	53
Ireland	3,070	291	2,245	942
Italy	3,490	3,534	2,910	3,345
Luxembourg	..	..	35,340	26,648
Netherlands	32,572	28,144	2,966	6,331
Portugal	1,521	324	-292	508
Spain	15,919	4,383	19,703	2,447
Sweden	3,650	3,230	-575	2,955
United Kingdom	54,234	18,013	30,932	4,909
C-10				
Cyprus	652	220	297	-18
Czech Republic	5,639	165	9,319	281
Estonia	542	200	307	122
Hungary	2,440	337	854	264

Table I.6 (cont'd)

[31] UNCTAD estimates the potential of each country to attract FDI on the basis of, *inter alia*, GDP growth, GDP per capita, imports and exports, education, country risk, and infrastructure, and then compares this potential level with the actual volume of FDI that each country attracts (UNCTAD, (2003).

[32] In 2002, total FDI flows amounted to US$651 billion, 20% lower than in 2001 (US$820 billion); FDI flows for 2003 are estimated at US$653 billion (UNCTAD, (2003).

Country	2001		2002	
	Outward flows	Inward flows	Outward flows	Inward flows
Latvia	164	12	396	9
Lithuania	446	7	732	18
Malta	294	6	-375	..
Poland	5,713	-90	4,119	173
Slovak Republic	1,579	37	4,012	5
Slovenia	503	133	1,865	117

.. Not available.

Source: Eurostat, "*EU FDI with Extra-EU decreased again in 2002*", Theme 2 – 36/2003, Brussels; and UNCTAD (2003), *World Investment Report*, Geneva.

28. The United States is the main investment partner of the EC-15, albeit with a decreasing share. During the period 1997-01, the United States received 52% of the total (extra-EC) FDI and supplied 59% of non-EC investment to member States. In 2002, the corresponding figures were 32.9% (€ 46 billion) and 42.1% (€ 32 billion).

29. FDI in the C-10 increased by 44% per year, on average, during 1997-00, to € 78.3 billion in 2000; FDI in the services sector more than quadrupled during the period.[33] In 2002, the Czech Republic ranked first (among the C-10) in terms of FDI inflows (43.3% of the total), followed by Poland and the Slovak Republic (Table I.6). In terms of FDI as a percentage of GDP, Malta was first in 2002 (73.8%), followed by Estonia (65.9%) and the Czech Republic (54.8%); on the opposite end were Poland (23.9%) and Slovenia (23.1%).

(4) OUTLOOK

30. The EC's economic outlook is affected by global economic prospects, not least in the United States, its principal trading partner. During 2004-05, the Commission expects world GDP growth and trade to be robust; this would foster EC-15's exports and help to achieve current account surpluses of over 1% of GDP during the period. The EC-15's GDP growth rate is anticipated to rise to 2% in 2004 and to 2.4% in 2005, mainly thanks to increases in domestic demand and capital formation, due to historically low interest rates. Despite the projected recovery in the EC-15, its unemployment rate is expected to reach 8.2% in 2004, before edging downwards somewhat in 2005. The Commission predicts price stability in the EC-15, and forecasts a 2% HICP inflation rate in 2004, and 1.7% in 2005.[34]

31. Stimulated by both the recovery in the EC-15 and the accession to the EC, average GDP growth in the C-10 is foreseen by the Commission to accelerate to 4% in 2004 and to 4.2% in 2005. Inflation in the acceding countries is anticipated to reach, on average, 3.8% in 2004 and 3.3% in 2005, mainly due to the liberalization of administrative prices and a hike of indirect taxes.[35] The empirical literature supports the view that trade liberalization among countries that trade extensively with one another contributes to income convergence.[36] Economic growth in the EC-25 is expected to be promoted by, *inter alia*, a more efficient allocation of resources; strong boosts to FDI resulting from

[33] Eurostat (2003a). More recent FDI data are not available.
[34] DG Economic and Financial Affairs (2003a), *Economic Forecasts*, Autumn, Brussels.
[35] DG Economic and Financial Affairs (2004), *Economic Forecasts*, Spring, Brussels.
[36] Ben-David, Nordstrom, and A. Winters (1999).

increased business opportunities; enlarged cross-border trade between old and new members; and higher productivity as a result of increased competition among member States.

32. The EC's outlook also depends on long-term trends of demographic factors such as aging population, fertility, mortality, and international migration. These factors have led to a rapidly decreasing population growth rate in the EC, which is expected to halt by 2025, and to decline again thereafter. As a result, the working age population will shrink rapidly, and the old-age dependency ratio is projected to reach 50% in 2050 (doubling its current 25% level); this has been threatening the social cohesion and public finances of all member States.[37] Reform of the pension systems in all member States, a faster pace of debt reduction, and increasing employment rates are some of the key elements in the EC's strategy to tackle the looming budgetary implications of such demographic considerations.

[37] The old-age dependency ratio is defined as the ratio of the number of people at retirement age (65 years and over) divided by the number of people of working age (15-64) (Council of the EC, (2003).

II. TRADE REGIME

(1) INSTITUTIONAL FRAMEWORK

1. The Treaty on European Union (EU)[1], signed in Maastricht on 7 February 1992, entered into force on 1 November 1993. Under the treaty, the EU is based on three main pillars. The first pillar continues integration under the Treaties establishing the European Community[2], which currently also covers the matters formerly covered by the European Coal and Steel Community (now expired)[3], and the European Atomic Energy Community. The second and third pillars, introduced by the EU Treaty, are on foreign and security policies, and justice and home affairs, respectively.

2. The most important change to the institutional framework of the European Communities (EC) since its last Trade Policy Review was introduced by the Treaty of Nice[4], adopted in December 2000 by the European Council and put into force on 1 February 2003 after ratification by member States. The main objective of the treaty is to gear the workings of the European institutions to the arrival of new members.

3. Under the current institutional framework of the EC[5], the main decision-making bodies are the Council of the European Union (generally referred to as the Council)[6], the European Parliament (EP), and the Commission of the European Communities (generally referred to as the European Commission). The key responsibilities of the Council include: passing EC laws, coordinating broad economic policies among member States, concluding international agreements to which the EC is a party, approving the EC's budget, (jointly with the EP), taking decisions concerning common foreign and security policies, and adopting measures in the field of police and judicial cooperation in criminal matters. The EP exercises supervision over all EC institutions, and shares (with the Council) the power to legislate and approve the EC budget. The Commission is the executive body of the EC and has responsibility for: proposing legislation to Parliament and Council; managing and implementing EC policies and budget; enforcing EC law (a responsibility shared with the Court of Justice); and representing the EC on the international stage, including that of negotiating trade and cooperation agreements.

4. The aim of the Court of Justice of the EC (also referred to as the European Court of Justice) is to ensure that, in the interpretation and application of the Treaty on the EU, the law is observed. The purpose of the Court of Auditors is to ensure the reliability of the revenue and expenditure accounts of the EC, and the legality and regularity of the underlying transactions, on which it reports annually to the European Parliament and the Council.[7] The European Ombudsman is in place to receive complaints from EC citizens, or from natural or legal persons residing or having their legal domicile in a member State, and also to help uncover maladministration in EC institutions and bodies.

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[1] Treaty on European Union, OJ C 325, 24.12.2002 [Online]. Consolidated version available at: http://europa.eu.int/eur-lex/en/treaties/dat/EC_consol.pdf.

[2] Treaty establishing the European Community, OJ C 325, 24.12.2002 [Online].

[3] The Treaty establishing the European Coal and Steel Community came into force on 23 July 1952 and expired on 23 July 2002; this marked the end of one of the foundational structures of the EC.

[4] Treaty of Nice, OJ C80 of 10.03.2001 [Online].

[5] For a detailed presentation of the EC institutions, visit: http://europa.eu.int/inst-en.htm.

[6] The Council of the European Union is also referred to as the Council of Ministers. This differs from the European Council; the latter brings together the Heads of State or Government of the member States of the European Union and the President of the European Commission, and gives political direction to the EC.

[7] WTO (2002).

5. The financial bodies of the EC are: the European Central Bank, which frames and implements the monetary policy, conducts foreign exchange operations, and manages the payment system (Chapter I(1)); and the European Investment Bank.[8] Its advisory bodies are: the European Economic and Social Committee, which represents the views and interest of organized civil society vis-à-vis the Commission, the Council, and the European Parliament; and the Committee of Regions, which puts forward local and regional points of view concerning EC legislation. The inter-institutional bodies are the Office for Official Publications of the European Communities and the European Communities Personnel Selection Office. Decentralized agencies have been established under Community Acts for specific technical, scientific or managerial tasks; as of August 2003, there were 19 such agencies, six of which had been established since the last TPR of the EC, mainly to attend to safety concerns.[9]

6. Institutional changes are expected to take place with the adoption of the draft Constitutional Treaty of the EU, prepared by the Convention on the Future of Europe.[10]

(2) POLICY FORMULATION AND IMPLEMENTATION

7. The EC's trade policy is formulated and implemented by means of Community acts. These consist of regulations, with general application, binding and directly applicable in all member States; directives, requiring transposition into member State law and practice; decisions, binding upon their addressees; decisions of general application; and recommendations and opinions, which have no binding force. The EC also has competence to conclude international agreements. The EC has exclusive competence in formulating and ensuring the implementation of the Common Commercial Policy (CCP), which covers trade in all goods[11], and most services. Under the Nice Treaty, the CCP was extended to cover the negotiation and conclusion of agreements on all aspects of trade in services and commercial aspects of intellectual property.[12]

8. Depending on the type of Act and the issue, the final decision has to be taken by the Council and/or the Parliament, and may involve the Court of Auditors and the EC's financial and advisory bodies. Decisions by Parliament are taken by absolute majority of the votes cast by members. Most Council decisions, including on trade and trade-related issues, are taken by qualified majority vote (QMV).[13] However, in some sensitive areas, for instance taxation, adoption of a decision requires unanimity. The Council can amend proposed acts before adopting them, in some cases, with

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[8] The projects financed by the European Investment Bank are intended to contribute to the balanced development of the EC.

[9] Those attending to safety concerns include the: European Food Safety; European Maritime Safety Agency; European Aviation Safety Agency; and the European Body for the Enhancement of Judicial Co-operation.

[10] The convention was composed of 105 representatives of national governments and parliaments from member States, as well as the European Parliament and the European Commission. Consultations were also held with civil society.

[11] The exclusive competence of the Community in trade in goods has been made clear in a series of judgements by the European Court of Justice. For instance, in Opinion 1/75, [1975] ECR 1355, on the Understanding of Local Cost Standard, the Court ruled that the Common Commercial Policy was conceived in the Treaty "in the context of the operation of the common market, for the defence of common interests of the Community", and that any claim of concurrent power on the part of member States would entail the risk of "compromising the effective defence" of those interests.

[12] The legal base for legislation and agreements concerning international transport services is the EC Treaty provisions on transport policy.

[13] Areas requiring QMV include: changes in tariff rates; conclusion of tariff and trade agreements relating to trade in goods and services and commercial aspects of intellectual property; achievement of uniformity in measures of liberalization; export policy; and measures to protect trade such as anti-dumping and countervailing duties.

Parliamentary approval. The procedure used to pass an Act depends on whether the issue under consideration requires co-decision, assent or consultation.

9. Under the co-decision procedure, the EP shares legislative power equally with the Council. The EP can amend proposed Acts and its approval is required for them to be passed. Issues covered by this procedure are mainly related to the internal market and include: customs cooperation, services, right of establishment, internal market, free movement of workers, education, health, trans-European networks, environment, culture, and research. Under the assent procedure, the Council has to obtain Parliament's assent before a decision is taken. Assent requires an absolute majority of the votes cast; however, Parliament cannot amend a proposed Act. Areas covered by this procedure include: accession of new member States, association agreements, other "fundamental" agreements with third countries, and structural and cohesion funds. Under the consultation procedure, Council seeks the opinion of Parliament, as well as of other relevant EC institutions or bodies, before the Act is adopted as it is or with amendments. The Council is not bound, however, by the EP position but only the obligation to consult it. Areas under this procedure include: agriculture, economic policy, competition rules, and tax arrangements. In areas such as anti-dumping and safeguard actions, decision-making has generally been delegated from Council to the Commission. However, definitive anti-dumping measures are decided by the Council upon proposals from the Commission.

10. Community acts, including trade and trade-related acts, are implemented at the Community level or at member State level, overseen by the Commission. The Council and/or European Parliament may delegate powers to the Commission, which then takes decisions, assisted by a committee composed of member State representatives (comitology) and operating under the advisory, management or regulatory procedure, depending on the EC Treaty provisions that apply to the matter.[14] The number of comitology committees increased from 244 in 2001 to 257 in 2002. In 2002, a total of 3,610 opinions were delivered by the committees and 3,077 instruments were adopted by the Commission.

11. Reforms to improve the legislative process have been ongoing since the last TPR of the EU. They are an outcome of the Commission's White Paper on European Governance, issued in July 2001, calling for a renewal of the "Community Method" by involving more people and organizations in shaping and delivering EC policy. Consultations with a broad section of interested parties, including civil society and third countries, have since taken place and enabled the Commission to come up with recommendations to simplify and improve the regulatory environment; promote a culture of dialogue and participation; and systematize impact assessment by the Commission.[15]

12. An action plan, developed in June 2002, is being implemented to simplify the regulatory environment. General principles and minimum standards for consultations were adopted by the Commission in December 2002 to promote a culture of dialogue and wider participation throughout the legislative process.[16] In this respect, the EURLEX (portal to EC law)[17], PRELEX (database on inter-institutional procedures)[18], and CELEX (search engine for EC laws) sites[19], are detailed in their

[14] Council Decision 1999/468/EC, 28 June 1999.

[15] EC COM(2002), 275 final, "European Governance: Better lawmaking" [Online]. Available at: http://europa.eu.int/eur-lex/en/com/cnc/2002/com2002_0275en01.pdf. The public consultations on the Commission's White Paper on Governance ended on 31 March 2002. Some 8% of the contributions came from third countries.

[16] EC COM(2002), 704 final, "Towards a reinforced culture of consultation and dialogue - General principles and minimum standards for consultations of interested parties by the Commission" [Online]. Available at : http://europa.eu.int/comm/governance/docs/comm_standards_en.pdf.

[17] Available at: http://europa.eu.int/eur-lex/en/index.html.

[18] Available at: http://europa.eu.int/prelex/apcnet.cfm?CL=en.

presentation of the legislative process in the EC. Interested parties (including from third countries) that wish to submit comments on a policy proposal can do so through the CONECCS (Consultation, the European Commission and Civil Society) database[20], or through special information sheets.[21]

13. Prior authorization from the Council is required before the Commission commences negotiating trade agreements. The negotiations are conducted under directives from the Council, and in consultation with a special committee appointed by the Council in accordance with Article 133 (3) of the Treaty establishing the European Community.[22] The assent of the Parliament is required for the conclusion of certain agreements going beyond the scope of the common commercial policy (CCP), including the WTO, and association and cooperation agreements. Agreements that go beyond the Community's internal powers conferred on it by the Treaty of Nice, or that go beyond what is necessary for the achievement of one of the Community objectives, also require the approval of member States.[23] With an enlarged EU, the requirement of approval of both the Community and member States could delay the conclusion of such agreements.[24]

14. In order to systematize the impact assessments[25], proposed acts/agreements under negotiation are evaluated by external consultants with the main aim of identifying their economic, environmental, and social effects, and proposing flanking measures to mitigate their adverse effects and amplify their benefits. The studies are intended to play a major role in decision-making without substituting for political judgement.

(3) TRADE POLICY OBJECTIVES

15. The objective of the EC's Common Commercial Policy as enshrined in Article 131 of the Treaty of Nice is to" contribute, in the Common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers". This objective is in consonance with the general aims of the Treaty "to promote, throughout the Community, a harmonious, balanced and sustainable development of economic activities, a high level of employment and social protection, equality between men and women, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Members".[26]

16. The EC's common trade policy covers all the main measures affecting trade in goods and services and almost all trade-related issues. Within the internal market, goods, services, capital, and labour are allowed to move freely. Trade-related areas partially covered by the common trade policy

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[19] Available at: http://europa.eu.int/celex/htm/celex_en.htm.

[20] Available at: http://www.europa.eu.int/comm/civil_society/coneccs/index_en.htm. The objective of the CONECCS database is to provide a channel through which the civil society organizations are consulted in a formal or structured way.

[21] The Commission strives to allow at least eight weeks for reception of responses to written public consultations and 20 working days notice for meetings.

[22] OJ C 325, 24 December 2002; this special committee (sometimes referred to as the 133 committee) consists of experts from member States and functions as a permanent regulator to the Commission.

[23] Shared competence applies in: the internal market; the area of freedom, security, and justice; agriculture and fisheries (excluding the conservation of marine biological resources; transport and trans-European networks; energy; social policy; economic, social and territorial cohesion; environment; consumer protection; and public health.

[24] For a critical appraisal of the EC Common Commercial Policy, see Hermann (2003).

[25] COM(2002), 276 final Brussels, 5 June 2002, "Impact Assessment" [Online]. Available at: http://europa.eu.int/eur-lex/en/com/cnc/2002/com2002_0276en01.pdf.

[26] Treaty of Nice, Article 2.

include: company law, indirect taxation, standards and other technical regulations, community patent, and enforcement of intellectual property rights. The non-harmonization of all trade policy measures in these areas, as well as the implementation challenges where harmonized legislation exists, hinders trade amongst member States. For instance, the Commission estimates that the non-application of the mutual recognition principle (Chapter III(2)(ix)) cuts intra-community trade by up to € 150 billion. Therefore, through its internal market strategy, the Commission seeks to improve free movement of goods, services, capital, and labour within the Community, via a wide range of regulatory measures and actions, including on: indirect taxation, mutual recognition, standardization, harmonization of national rules governing unfair commercial practices, air traffic control management, railways sector, elimination of double taxation, public procurement, Community patent, enforcement of intellectual property rights, and corporate governance. All these have been prioritized to be dealt with over the 2003-06 period.[27]

17. According to the Commission, the EC intends to continue to give priority to the liberalization of its trade regime at the multilateral level through the Doha Development Agenda. It is further liberalizing trade at the regional and bilateral level through ongoing negotiations on reciprocal preferential trade arrangements, as well as through non-reciprocal preferences it is granting to least-developed and developing countries (section (5)(iii)).

(4) TRADE REGULATIONS AND BUSINESS ENVIRONMENT

18. The European Community Treaty provides the main legal framework for trade and trade-related issues. Apart from pure commercial considerations, EC trade and trade-related legislation takes into account the protection of human, animal, and plant life, the environment, cultural heritage, and endangered species. International agreements concluded by the EC are binding on the Community institutions and on its member States. During the period under review, the EC has revised/amended parts of its trade-related legislation (Chapter III). Beyond the EC trade legislation, member States can take national measures affecting imports and exports on grounds of public morality; security; protection of human, animal, and plant life; and protection of national treasures and the environment.

19. Under the Treaty establishing the European Community, all restrictions on the movement of capital and payments between member States, and between member States and third countries are prohibited, subject to few exceptions.[28] Restrictions exist on foreign direct investment flows to or from third countries in areas such as real estate, provision of financial services, and capital markets (admissions of securities). Furthermore, the application of tax law by each member State makes it necessary to distinguish between taxpayers on the basis of their residences and the place where the capital is invested.

20. Differences in capital market structures, corporate governance rules, and corporate tax systems, across member States, are however preventing investors from taking full advantage of the benefits of an integrated market. The Commission estimates that costs associated with the lack of harmonization of company tax systems represent between 2% to 4% of total corporate income tax. These concerns are being addressed through a series of recently adopted or proposed measures.

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[27] COM (2003), 238, "Internal Market Strategy, Priorities 2003-2006" [Online]. Available at: http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0238en01.pdf.

[28] In exceptional circumstances, where movements of capital to or from third countries cause, or threaten to cause, serious difficulties for the operation of the economic and monetary union, the Council may take safeguard measures for a period not exceeding six months, if strictly necessary. Member States can take measures to prevent infringements of national laws and regulations (for prudential supervision of financial institutions purposes); and lay down procedures for the declaration of capital movements on grounds of administrative or statistical information, and public policy or security.

21. The Statute for a European Company, adopted in 2001, is due to enter into force on 8 October 2004.[29] It will give companies operating in more than one member State the option of being established as a single company under Community law. This will allow them to operate throughout the EC under one set of rules and a unified management and reporting system, rather than under the different national laws of each member State where they have subsidiaries. This is expected to reduce their administrative costs and provide a legal structure adapted to the Union as a whole.[30] A 2002 Regulation requires listed companies to use international accounting standards by 2005.[31] This is expected to bring transparency and greater comparability between the consolidated financial statements of EC listed companies, provide investors with adequate information, and lead to better capital allocation within the EC.[32]

22. In May 2003, the Commission adopted an action plan on "Modernising Company Law and Enhancing Corporate Governance in the EC". The plan aims to strengthen shareholders rights, reinforce protection for employees and creditors, and increase the efficiency and competitiveness of businesses, with special attention to cross-border issues. It is based on a set of proposals for action covering several years. The initiatives considered by the Commission to be the most urgent are: the need for listed companies to include in their annual documents a coherent and descriptive statement covering the key elements of their corporate governance structures and practices; the need for the development of a legislative framework aimed at helping shareholders to exercise various rights (including cross-border voting rights); a recommendation aimed at promoting the role of (independent) non-executive or supervisory directors, and another on directors' remuneration; the creation of a European corporate governance forum to help encourage coordination and convergence of national codes, and of the way they are enforced and monitored.[33]

23. The Commission has also proposed a prospectuses directive aiming to simplify the ability of European companies to raise capital across the EC, through the use of one document instead of 25. In response to the increased number of investors in the financial markets and to the complex and wide-ranging services and instruments being offered, a new investment services directive has also been proposed. It aims to establish a single market, based on home-country supervision; protect public goods and investors; and to strengthen the enforcement of the prospectuses directive throughout the EC.[34]

24. Furthermore, during the period under review, a series of initiatives to address specific tax obstacles have been put in place or have been under consideration. In particular, the scope of the Parent-Subsidiary Directive has been extended to a broader range of companies, including the European company and the European cooperative society. A similar proposal has been presented for the Merger Directive. An "EU Joint Forum on Transfer Pricing", was established, to discuss non-legislative solutions to tackle transfer-pricing issues, notably high compliance costs and potential double taxation. In June 2003, a directive to eliminate withholding taxes on payments of interest and royalties, made between associated companies of different member States, was also approved, as part of a package of three measures. Other measures in the package were a directive allowing effective

[29] Regulation 2157/2001, 8 October 2001.

[30] European Commission Press Release, IP/01/1376, 8 October 2001.

[31] The standards must be established by the International Accounting Standards Board, or by independent international accounting standard-setting organizations.

[32] European Commission Press Release, IP/02/827, 7 June 2002.

[33] European Commission Press Release, IP/03/716, 21 May 2003.

[34] European Commission MEMO /02/257, 19 November 2002.

taxation of interest income received by individuals from cross-border investment of savings, and a code of conduct for business taxation, aimed at tackling harmful tax competition in the EC.[35]

25. Measures being considered include the preparation of a communication on tax decisions by the European Court of Justice; an initiative to tackle limitations on cross-border loss relief within the EC, thus allowing parent companies to take into account losses incurred by subsidiaries located in other member States: and a legal analysis of the possible conflicts between the EC Treaty and the bilateral double taxation treaties that member States have concluded with each other and with third countries. In addition, in the long-term, the Commission intends to provide companies with a common consolidated tax base for their EU-wide activities.[36] The Commission has stated clearly, however, that it is not advocating full EC company tax harmonization.[37]

(5) TRADE AGREEMENTS AND ARRANGEMENTS

(i) Overview

26. The EC is an active participant in the WTO. It also has in place a wide variety of preferential trade agreements and arrangements motivated by economic, historical, development, and geo-political considerations (Tables II.1 and AII.1).[38] As a consequence, its purely MFN regime applies to nine WTO Members[39], which account for some 36% of its merchandise trade. The Commission estimates that 74% of the EC's trade is under the MFN regime; this implies that MFN trade with its preferential partners represents some 38% of its overall trade. According to the Commission, since 1999, the EC's approach to preferential agreements has been to pursue all existing mandates and ongoing negotiations on preferential agreements, but not to begin any new negotiations in order to focus efforts on multilateral negotiations.[40]

27. The EC's preferential trade agreements have so far resulted in free trade in industrial goods, and limited liberalization of trade in agricultural goods; in some cases, these agreements also cover trade in services. Liberalization under its reciprocal preferential agreements is often undertaken asymmetrically (with the EC liberalizing at a faster pace) and over different transition periods. The agreements also cover, *inter alia*, the harmonization of technical requirements (including standards), intellectual property protection, investment, competition policy, government procurement, trade defence instruments, and dispute settlement mechanism. Increasingly, negotiations are with, or seek to encourage, other regional groupings (e.g. MERCOSUR, Economic Partnership Agreements with ACP countries, and the Euro-Mediterranean free-trade area); negotiations also take into account environmental considerations through a sustainability impact assessment.[41]

28. The EC's web of preferential trade agreements, with different trade liberalization agendas and trading rules (including rules of origin), further complicates its trade regime. The limited liberalization (so far) of agriculture under the agreements has hindered its exposure to competition.

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[35] European Commission Press Release IP/03/787, 3 June 2003.

[36] European Commission Press Release IP/03/1593, 25 November 2003.

[37] European Commission MEMO /03/237, 25 November 2003.

[38] In general, the EC can be described as a "hub" in a complex web of preferential trade arrangements.

[39] These are: Australia; Canada; Chinese Taipei; Hong Kong, China; Japan; Republic of Korea; New Zealand; Singapore; and the United States.

[40] For a detailed discussion, see Lamy (2002).

[41] For example, with South Africa, Mexico, a number of Mediterranean partners, MERCOSUR, stabilization and association agreements, and the coming economic partnership agreements for which negotiations were launched in September 2002.

Furthermore, for preferential trading partners, absence of, or delays in, the alignment of their regime may lead to trade diversion to the detriment of their exports.[42]

Table II.1
Typology of the EC's regional agreements, May 2004

Type of trade regime	Name of agreement	Countries involved
Single market	European Economic Area (EEA)	Iceland, Liechtenstein, Norway
Customs union		Turkey, Andorra, San Marino
Free-trade area		Bulgaria, Chile, Croatia, Faroe Islands, FYROM, Israel, Jordan, Lebanon, Malta, Mexico, Morocco, Palestinian Authority, Romania, South Africa, Switzerland, Tunisia
Partnership and cooperation agreements (MFN treatment)		Russia and other former Community of Independent States countries
Non-reciprocal: contractual preferences	Mediterranean Agreements, Cotonou Agreements	African, Caribbean and Pacific countries, Algeria, Egypt, Syria
Non-reciprocal: autonomous preferences	Generalized System of Preferences (GSP), and Stabilization and Association Agreements.	Other developing countries and members of the Commonwealth of Independent States Albania, Bosnia and Herzegovina, and Serbia and Montenegro (including Kosovo)
Purely MFN treatment		Australia; Canada; Chinese Taipei; Hong Kong, China; Japan; Republic of Korea; New Zealand; Singapore; and the United States.

Source: WTO Secretariat based on Lamy, P. (2002), Stepping stones or stumbling blocks? The EC's approach towards the problem of multilateralism and regionalism in trade policy. The World Economy, November 2002, vol. 25, No. 10, pp. 1399-1413(15) .

29. The results of empirical analyses of the economic impact of preferential trade agreements (including those concluded by the EC) are ambiguous. The results are dependent on, *inter alia*, the comparative advantages and complementarities of members' economies vis-à-vis each other, and vis-à-vis the rest of the world; the degree of liberalization, particularly of sectors where protection levels are high; the level of technical barriers and of their harmonization; the liberality of the rules of origin; and the level of domestic anti-competitive practices. In general, most studies find the welfare impact on countries participating in preferential trade agreements to be positive, although relatively small in most cases. Other studies however identify negative welfare effects resulting from public revenue losses outweighing net trade creation benefits (trade creation versus trade diversion), and from structural constraints in participating countries.

30. With regard to third countries, the extent of trade diversion depends on the relative price changes following regional integration, and on the ease with which imports can be switched from non-preferential to preferential sources. Depending on the case, the net trade creation effects may be positive or negative. The studies conclude that liberalization on a multilateral MFN basis would eliminate the adverse trade diversion effects. All studies observe that multilateral trade liberalization yields the greatest global welfare gains.[43]

31. In the Commission's view, for regional trade agreements to achieve their full potential benefits and reinforce the multilateral trading system, they need to provide for deep across-the-board internal liberalization, avoid raising barriers to trade with third parties, and pave the way for further multilateral liberalization. Therefore, the Commission considers that the EC's preferential trade agreements (concluded mainly with developing countries) form part of a wider policy of promoting multilateralism.

[42] WTO (2004).
[43] OECD (2003d); and Sampson, and Woolcock (2003).

(ii) WTO

32. In the WTO, the Commission speaks on behalf of the EC on the basis of a Community position on the issues under discussion. The EC's ambitions for the future development of the multilateral trading system include: (i) further liberalization of trade in goods and services, and investment, with clear rules and a reasonable time-table; (ii) strengthening of existing WTO rules and the development of rules in new areas; (iii) full participation by developing countries in WTO's decision-taking processes, with a view to helping them integrate into the world economy; and (iv) more openness, accountability, and effectiveness of the WTO through discussion with other groups and organizations.[44]

33. As a leading trading entity, the EC has been instrumental in advancing the Doha Development Agenda by tabling proposals in several areas. It has spearheaded initiatives in the liberalization of trade, strengthening of WTO rules, and promotion of sustainable development. On market access for goods, it is of the view that liberalization should be carried out on a comprehensive basis, rather than in a sectoral manner, and that negotiations should help developing countries get better access to the markets of developed countries; and that trade barriers between developing countries should also be significantly lowered. On agriculture, it proposes to reduce its import tariffs and trade-distorting farm support by more than a half and has offered to eliminate export subsidies on a list of products of interest to developing countries. It also stresses that the negotiations on agriculture must take into account non-trade concerns as well as the better protection of geographical indications. Further market access for services is also advocated. The EC has presented more than 100 initial requests for improved access to third-country markets and has received several initial requests from third countries. It advocates the need for multilateral environmental agreements to mesh smoothly with agreements in the multilateral trading system in mutually supportive ways.[45] The EC has called for tariff- and quota-free access for goods from least developed countries, as well as special and differential treatment based on the level of development and capacity of developing countries. It has also been behind initiatives to finance and support trade-related technical assistance aimed at helping developing countries to accede to the WTO, to implement WTO rules, and to participate more actively in the multilateral trading system.[46] As regards trade defence measures, the EC has been advocating stricter mechanisms and greater transparency. It also argues for improvements of trade facilitation rules; a more transparent and predictable climate for investment; and the promotion of fair competition and procurement policies.

34. The EC's tariff commitments are in Schedule CXL. With the exception of a few transition provisions, new EC members have to adopt the Common Customs Tariff (CCT) upon their accession to the Union. As a consequence of the enlargement to EC-25, the procedures relating to re-negotiations of tariff concessions under GATT Article XXIV:6 began during the period under review.

35. In April 2003, the EC notified the WTO of its intention to replace the GATS schedules and list of Article II (MFN) exemptions of its 15 members with consolidated ones (Chapter IV(6)(i))).[47]As a consequence, the EC is undertaking renegotiations with 17 Members that have registered a claim of

[44] European Commission (2002g).

[45] European Commission, "Cancun special: Advancing the Doha Development Agenda. The challenges ahead" [Online]. Available at: http://europa.euEC.int/comm/trade/issues/newround/doha_da/cancun/index_ en.htm.

[46] The EC and its member States together accounted for about 63% of contributions to the WTO Trust Fund in 2003. According to the Commission, the EC and its member States account for almost half of all trade-related assistance worldwide.

[47] WTO document S/DCS/W/EEC, 22 April 2003. The commitments are common to 12 members and specific to Austria, Finland, and Sweden.

interest.[48] A similar process of consolidation is expected to take place in relation to the enlargement to EC-25.

36. The EC has generally met its notification obligations; this has contributed to the transparency of its trade regime. Since 2002, all notifications requirements have been met except for a few under the Agreement on Agriculture (Table II.2).[49]

Table II.2
Selected recent EC notifications to the WTO, as of May 2004

Agreement and requirement	Symbol	Date
Agreement on Agriculture		
Article 10 and 18.2 - export subsidies (ES:1 to ES:3)	G/AG/N/EEC/44	11/06/2003
Article 16.2 - Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net-Food Importing Developing Countries (NF:1 items (1) to (4))	G/AG/N/EEC/46	27/06/2003
Article 18.2 - domestic support (DS:1 & as appropriate supporting tables DS:1 to DS:9)	G/AG/N/EEC/49	01/04/2004
Article 18.2 - tariff and other quota commitments (MA:2)	G/AG/N/EEC/48	27/02/2004
Article 18.3 - domestic support (DS:2)	G/AG/N/EEC/47	29/07/2003
Article 5.7 and 18.2 - special safeguard provisions (MA:5)	G/AG/N/EEC/43	05/06/2003
Agreement on Government Procurement 1994		
Article XXIV:6	GPA/W/226	12/12/2002
Agreement on Implementation of Article VI of the GATT 1994		
Article 16.4 - ad hoc	G/ADP/N/116	18/04/2004
Article 16.4 - semi-annual	G/ADP/N/112/EEC	08/03/2004
Article 5.8	G/ADP/N/100/EEC	21/01/2003
Article 18.5	G/ADP/N/1/EEC/2/Suppl.4	14/04/2003
Agreement on Import Licensing Procedures		
Article 7.3	G/LIC/N/3/EEC/6/Corr.1	12/11/2003
Article 1.4(a) and 8.2(b)	G/LIC/N/1/EEC/2/Add.4	10/01/2003
Agreement on Safeguards		
Article 12.1(a) – initiation	G/SG/N/6/EEC/3	17/03/2004
Article 12.1(b) – finding	G/SG/N/8/EEC/2	16/03/2004
Article 12.1(c) – decision	G/SG/N/10/EEC/2	16/03/2004
Article 12.4	G/SG/N/7/EEC/2	06/11/2003
Article 12.5 - Joint communications	G/SG/62	06/03/2003
Article 12.5 - suspension of concessions referred to in paragraph 2 of Article 8	G/SG/43/SUPPL.1	20/06/2002
Article 12.6	G/SG/N/1/EEC/1/Suppl.1	14/04/2003
Article 9.1 footnote 2	G/SG/N/11/EEC/2/Suppl.1	16/03/2004
Agreement on Subsidies and Countervailing Measures		
Article 25.11 - ad hoc	G/SCM/N/110	01/04/2004
Article 25.11 - semi-annual	G/SCM/N/106/EEC	11/03/2004
Article 32.6	G/SCM/N/1/EEC/2/Suppl.4	14/04/2003
Agreement on Technical Barriers to Trade		
Article 10.7	G/TBT/10.7/N/44	29/01/2003

Table II.2 (cont'd)

[48] Upon agreement, the three-months period for the renegotiations has been extended to 1 June 2004.
[49] In 2002, these included the special safeguard clause and export subsidies.

Agreement and requirement	Symbol	Date
Article 2.9	G/TBT/N/EEC/60	23/03/2004
Article 5.6	G/TBT/N/EEC/53	03/02/2004
Article multiple	G/TBT/N/EEC/52/Add.1	10/03/2004
Article unspecified	G/TBT/N/EEC/57	24/02/2004
Agreement on Textiles and Clothing		
Article 2:1	G/TMB/N/60/ADD.5/Suppl.4	13/11/2002
Article 2:11	G/TMB/N/469	16/03/2004
Article 2:17	G/TMB/N/444/ADD.3/Corr.1	02/10/2002
Article 3:1	G/TMB/N/64/ADD.2/Suppl.1	03/04/2002
Article 3:3	G/TMB/N/424	20/02/2002
Agreement on the Application of Sanitary and Phytosanitary Measures		
Article 7, Annex B	G/SPS/N/EEC/242	07/04/2004
Decision of the Committee on Government Procurement 1994 of 27 February 1996	GPA/W/285/Add.4	29/01/2004
Decisions of the CONTRACTING PARTIES (BISD 31S/12 BISD 31S/222 BISD 32S/12 BISD 32S/93) Decision on Notification Procedures for Quantitative Restrictions (G/L/59) – biennial	G/MA/NTM/QR/1/Add.9/Corr.1	20/03/2003
GATS	S/ENQ/78/Rev.2	18/06/2002
Article III:4 or IV:2		
Article V:7(a)	WT/REG2/6	17/10/2002
Article XXI:1(b)	S/C/N/231/Corr.1	15/08/2003
GATT 1994		
Article XVII:4(a) - Understanding on the Interpretation of Article XVII	G/STR/N/3/EEC	23/07/2002
Article XXIV:7(a) - Free-Trade Areas	WT/REG142/N/1/Rev.1	24/12/2002
Article XXIV:7(a) - Interim Agreement (Free-Trade Areas)	WT/REG164/N/1	18/02/2004
Article XXVIII:5	G/MA/120	12/12/2002
GATT Concessions under the Harmonized Commodity description and coding system (BISD 39S/300) Procedures to implement changes in the harmonized system (Annex to L/6905)	G/SECRET/HS02/EEC/2	28/03/2002

Source: WTO documents.

37. The EC is an active user of the WTO dispute settlement mechanism. Between January 2002 and February 2004, it ranked joint first with the United States in terms of complaints. During the period under review, it has been a complainant in seven cases, three of which were brought against the United States, two against India, one against the Republic of Korea, and one against Australia. It has been a respondent in 14 cases. The EC joined as a third party in 19 disputes, 15 involving the United States. Moreover, pursuant to the Doha Ministerial Declaration in 2001, the EC is involved in negotiations to clarify and improve the dispute settlement mechanism of the WTO system and has submitted proposals in that respect. These proposals essentially relate to: the establishment and composition of panels; third parties' rights; panel procedures; the appellate body and surveillance; and the implementation of recommendations of the Dispute Settlement Body.[50]

[50] WTO document TN/DS/W/38, 23 January 2003.

(iii) Preferential trade agreements and arrangements

(a) Agreements with European countries/groupings

Acceding countries

38. On 1 May 2004, ten countries (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia), out of thirteen candidate countries, acceded to the EU.[51] Accession into the Union implies meeting the so-called Copenhagen criteria: stable institutions guaranteeing democracy; the rule of law; respect for protection of human rights and minorities; existence of a functioning market economy; capacity to cope with market forces and competitive pressures within the Union; and ability to take on the obligations of membership. The latter implies the adoption of the EC's *acquis communautaire*, also in the areas of trade and trade-related legislation, including the CCP. However, a few transitional arrangements on specified areas apply to new members (Chapter III).

39. The Europe Agreements and Association Agreements, signed between the EC-15 and the acceding countries (a requirement of the accession process), had already introduced free trade in almost all industrial products. Therefore, in terms of market access opportunities in non-agricultural goods, the anticipated changes are not likely to be significant. However, even though agricultural trade was liberalized under the Europe Agreements, there remained some tariff and tariff-quota restrictions. Hence, market access opportunities are expected to be greater for agricultural goods. Increased market access opportunities are also expected to occur in services, as services liberalization under Europe Agreements did not go as far as within the EC-15.

40. As part of their EU obligations, new members States will have renounced their bilateral trade agreements with third countries upon accession and will have applied, as from 1 May 2004, all bilateral and regional agreements concluded by the EC.[52] It is expected that more than 60 existing agreements will have been superseded or terminated, thereby consolidating trade relations within Europe. More precisely, the Europe Agreements and the Association Agreements between the acceding countries and the EC will have terminated, while the trade-related aspects of all existing agreements among acceding countries, as well as those between the latter and third parties will have been repealed.[53] An enlarged EC membership will have also extended the geographical coverage of the EC's own trade agreements, thereby increasing market access to EC's preferential partners, while third countries without such preferential market access will find it more difficult to compete on the EC market.

41. Several studies confirm that the Europe Agreements stimulated substantial growth in trade between the EC and acceding countries. However, other studies suggest that, while there remains potential for increased trade, some of the acceding countries might have reached their trade potential.[54] Drawing from the experiences of Ireland, Portugal, and Spain, the European Commission

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[51] For the thirteen candidates, preparation for accession began in June 1993. For the ten countries the earliest accession negotiations started in March 1998 and were all concluded in December 2002; their accessions have been ratified through national referenda. Trade relations between the EC and the acceding countries are described in WTO (2000b) and WTO (2002). The other three candidate countries are Bulgaria, Romania, and Turkey.

[52] In general, acceding countries are required to renounce or amend international agreements with third countries that are incompatible with the EU *acquis*.

[53] Fisheries agreements concluded by new member States with third countries will be managed by the Community.

[54] See, for example, Baldwin (1994); and Nilson (2000).

anticipates an additional 5-9% economic growth in the new member States over the ten years following accession, while existing members are expected to increase growth by 1.5%.[55] The growth is expected to be driven by more efficient allocation of resources, strong boosts to foreign direct investment resulting from increased business opportunities, increased cross-border trade between old and new members; and higher productivity as a result of increased competition among member States. Trade liberalization among countries that trade extensively with one another is likely to contribute to income convergence.[56] In general, given that EC tariffs are lower than acceding countries', the adoption of the CCT is expected to put downward pressure on prices in new member States. However, for acceding countries with relatively lower customs duties (see Annex I.1 for statistical tables on Estonia, Latvia, Lithuania, and Malta), there could be a rise in prices. Furthermore, prices of certain agricultural products are expected to rise as a result of the adoption of the common agricultural policy (CAP). Unemployment could also rise in some acceding countries as their economies adjust to the new environment.[57]

European Free Trade Association (EFTA)

42. The EC's free-trade agreements with individual members of EFTA, concluded in the early 1970s, remain in force for Iceland, Liechtenstein, Norway, and Switzerland.[58] The creation of the European Economic Area (EEA) in 1994 extended the EC's internal market to six members of EFTA (Austria, Finland, Iceland, Liechtenstein, Norway, and Sweden). Switzerland decided, after a referendum, not to participate; three other members (Austria, Finland, and Sweden) joined the Union in 1995. The EEA Agreement provides for freedom of movement of goods (with some limitations on agriculture and fisheries produce), of persons, services, and capital. Horizontal provisions apply to social policy, consumer protection, environment, company law, and statistics.[59] Protocols on rules of origin provide for diagonal cumulation of origin on industrial products between the EC, the ten acceding countries, the EFTA countries, and Bulgaria, Romania, and Turkey.

43. On 1 June 2002, seven bilateral agreements between the EC and Switzerland entered into force. These agreements cover free movement of persons, trade in agricultural products, public procurement, technical barriers to trade, air transport, transport by road and rail, and research. Negotiations under way cover: liberalization of trade in processed agricultural products; liberalization of services; adaptation of the agreement on the free movement of persons to EU-25; improved cooperation against fraud; and participation in various EC schemes on research, environment, border control, and asylum.[60]

Western Balkans

44. Since the break-up of the Former Yugoslavia, the EC has been pursuing a stabilization and association strategy with the countries in the region. The strategy is being implemented at three different levels. At the bilateral level, the EC has granted non-reciprocal preferences to the Western

[55] DG Enlargement (undated).

[56] Ben-David, Nordstrom, and Winters (1999).

[57] For detailed discussion on the economic impact of enlargement, see European Commission (2001).

[58] EFTA was established in 1960 by Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom. EFTA's membership has been reduced by accession to the EC of Denmark and the United Kingdom in 1973, Portugal in 1986, and Austria, Finland, and Sweden in 1995.

[59] Further details are available online at: http://europa.eu.int/comm/external_relations/eea/index.htm, and at: http://secretariat.efta.int/Web/EuropeanEconomicArea/EEAAgreement/EEAAgreement

[60] Further details are available online at: http://europa.eu.int/comm/external_relations/switzerland/intro/index.htm.

Balkans.[61] These include duty-free access for all goods imported from the beneficiary countries, with a few exceptions.[62] The exceptions relate to tariff concessions on baby beef, and tariff quotas on wine and six fishery products. Autonomous quotas also continue to apply to textiles with respect to Serbia and Montenegro. In addition, the EC is progressively concluding stabilization and association agreements (SAAs) with the countries concerned. So far, SAAs have been signed with FYROM (9 April 2001) and Croatia (29 October 2001).[63] The SAAs focus on respect for democratic principles and strengthening of the links between the countries of the region and the EC. They foresee the establishment of a free trade area with the EC, based on reciprocity after a transition period. They also cover issues relating to, *inter alia*, competition and state aids, and intellectual property and services. On 31 January 2003, negotiations were launched for an SAA with Albania; negotiations with Bosnia and Herzegovina, and Serbia and Montenegro are yet to be launched. At the regional level, and to complement the SAAs, the EC is co-sponsoring the establishment of a network of bilateral free-trade agreements (FTAs) among countries of the Western Balkans, including Romania, Bulgaria, and Moldova.[64] By the end of 2003, all the relevant bilateral agreements foreseen under this network had been signed. The implementation phase of the network has now started; the network aims at developing intra-regional trade, thus facilitating future integration of these countries in the EC. The countries of the region are encouraged to explore possibilities to harmonize their free-trade agreements with a view to establishing a regional free-trade area in the medium-term. At the multilateral level, the EC has been strongly supporting the accession of the countries in the region to the WTO.[65] Albania, Croatia, and FYROM are already WTO Members, while Bosnia and Herzegovina and Serbia and Montenegro have started their accession process.[66]

Other European agreements

45. Bulgaria, Romania, and Turkey are candidate countries for EC accession. The Thessaloniki European Council in June 2003 noted that "the objective is to welcome Bulgaria and Romania as members in 2007", and expressed support for Turkey's on-going efforts to fulfil the Copenhagen political criteria for opening accession negotiations. As part of their respective Europe Agreements, Bulgaria and Romania have free-trade arrangements in goods and services with the EC. The Europe Agreements provide for a free-trade area in goods, with selected agricultural products being subject to tariff reductions and progressive liberalization; the agreements also cover liberalization in some services subsectors. Turkey entered into a customs union arrangement on non-agricultural and processed agricultural products with the EC in 1996. There is no timetable for the integration of agriculture into the customs union; however, a preferential agreement covers some agricultural products.[67] The Europe Agreements and the customs union agreement make use of the pan-European

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[61] Council Regulation (EC) No 2007/2000, OJ No L 240, 23 September 2000, as last amended by Commission Regulation (EC) No 2487/2001, OJ No L335, 19 December 2001.

[62] Albania, Bosnia-Herzogovina, Croatia, the Former Yugoslav Republic of Macedonia, and Serbia and Montenegro.

[63] Pending ratification of the SAAs, the trade related parts of these two agreements are in force by means of Interim Agreements. The SAA with FYROM entered into force on 1 April 2004.

[64] A Memorandum of Understanding on trade facilitation and liberalization was signed by these countries in 2001 under the auspices of the Stability Pact for South-Eastern Europe, which commits them to conclude a network of bilateral FTAs among themselves.

[65] WTO membership is a precondition for the negotiation of SAAs.

[66] For more information on EU bilateral trade relations with Balkans, see EU online information at: http://europa.eu.int/comm/trade/issues/bilateral/regions/balkans/index_en.htm; and http://europa.eu.int/comm/external_relations/see/index.htm.

[67] Some 57 items at the HS six-digit level (WTO, 2004). See detailed information in Decisions 1/98 of the EC – Turkey Association Council of 25 February 1998 – on the trade regime for agricultural products (98/223/EC).

system of (diagonal) cumulation of origin, and cover technical barriers to trade, competition policies, and protection of intellectual property rights.

46. Customs union agreements are in existence with Andorra and San Marino, and a free-trade agreement with the Faroe Islands.

(b) Agreements with non-European countries/groupings

47. Association agreement negotiations between the EC and MERCOSUR (comprising Argentina, Brazil, Paraguay, and Uruguay) began in June 2000, with the aim of establishing a comprehensive political and economic partnership covering: political issues, cooperation, and trade. The trade chapter aims at reciprocal liberalization of trade in goods and services. With respect to agriculture, cooperation between the two parties seeks to promote mutual trade in agricultural products and to increase the compatibility of sanitary and phytosanitary legislation. To this end, a mutual information system for dangerous products and a rapid alert system will be established. The negotiations also seek to implement certain environmental provisions.[68] A separate wines and spirits agreement is to be discussed. Trade in all non-agricultural goods is under consideration for liberalization. The negotiations also cover the protection of intellectual property rights, competition policy, disciplines in the use of trade defence instruments, and the establishment of an effective and binding dispute settlement mechanism.[69] As part of the on-going negotiations, the EC is supporting MERCOSUR in its goal of becoming a common market by 1 January 2006.

48. Since 2002, negotiations have been pursued actively on several issues, including market access in goods and services, customs procedures, standards and other technical regulations, e-commerce, competition policy, intellectual property rights, dispute settlement, and rules of origin. Origin criteria are similar to the pan-European system (Chapter (III)(2)(v)). Furthermore, economic cooperation discussions are being finalized in several sectors, including agriculture, services, fishing, environment, and tourism.[70] In 2002, EC trade with MERCOSUR amounted to € 42.3 billion for merchandise and € 8.2 billion for services. The EC has a trade deficit in agricultural products with MERCOSUR; this amounted to € 12.6 billion in 2002. Incomes, real exchange rates, and infrastructure for exports are observed to be important factors influencing trade flows between the blocs.[71] A recent World Bank study, in analysing different simulation scenarios, concludes that the EC-MERCOSUR arrangement is net trade-creating for the countries involved[72], but third countries lose from the arrangement. The study finds gains from multilateral liberalization to be four times greater.[73]

49. On 18 November 2002, the EC and Chile signed an Association Agreement to conclude the negotiations launched in November 1999. On goods, progressive and reciprocal liberalization will take place, over a transitional ten-year period, for 97.1% of bilateral merchandise trade, i.e. 100% of

[68] Further information is available online at: http://europa.eu.int/comm/trade/issues/bilateral/regions/mercosur/index_en.htm.

[69] First meeting of the EU-MERCOSUR bi-regional negotiations committee [Online], Available at: http://www.europa.eu.int/comm/external_relations/mercosur/ass_neg_text/concl_bnc1.htm.

[70] Further information on EU relations with MERCOSUR are available online at: http://europa.eu.int/comm/external_relations/mercosur/intro/index.htm#3.

[71] Martinéz-Zarzoso and Nowak-Lehmann (2001), show that exporter and importer incomes have a positive influence in bilateral trade flows. Furthermore, the improvements in the exporting country's infrastructure, as well as real exchange rates, increase bilateral trade flows.

[72] These gains will be significantly reduced to MERCOSUR countries if agricultural liberalization is minimal.

[73] Harrison, Rutherford, and Gurgel (2003).

industrial goods, 80.9% of agricultural goods, and 90.8% of fisheries products. On services, the agreement provides for a free-trade area and for the liberalization of investment, payments, and capital movements. It provides for reciprocal opening of government procurement markets, and for the adequate and effective protection of intellectual property rights. General rules have also been established in areas such as customs and related procedures, and standards and other technical regulations. Specific rules facilitating trade in wines and spirits, animals and animal products, and plants and plant products are contained in the Agreement. Provisions also exist for cooperation between competition authorities and dispute settlement mechanism.[74] The bulk of the agreement has been applied on a provisional basis since 1 February 2003.[75] According to a sustained impact assessment, carried out on behalf of the Commission, the trade part of the EC-Chile Agreement should generate additional 0.5% annual growth to Chile's economy and increase living standards.[76] In 2001, bilateral trade between the EC and Chile amounted to € 8.8 billion.

50. The EC-Mexico free trade agreement came into force on 1 July 2000.[77] In accordance with the established asymmetric liberalization schedule, all duties on industrial imports from Mexico were removed by the EC in 2003. Mexico is expected to lift all duties on EC industrial goods by 2007.[78] The phasing out of duty in preferential agricultural and fishery trade will be achieved in 2010. During the first two years of the agreement, bilateral trade between the two parties increased by 28.3%. In 2001, bilateral trade between the EC and Mexico totalled € 22.3 billion, however, in 2002, it decreased by 1.7% due to the difficult global economic situation. Investment flows are on the rise; in 2003, about 5,000 businesses in Mexico had their parent offices in the European Union. Mexican businesses in the EC are also noted to be increasing.[79]

51. The establishment of the Euro-Mediterranean Free-trade area, the so-called "Barcelona Process", has a target date of 2010. It is expected to lead to free trade in industrial goods and progressive liberalization of trade in agricultural goods, as well as in services, between EC members and 12 Mediterranean partners.[80] The process will also be aimed at removing technical barriers to trade; harmonizing plant and veterinary standards, and customs rules and procedures; modernizing agriculture, taking into account environmental concerns; harmonizing rules of origin with the pan-European system (Chapter (III)(2)(v)); and will cover intellectual property protection and competition policy. Once completed, it will cover some 40 states and around 700 million consumers. An essential part of the process is the negotiation of Euro-Mediterranean Association Agreements between the EC and individual Mediterranean countries; the agreements are replacing the non-reciprocal Cooperation Agreements of the 1970s. The EC also supports free-trade arrangements amongst the Mediterranean countries, as a means of regional integration (for example the Agadir Agreement recently concluded between Morocco, Tunisia, Egypt, and Jordan).

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[74] Details of EC relations with Chile EC are available online at: http://europa.eu.int/comm/trade/bilateral/chile/index_en.htm; and http://europa.eu.int/comm/external_relations/chile/assoc_agr/index.htm.

[75] Adoption proceedings were completed by the Chilean Congress in January 2003. The European Parliament gave its assent at its plenary session of 12 February 2003, but national parliaments have to still ratify the Agreement. The Association Agreement was notified to the WTO in WTO document WT/REG164/N/1 of 18 February 2004.

[76] Planistat (2003).

[77] See WTO (2002) for details.

[78] Trade in industrial goods represents more than 95% of total bilateral trade.

[79] Details of the EC's relations with Mexico are available online at: http://europa.euEC.int/comm/external_relations/mexico/intro/index.htm; and http://europa.euEC.int/comm/trade/issues/bilateral/countries/mexico/index_en.htm.

[80] The 12 Mediterranean partners are Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, and Turkey.

52. Since 2002, three new Association Agreements have entered into force with countries in the Mediterranean, with Jordan[81], Lebanon[82], and Egypt[83], and have increased the number of Association Agreements signed to eleven.[84] Negotiations on the twelfth agreement, the EU-Syria Association Agreement, were completed on a technical basis in December 2003. The free-trade agreements with the Mediterranean partners provide for asymmetric liberalization of trade, with the EC liberalizing faster; industrial products from the Mediterranean partner country, immediately upon entry into force of the respective agreements, benefit from duty- and quota-free access to EC markets. Under the association agreements, the Mediterranean partners will fully liberalize their trade in industrial goods over a 12-year transition period (15 in the case of Egypt). The agreements also provide for reciprocal liberalization of imports of raw and processed agricultural and fishery products, where mutual concessions are given in various forms, including zero tariff, reduced import duties (both within and out of quota), and increased tariff quotas. These agreements also cover the liberalization of services and the right of establishment, capital movements, public procurement, competition rules, origin rules[85], and intellectual property rights.

53. Studies examining the impact of the EC-Mediterranean association agreements suggest that, in general, the static efficiency gains lead to small but positive net welfare effects[86], with most of the welfare gains resulting from the reduction in administrative red-tape barriers and the harmonization of regulatory regimes. They estimate that welfare gains would increase if trade in agricultural goods and petrochemicals were liberalized more thoroughly; economic effects would be optimal if deeper multilateral liberalization were pursued vis-à-vis the rest of the world.[87] Some studies however obtain negative results.[88]

54. The objective of the EC's trade relations with countries in the Gulf region is to enhance political dialogue and to foster economic integration between both parties, with a view to diversifying and increasing their bilateral trade in a sustainable way; and to promote regional integration within the Gulf Co-operation Council (GCC). After a break of more than ten years, negotiations between the EC and GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates) resumed in March 2002, following the adoption of new negotiation directives from both sides and the commitment on behalf of the GCC to establish a Customs Union, which entered into force in January 2003. The current negotiations have progressed at an accelerated pace over the period under review.[89]

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[81] Signed in 1997 and entered into force in May 2002. WTO document WT/TEG141/N/1, 20 December 2002.

[82] Signed in 2002 and entered into force on an interim basis on 1 March 2003. WTO document WT/REG153/N/1, 4 June 2003.

[83] Signed in June 1999; trade and trade-related provisions entered into force on an interim basis on 1 January 2004.

[84] Cyprus and Malta, with which the EU has Association Agreements, are among the ten acceding countries. Turkey also entered into a customs union with the EU in January 1996.

[85] A Protocol on rules of origin endorsed at the Third Euro-Mediterranean Trade Ministerial Conference (Palermo, 7 July 2003) provides for the harmonization of rules of origin in the Euro-Mediterranean region by extending the pan-European system of cumulation of origin to the Mediterranean partners. To become operational, the Protocol needs to be inserted in the present agreements, as well as those to be concluded; including agreements among the Mediterranean countries such as the Agadir Agreement.

[86] In some cases, this could result in a loss to the Mediterranean countries if the trade creation benefits do not outweigh the revenue losses.

[87] Baert (2003).

[88] Brown et al. (1997) estimate the net welfare effects of the Euro-Mediterranean Free Trade Agreement with Tunisia to be slightly negative in the short run, due to the adjustment costs associated with the degree of intersectoral capital and labour mobility. Konan and Maskus (1997), also find that in the case of Egypt, a "shallow agreement" would be merely trade diversionary and lead to a small decline in welfare.

[89] Five rounds of negotiations took place between March 2002 and March 2003.

Offers have been exchanged on goods, and negotiations are focusing on liberalization modalities and product coverage. In 2002, EC bilateral trade with the Gulf region amounted to € 54 billion. The ongoing negotiations for a trade and cooperation agreement between the EC and Iran aim to promote their bilateral economic relations.[90]

55. The EC signed a Trade, Development and Co-operation Agreement (TDCA) with South Africa in October 1999. The TDCA provides for the asymmetric (in favour of South Africa) establishment of a free-trade area between the two parties over a transitional period of 12 years. At the end of the transition period, South Africa and the EC will grant free-trade status to each other's products. The trade-related provisions of the TDCA have been applied provisionally since January 2000.[91]

(c) Non-reciprocal preferential arrangements

The Cotonou Agreement

56. The Cotonou Agreement between the EC and 78 African, Caribbean and Pacific (ACP) countries was signed in Cotonou on 23 June 2000 and entered into force in April 2003.[92] The Agreement builds upon three interlinked pillars: a political dimension; development and finance cooperation; and economic and trade cooperation. Under the latter, ACP countries, except for South Africa[93], benefit from non-reciprocal trade preferences during an interim period (2001-07).[94] These include duty-free treatment on industrial, processed agricultural, and fishery products, subject to a safeguard clause. For certain products (bananas, beef and veal, and sugar), the EC provides special market access under "commodity protocols". The preferential rules of origin contain product-specific requirements[95], and allow for regional cumulation. At the end of the interim period (31 December 2007 at the latest), such unilateral preferences will be replaced by WTO-compatible reciprocal economic partnership agreements (EPAs) between the EC and individual ACP countries or groups of countries.

57. The primary objectives of the EPAs are to foster sustainable development, integrate the ACP into the world economy and fully comply with the prevailing WTO rules. The basic guiding principle for EPAs is to build on and reinforce ACP regional integration processes, and provide for appropriate differentiation and asymmetry to take account of the level of development and their socio-economic impact on ACP countries. EPAs will provide for the progressive elimination of tariffs and non-tariff measures between the parties, on both goods and services. They are also expected to address technical barriers to trade, as well as other trade-related issues.[96] Development concerns will be

[90] More information on the EC's bilateral trade relations with the Gulf are available online at: http://europa.eu.int/comm/trade/issues/bilateral/regions/gcc/index_en.htm; and http://europa.eu.int/comm/external_relations/gulf_cooperation/intro/index.htm.

[91] See WTO document WT/REG113/N/1 of 21 November 2000.

[92] 48 African States, covering all sub-Saharan Africa, 15 States in the Caribbean and 15 States in the Pacific (the Democratic Republic of East Timor acceded to the Cotonou Agreement in May 2003).

[93] South Africa is a signatory of the Cotonou Agreement but its membership of the ACP Group is qualified (Protocol 3 on South Africa attached to the Cotonou Agreement). The provisions of the TDCA between the EC and South Africa take precedence over the provisions of the Cotonou Agreement.

[94] The Agreement is under the cover of a WTO waiver approved at the Doha Ministerial Meeting, expiring on 31 December 2007. See WTO document WT/MIN(01)/15 of 14 November 2001.

[95] The requirements relate to maximum import content, specific processing criteria, and change in tariff headings.

[96] These may include issues such as sanitary and phytosanitary measures, intellectual property rights, public procurement, competition policy, investment, trade and environment, trade and labour standards, consumer policy regulation and consumer health protection, standardization and certification, and food security.

reflected through flexibility vis-à-vis depth of liberalization, its asymmetry, length of transition periods, trade coverage and exceptions, and through the granting of EC support measures.

58. Formal, all-ACP/EC negotiations of the EPAs started in September 2002 to define the format, structure, and principles for the negotiations and horizontal issues of interests to all parties. A joint report taking stock of Phase I of the negotiations was adopted by the ACP Council of Ministers and the EC Commissioners for Trade and Development in October 2003.[97] Phase I has brought convergence on a number of issues, but all-ACP/EC discussions are set to continue. At the same time, Phase II negotiations on individual EPAs have been opened between the EC and Central Africa (CEMAC, and Sao Tome and Principe) on 4 October 2003[98], West Africa (ECOWAS and Mauritania) on 6 October 2003[99], and Eastern and Southern Africa on 7 February 2004.

59. In 2002, EC merchandise trade with the ACP countries totalled € 58.5 billion; the EC imported some € 30.5 billion and exported some € 28 billion. EU exports to the ACP in 2002 consisted mainly of machinery and mechanical appliances (26%), ships/boats (12%), vehicles (8%), and products of the chemical or allied industries (10%). In 2002, eight products accounted for 62% of total ACP exports: petroleum oil was the most important product (28%), followed by diamonds (9%), cocoa (8%), fish (6%), wood (4%), sugar (3%), aluminium (2%), and tobacco (2%).[100] The share of imports from the ACP in the EC's total imports decreased from 6.7% in 1976 to 3.11% in 2002.

Generalized System of Preferences (GSP)

60. The objectives of the EC's GSP for the period 1 January 2002 to 31 December 2004 are to simplify and harmonize procedures of various arrangements in order to improve the access of developing countries to its market, while ensuring the promotion of fundamental social and environmental standards.[101] To achieve these objectives, the GSP scheme comprises a general arrangement and various special arrangements dealing with least developed countries, labour rights, environment, and the combat of drug production and trafficking. The scheme is available to 143 independent States and 36 dependent countries.

61. Under the general arrangements, products covered under the GSP are classified as either sensitive or non-sensitive. With a few exceptions, almost all agricultural goods are classified as sensitive, whereas non-sensitive products slightly dominate non-agricultural goods. Non-agricultural sensitive products include textiles, clothing and apparel, carpets, and footwear. Non-sensitive products benefit from the suspension of tariff duties, whereas sensitive products enjoy tariff reductions by 3.5 percentage points on the CCT duties for *ad valorem* rates, and 30% on specific duties.[102] However, products in chapters 50 to 63 of the GSP (mainly textiles and clothing) benefit from a 20% reduction in the CCT duties. Tariffs are totally suspended where preferential treatment results in

[97] EC documentACP/00/118/03 Rev.1 – ACP-EC/NG/NP/43, dated 2 October 2003, available online at: http://trade-info.cec.eu.int/doclib/docs/2003/november/tradoc_114136.pdf.

[98] CEMAC is the Communauté Économique et Monétaire de l'Afrique Centrale.

[99] ECOWAS is the Economic Community Of West African States.

[100] For most of the ACP countries - and for virtually all African ACP countries - the Community is the main trading partner. In 2001, trade with the EC represented 31% of total ACP exports (35% of total African ACP exports) and 29% of total ACP imports (37% of total African ACP imports). Further details of trade between EC and ACP countries is available online at: http://europa.eu.int/comm/trade/issues/bilateral/regions/acp/index_en.htm

[101] The EC's GSP for 1 January 2002 to 31 December 2004 is governed by Council Regulation (EC) No. 2501/2001. OJ L 346/1, 10.12.2001 [Online]. Available at: http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l_346/l_34620011231en00010059.pdf.

[102] With the exception of undenatured ethyl alcohol of an alcoholic strength by volume of 80% or higher; ethyl alcohol and other spirits, denatured, of any strength, where the specific duty reduction is 15%.

ad valorem duties of 1% or less, or in specific duties of € 2 or less. In order to encourage regional groupings, regional cumulation of origin is possible.[103] The scheme provides for the exclusion of beneficiary countries on grounds of the degree of development, i.e. if classified by the World Bank as high-income countries and also having achieved a specific level of industrial development in accordance with a formula set out in the regulation.

62. To achieve the social and environmental objectives, the GSP provides an additional incentive of 5 percentage point reduction in the CCT (thus taking the cumulative reduction to 8.5 percentage points for *ad valorem* duties) to countries complying with specific labour and environmental standards. The labour standards include provisions of the International Labour Organization conventions on the abolition of forced labour; freedom of association and the right to collective bargaining; non-discrimination in respect of employment and occupation; and abolition of child labour by the beneficiary country's national legislation. The environmental standards required are those internationally acknowledged, mainly those of the International Tropical Timber Organization.

63. The EC's GSP scheme incorporates the Everything But Arms (EBA) initiative under which, the EC extends duty-free access, without any quantitative restrictions, to products originating in the least developed countries, with the exception of arms and ammunition. These market access opportunities have been in operation since 2001, with temporary exceptions for bananas, rice, and sugar. Free access for bananas, through a process of gradual tariff elimination, was introduced on 1 January 2002 and is expected to result in full liberalization on 1 January 2006 when all duties on bananas are to be suspended. A similar process of tariff liberalization for rice and sugar is expected to take place over the period 2006-09.[104]

64. Other special GSP arrangements are aimed at promoting political, economic, and social stability in specific countries threatened by drug production and trafficking. These entail the complete suspension of CCT duties applicable to selected industrial and agricultural goods. The scheme also includes safeguard provisions allowing the Commission to suspend tariff preferences and reintroduce CCT duties, where a product originating in a beneficiary country is imported on terms that cause, or threaten to cause, serious difficulties to an EC producer of like or directly competing products. The action can be initiated by the Commission, including at the request of a member State.

65. The GSP scheme has helped to enhance the ability of developing countries to favourably access EC markets; for many developing countries, the EC remains the major trading partner. Nonetheless, there is a declining trend in trade shares and low ratios of GSP utilization. In general, the conclusions of numerous empirical studies are that GSP schemes have underperformed, yielding at best a "modest" increase in imports from beneficiary states, with some of those gains due merely to trade diversion.[105]

[103] Commission Regulation No.2454/93.

[104] Regulation (EC) No. 416/2001; and WTO (2001).

[105] See, for example, Ozden and Reinhardt (2003). A similar survey of the literature by Panagariya, A. (2002) concludes that "trade preferences have had little beneficial impact beyond the obvious rent transfer accompanying duty-free entry of goods". Similar conclusions had been drawn by an earlier study by Whalley (1990), where it was observed that special and differential treatment, especially through GSPs had had only a marginal effect on countries' economic performance. Brenton (2003) and Panagariya (2002) discuss the underperformance of the GSP Scheme.

Overseas Countries and Territories (OCT)

66. The EC has granted duty-free treatment on all products originating in the OCT on a non-reciprocal basis since 1963, subject to a safeguard provision.[106] Origin rules provide for cumulation with the Community and the ACP, without limits, except for rice and sugar. The agreement also has provisions on trans-shipment. A Council Decision on the OCT Association Arrangements was adopted on 27 November 2001 to continue the regime until the end of 2011.

[106] The 1971 decision was notified under GATT 1947 Article XXIV and examined in a working party (GATT document L/3611, 18S/143, 9 November 1971).

III. TRADE POLICIES AND PRACTICES BY MEASURE

(1) INTRODUCTION

1. The EC's basic trade regime has remained largely unchanged since its last TPR. The average applied MFN tariff rate has remained fairly stable at 6.5% in 2004, with rates ranging from 0% to 209.9%; agricultural products still attract the highest rates. *Ad valorem* and non-*ad valorem* duties account for some 90% and 10% (respectively) of the 2004 tariffs. The non-*ad valorem* duties are specific, compound, mixed or variable. They apply to agricultural products, also subject to tariff quotas filled at 67% on average. The EC's wide network of preferential trade agreements has confined the application of its MFN tariff to imports from nine WTO Members (some 34% of its total merchandise imports in 2002).

2. The value-added tax (VAT) and excise duties apply to imports and locally produced goods (and services for the VAT) at the same rates; these rates are not harmonized among EC member States, although minimum rates are set at the Community level. In terms of number of actions, the EC remains a leading user of contingency trade remedies; in 2002 and 2003, it initiated a total of 28 anti-dumping, 5 countervailing and 3 safeguard investigations. Under its "Customs 2007 programme", the EC is improving customs administration in the Community through, *inter alia*, the implementation of various communication and information exchange systems to support the creation of a paperless (electronic) customs environment.

3. The EC's import licensing system is maintained on grounds of surveillance, quota management, and safeguards. Technical requirements, including standards, and sanitary and phytosanitary measures, have been under continued review by the Commission; in certain areas, they have not been fully harmonized among member States. Export subsidies, based on the difference between Community prices and world prices, are provided for several agricultural products; they amounted to € 2.5 billion (some 90% of total OECD export subsidies).

4. The EC is taking steps to simplify, modernize, and make more flexible its public procurement regime; the reforms planned at the time of its previous TPR are at an advanced stage of being adopted. Measures have been taken regarding the enforcement of competition rules in areas such as the motor industry, insurance services, and state aid for employment. Regulations have been adopted on, *inter alia*, the registration of Community designs, protection of geographical indications and designations of origin for agricultural products and foodstuff, and on measures to combat counterfeiting and piracy.

5. As part of their accession process, the ten acceding countries have aligned their trade and trade-related legislation (in particular) on the EC *acquis*. However, transition arrangements exist for the countries, either as a group or individually.

(2) MEASURES DIRECTLY AFFECTIG IMPORTS

(i) Customs procedures and valuation

6. The EC's customs procedures have been established in accordance with the relevant provisions of its Treaty and are influenced by the customs-related arrangements of international organizations, including the WTO, United Nations Economic Commission for Europe (UNECE), and the World Customs Organization (WCO).[1] The EC's Customs Code (CC) and its implementing

[1] During the period under review, the European Communities undertook steps to accede, to the Protocol of Amendment to the International Convention on the Simplification and Harmonisation of Customs Procedures (Kyoto Convention), with the exception of appendix III of the protocol.

regulation provide the basic legislative framework for customs procedures in the EC.[2] The CC aims to bring together the general rules and all customs procedures applicable to goods traded between EC member States and third countries, in a single and coherent body of law.

7. According to the CC, goods brought into the customs territory of the EC can be placed under customs procedures or other types of customs-approved treatment.[3] Placing goods under customs procedures requires a declaration to that effect[4], while entry for other types of customs-approved treatment or use normally requires only a physical act.[5] The customs declaration must, under normal procedures, be made in writing and consist of the Single Administrative Document, accompanied by pertinent documents (e.g. invoices or other documents for customs valuation purposes, certificates of origin for application of preferential tariffs or derogations from the Common Customs Tariff and any other document required by any specific legal regulations on the importation of the goods, for instance, health certificates, certificates of conformity and authenticity). It can also be made through data processing techniques or by means of any other relevant act.[6] The customs authorities may grant permission to simplify the completion of formalities and procedures.[7] The code applies uniformly throughout the customs territory of the Community to exports and imports of goods.[8]

8. The basic customs valuation regime has remained unchanged since the last TPR of the EC. Its provisions are contained in the Customs Code, and are based on: the WTO Agreement on Implementation of Article VII of GATT 1994[9]; and decisions and instruments of the relevant committees of the WTO and the World Customs Organization (WCO).[10] During the period under review, modifications were made to customs valuation regulations with regard to defective goods and the threshold limit for customs value declaration. Under EC regulation No. 444/2002, the price agreed between buyers and sellers can be modified by customs officials to take into account defective goods; and the threshold limit for customs valuation information declaration was raised from € 5,000 to € 10,000 in order to take into account monetary changes, as well as to simplify import formalities.

[2] The Customs Code is available online at: http://europa.eu.int/eur-lex/en/consleg/pdf/1992/en_1992R2913_do_001.pdf; the implementing regulation is contained in Regulation (EEC) No. 2454/93, 2 July 1993.

[3] Customs procedures are required for the release of goods for free circulation; transit; customs warehousing; inward processing; processing under customs control; temporary admission; outward processing; and exportation. The other customs-approved treatments or uses are: entry of goods into a free zone or free warehouse; their re-exportation from the customs territory of the Community; their destruction; and their abandonment to the Exchequer.

[4] CC Art 59(1).

[5] CC Art 169(1); for a detailed analysis of EC Customs Legislation see Lux (2002).

[6] CC Art 61.

[7] CC Art 76. The CC distinguishes three types of simplified procedure: a declaration that omits some of the required particulars; a simplified commercial or administrative document to be lodged in place of the declaration; and a recording of entry, thereby removing the requirement for the declarant to present the goods to Customs.

[8] Defined as comprising the European territories of the member States (including the territorial waters, the inland maritime waters and airspace) with certain exceptions: the Faroe Islands and Greenland from the territory of Denmark; the Island of Heligoland and the territory of Buesingen from the territory of Germany; the municipalities of Livigno and Campione d'Italia and certain waters of Lake Lugano from the territory of Italy; Ceuta and Melilla from the territory of Spain. Certain European territories outside of the territorial frontiers of the member States are also included in the Community customs territory. The territory of Germany includes the Austrian territories of Jungholz and Mittelberg, the territory of France includes the Principality of Monaco, and the territory of Italy includes the Republic of San Marino; a customs union agreement between the EC and San Marino entered into force on 1 December 1992.

[9] Customs Valuation Agreement.

[10] The Customs Valuation Committee of the WTO and the Technical Committee on Customs Valuation of the WCO.

9. In general, customs declaration is not required for imported goods entering certain free zones (of control type 1) and free warehouses. Appeals against customs decisions are to be lodged initially with national customs authorities and can subsequently be brought before a national court, and then the European Court of Justice, under Article 230 of the EC Treaty.

10. The uniform implementation of common customs procedures by EC member States has been a challenge due to variations in the availability of electronic access to customs (for data entry for electronic customs declaration), limited interfaces for interoperability between systems, and different interpretation given to EC customs legislation by national customs administrations[11]; the situation is likely to be accentuated with the enlargement of the Union.[12] The challenge is being addressed within the context of the EC's "Customs 2007" programme, adopted on 11 February 2003 and to be implemented until 31 December 2007.[13] The programme aims to ensure that member States' customs administrations interact and perform their duties as efficiently as a single administration; improve trade facilitation; protect the EC's interest against fraud and criminal activities as well as health and environmental concerns; and take steps to prepare and support the enlargement and integration of new member States. Actions to be implemented include establishment of communication and information exchange systems, benchmarking[14], exchange of officials, seminars and other training activities, monitoring, and technical assistance.

11. Various communication and information exchange systems are being put in place to support the creation of a paperless (electronic) customs environment. Member States have been implementing a new computerized customs transit system (NCTS) designed to speed up transit procedures and monitor the transit system to tackle fraud. As of 30 June 2003, the EC-15 member States were reported to have met the deadline for its implementation. Other Community-wide electronic customs-related systems in place include the common communications network/common systems interface (CCN/CSI)[15]; the data dissemination system (DDS)[16]; the information system on the integrated tariff of the Community to support automatic customs clearance (TARIC); the European binding tariff information system (EBTI)[17]; the tariff quota surveillance management systems (QUOTA); the inward processing relief system; and the suspensions information system. All these systems are expected to help improve consistency and uniformity in the application of the EC's customs procedures, improve controls, and reduce compliance costs and the time required to obtain customs clearance.

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[11] Information available online at: http://www.eucommittee.be/Pops/2003archive/ecustoms4252003.pdf.

[12] COM(2003) 452 final, 24 July 2003, available online at: http://www.hmce.gov.uk/about/reports/eu-electronic-customs.pdf.

[13] "Customs 2007" programme is an extension of the previously implemented "Customs 2002" programme. Further information is available online at: http://europa.eu.int/comm/taxation_customs/customs/c2007/customs_2007_0_en.htm.

[14] Comparing working methods and agreed common indicators of performance in order to learn from good practices.

[15] The CCN/CSI is to improve control standards and provide the basis for e-customs in an enlarged community. The system also permits the rapid transmission of control and crisis information to customs posts at the community's external frontiers.

[16] The Community's online data base on the integrated tariff (TARIC) and tariff quota are estimated to have attracted 2.5 million consultations per month during their first six months of operation.

[17] Binding Tariff Information (BTI) is a decision made by the customs administration of a member State on the tariff classification of a specific product. It enables economic operators to classify their goods in accordance with the EC's tariff and statistical nomenclature. A collection of all valid BTIs is available online at: http://europa.eu.int/comm/taxation_customs/dds/en/ebticau.htm.

12. Legislative reforms are also taking place to improve trade facilitation at EC borders. On 18 December 2003, the Commission adopted a regulation allowing online publication of non-confidential extracts from its binding tariff information database; amending provisions governing the use of the Single Administrative Document to take into account technological progress, in particular computer-based clearance methods; clarifying the competent authorities to whom applications for single authorizations are to be submitted; and extending the surveillance system to exports.[18] Proposed amendments to the CC and its implementing regulation are scheduled by the Commission in 2004. The amendments are to require that electronic declarations and messages are the rule and paper-based declarations the exception. Other proposals aiming to simplify customs procedures include the reduction of the number of customs treatments and the improvement of the application of the Single European Authorization. Furthermore, the EC envisages a greater role for national customs administrations in the application of security, public health, and environmental issues.

13. In the framework of the EC enlargement in 2004, the Act of Accession contains transitional customs measures. Under this Act authorizations granted by new member States, before the date of accession, for the use of inward processing, processing under customs control or outward processing procedure may run until the end of their validity or one year after the date of accession, whichever is earlier. Other provisions relate to post-clearance payments, repayments, and remission of duty.[19]

(ii) Common Customs MFN Tariff

14. The EC's Common Customs Tariff schedule is contained in a regulation published annually in the *Official Journal* of the European Union. The nomenclature in the tariff schedule, to which the MFN duty rates and statistical units are associated, are known as the Combined Nomenclature. As a party to the International Convention on the Harmonized Commodity Description and Coding System, the EC has based its Combined Nomenclature on the Harmonized System (HS): the first six digits are identical to the relevant HS sub-headings.[20] The Combined Nomenclature introduces sub-divisions for Community purposes at the eight-digit level.[21] A further subdivision (at the 10-digit level), referred to as the TARIC Nomenclature, identifies the various trade policy measures applying to specific imports and, in some cases, exports.[22] In some cases, the TARIC nomenclature establishes four additional codes, for agricultural components, anti-dumping duties, dual-use items, and export subsidies. All EC member States have to follow this nomenclature, but are allowed to introduce sub-divisions or additional codes for national purposes (e.g. VAT or excise duties). In accordance with the provisions of the Community Customs Code and its implementing provisions, member States' customs administrations are obliged to issue binding information on classification (binding tariff classification) upon written request by importers.

15. The EC has bound all its tariff lines in Schedule CXL (Table III.1). The applied and bound tariff rates are identical for almost all (99.6%) lines. The EC applies several types of tariff: mainly *ad valorem*; specific; compound (a combination of both *ad valorem* and specific duties); mixed

[18] Commission Regulation (EC) No 2286/2003, OJ L343/1, 18 December 2003.

[19] These provisions require that customs debt incurred in the new member States before the date of accession are recovered in accordance with the regulations applying before their accession. Further information is available online at: http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_236/l_23620030923en07970802.pdf

[20] The HS is implemented by the EC through Council Regulation (EEC) 2658/87, as amended. The European Court of Justice has consistently held that explanatory notes and the classification opinions of the WCO are an authoritative source for the interpretation of the EC's customs nomenclature in the absence of any relevant Community provisions.

[21] If a heading or subheading of the HS is not further subdivided for Community purposes, the seventh and eight digits are '00'.

[22] TARIC is derived from French: Tarif Intégré des Communautés Européennes.

(alternative duties with a minimum or a maximum); and variable duties, which vary with value thresholds (i.e. increasing functions of ranges of c.i.f. prices of goods). Furthermore, for certain products, particularly agricultural goods, the customs duties vary with the season. Of the 10,174 lines (Combined Nomenclature) of the 2004 tariff, *ad valorem* and non-*ad valorem* duties account for 90.1% (9,167) and 9.9% (1,007) respectively (Table III.2). Certain agricultural goods are subject to tariff quotas (Chapter IV(2)(ii)(a)). *Ad valorem* duties apply to the c.i.f. customs value.

16. For purpose of the tariff analysis, *ad valorem* equivalents (AVEs) of non-*ad valorem* duties (46% of agricultural tariff lines, and 39 non-agricultural tariff lines) were used when available. Data on AVEs were supplied by the Commission and refer to 2002. In the absence of AVEs for certain non-*ad valorem* duties, such as compound or mixed duties, the *ad valorem* components were used for the analysis. The analysis covers some 87.2% of the non-*ad valorem* duties, i.e. some 129 tariff lines were excluded from the analysis. The analysis may, to a certain extent, be biased. For instance, the elimination of specific components of compound duties as well as the use of 2002 AVEs for the present analysis, is likely to introduce a downward bias in the estimate; world prices of certain agricultural products having fallen and the euro (€) having recently appreciated. Furthermore, the use of variable duties (entry price duties) also adds its part.[23]

17. Subject to the preceding observations, the average applied MFN tariff rate remained fairly stable over the period under review, at 6.5% in 2004 and 6.6% in 2002 (Table III.1).[24] Tariff rates range from zero to 209.9% (Table AIII.1). The coefficient of variation of 1.8 depicts high dispersion of tariff rates. Some 27% of tariff lines carry the zero rate and 82% bear rates below 10%; the modal range (nearly 32% of tariff lines) was between 0% (excluded) and 5% (included). The modal rate is zero (Chart III.1).

18. In aggregate, the tariff shows mixed escalation, negative from the first stage of processing (average tariff of 8.4%) to semi-processed goods (average rate of 4.8%), and then positive to fully-processed products (tariffs averaging 7.0%). Further disaggregation of the tariff at ISIC (Revision 2) two-digit level depicts mixed escalation in, *inter alia*, wood, paper, chemical, and basic metal industries; and positive in food (including beverages and tobacco), textiles (including wearing apparel and leather), non-metallic products (excluding petroleum and coal), and fabricated metal products (including machinery and equipment) industries (Chart III.2).

19. Agricultural products (WTO definition) are the most tariff-protected goods, with an average tariff rate of 16.5% (more than twice the overall average); tariffs on non-agricultural products average 4.1%. Using ISIC (Revision 2) definition, agriculture remains the most protected sector, with an average tariff of 10%, followed by manufacturing (6.4%), and mining and quarrying (0.2%) (Table III.3); 4% of tariff lines in agriculture carry rates higher than 50% (Chart III.3).

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[23] See WTO (2000a), and WTO (2003b), for further details on the implications of the imposition of non-*ad valorem* duties.

[24] The analysis is based on the *ad valorem* duties and the *ad valorem* equivalents where information on the unit values of imports is available for their computation. Therefore, for this analysis, 129 tariff lines were not taken into account.

Table III.1
Structure of the EC MFN tariff, 2002 and 2004
(Per cent)

	2002	2004	2004 Bound rates
1. Bound tariff lines (% of all tariff lines)	100.0	100.0	100.0
2. Duty free tariff lines (% of all tariff lines)	20.8	26.9	26.8
3. Non-*ad valorem* tariffs (% of all tariff lines)	9.7	9.9	9.9
4. Tariff quotas (% of all tariff lines)	3.3	3.3	3.3
5. Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	2.7	2.7	2.7
6. Simple average tariff rate	6.6	6.5	6.5
Agricultural products (HS01-24)	16.7	16.6	16.7
Non-agricutural products (HS25-97)	3.9	3.7	3.7
Agricultural products (WTO definition)[a]	16.6	16.5	16.6
Non-agricultural products (WTO definition)[b]	4.3	4.1	4.1
7 Domestic tariff "spikes" (% of all tariff lines)[c]	5.7	5.8	5.8
8. International tariff "spikes" (% of all tariff lines)[d]	8.6	8.6	8.6
9. Overall standard deviation of applied rates	11.4	11.5	11.5
10. Nuisance applied rates (% of all tariff lines)[e]	12.9	6.8	6.8

.. Not available.

a WTO Agreement on Agriculture.
b Excludes petroleum.
c Domestic tariff spikes are defined as those exceeding three times the overall simple average applied rate (Indicator 6).
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.

Note: Indicator 1 is calculated taking into account all tariff lines (i.e. in-quota and out-of-quota lines) while others exclude in-quota lines.

Source: WTO Secretariat calculations, based on data provided by the European Commission.

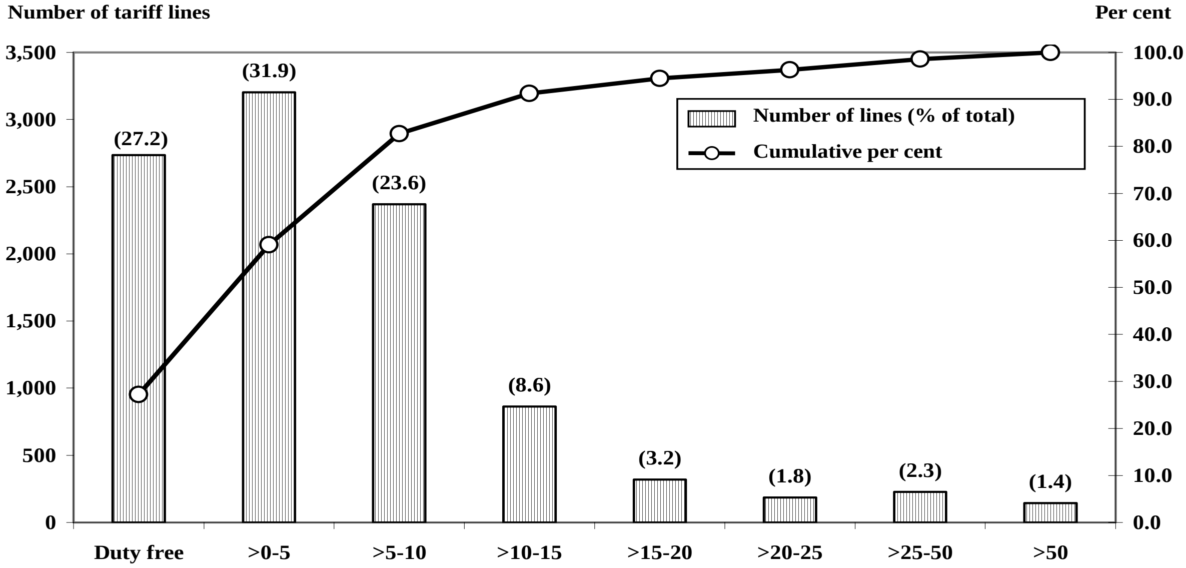
Table III.2
Structure of the EC MFN tariff, by WTO sectors, 2004

	All products: HS 01-97		WTO Agriculture		WTO non-agriculture [a]	
	No. of lines	%	No. of lines	%	No. of lines	%
Total	10,174	100.0	2,091	100.0	8,083	100.0
Ad valorem	9,167	90.1	1,123	53.7	8,044	99.5
Duty free	2,734	26.9	393	18.8	2,341	29.0
Dutable	6,433	63.2	730	34.9	5,703	70.6
Non-*ad valorem*	1,007	9.9	968	46.3	39	0.5
Specific	642	6.3	637	30.5	5	0.1
Mixed	76	0.7	43	2.1	33	0.4
Compound	199	2.0	199	9.5	0	0.0
Other	90	0.9	89	4.3	1	0.0

a Includes petroleum.

Source: WTO Secretariat estimates, based on date provided by the European Commission.

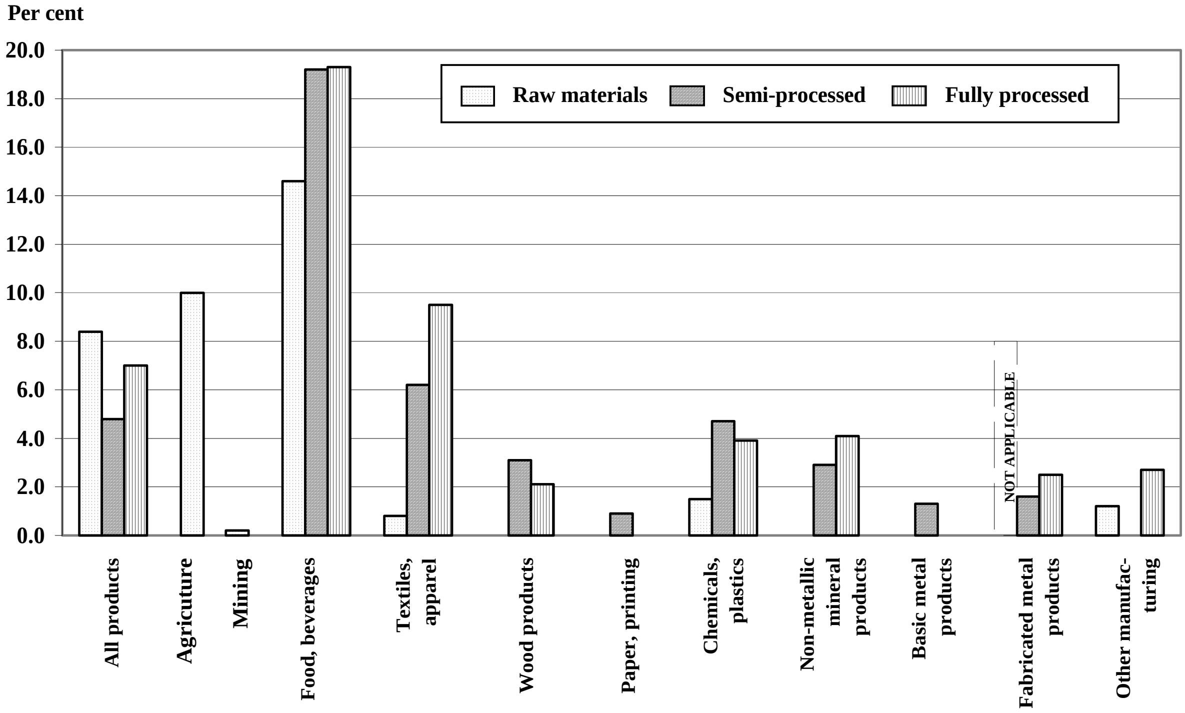
Chart III.1
Applied MFN tariff distribution, 2004



Note: Figures in parentheses are the shares of total lines.

Source: WTO Secretariat estimates, based on data provided by EC authorities.

Chart III.2
Tariff escalation by ISIC 2-digit, 2004



Source: WTO Secretariat estimates, based on data provided by EC authorities.

Table III.3
Summary analysis of the EC MFN tariff, 2004

Analysis	No. of lines[a]	Applied 2004 rates No. of lines used	Simple avg. tariff (%)	Range (%)	Std-dev (%)	CV	2002 Imports (US$ million)
Total	10,174	10,145	6.5	0-209.9	11.5	1.8	813,399.9
By WTO definition[b]							
Agriculture	2,091	1,962	16.5	0-209.9	21.9	1.3	55,351.8
Live animals and products thereof	332	300	26.1	0-192.2	29.4	1.1	4,475.3
Dairy products	160	108	41.7	0.2-209.9	37.7	0.9	824.4
Coffee and tea, cocoa, sugar, etc.	303	279	16.6	0-114.4	15.6	0.9	9,496.3
Cut flowers and plants	65	65	4.1	0-19.2	4.4	1.1	1,560.2
Fruit and vegetables	452	452	15.3	0-150.1	15.8	1.0	12,388.1
Grains	55	55	39.6	0-101.1	27.7	0.7	2,745.7
Oil seeds, fats, oils and their products	164	160	6.7	0-75.8	12.3	1.8	11,196.7
Beverages and spirits	274	264	12.8	0-71.3	14.6	1.1	4,697.8
Tobacco	30	30	18.3	2.2-74.9	21.2	1.2	1,232.9
Other agricultural products	256	249	4.7	0-76	9.4	2.0	6,734.5
Non-agriculture (excl. petroleum)	8,042	8,042	4.1	0-26	4.2	1.0	661,895.9
Fish and fishery products	381	381	12.6	0-26	6.4	0.5	11,983.6
Mineral products, precious stones and precious metals	518	518	2.4	0-12	2.8	1.2	59,967.2
Metals	1,043	1,043	1.8	0-10	2.3	1.3	52,589.3
Chemicals and photographic supplies	1,397	1,397	4.4	0-23.3	2.7	0.6	74,438.8
Leather, rubber, footwear and travel goods	291	291	4.7	0-17	4.6	1.0	21,817.5
Wood, pulp, paper and furniture	449	449	1.2	0-10	2.3	1.9	38,016.3
Textiles and clothing	1,329	1,329	8	0-12	3.2	0.4	67,759.9
Transport equipment	273	273	4.7	0-22	5.0	1.1	59,416.9
Non-electric machinery	1,033	1,033	1.7	0-9.7	1.4	0.8	112,710.1
Electric machinery	605	605	2.8	0-14	3.4	1.2	97,760.9
Non-agricultural articles n.e.s.	723	723	2.4	0-14	2.0	0.8	65,435.5
By ISIC sector[c]							
Agriculture and fisheries	607	603	10.0	0-150.1	16.9	1.7	31,473.2
Mining	132	132	0.2	0-8	1.0	5.0	112,339.8
Manufacturing	9,434	9,319	6.4	0-209.9	11.1	1.7	667,428.7
By stage of processing							
Raw materials	1,224	1,219	8.4	0-150.1	15.3	1.8	170,238.5
Semi-processed products	2,956	2,935	4.8	0-134.5	6.4	1.3	112,196.7
Fully-processed products	5,994	5,891	7.0	0-209.9	12.4	1.8	530,964.7

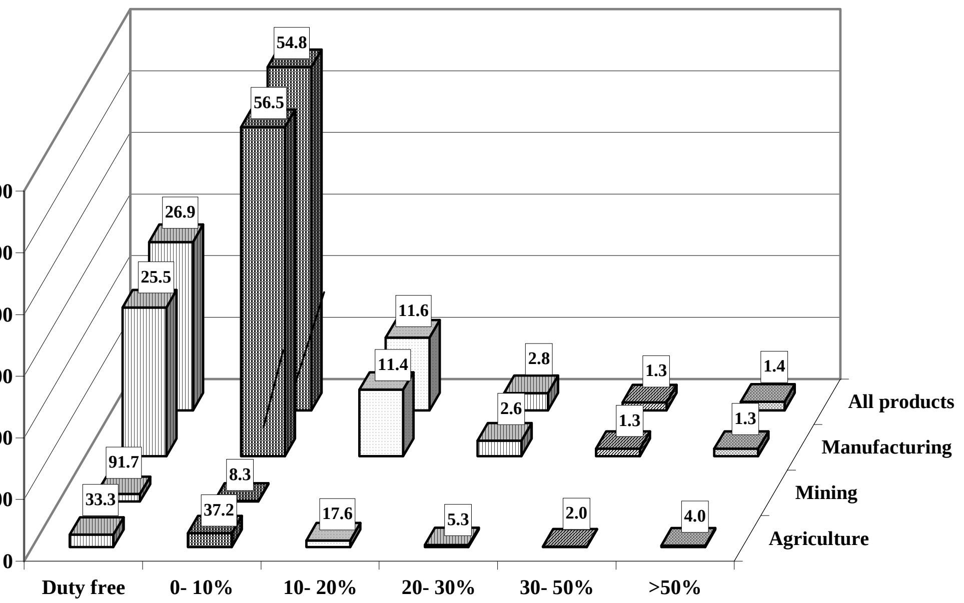
a Total number of lines is listed. Tariff rates are based on a lower frequency (number of lines) since lines with no *ad valorem* equivalents are excluded.
b 41 tariff lines are excluded from both WTO agriculture and non-agriculture definitions (essentially petroleum products).
c International Standard Industrial Classification (Rev.2). Electricity, gas and water are excluded (1 tariff line).

Note: CV = coefficient of variation.

Source: WTO Secretariat estimates, based on data provided by European Commission.

Chart III.3
MFN tariff distribution by sector (ISIC1 definitions)[a], 2004

Number of lines



a Labels are share by sector. Due to non-*ad valorem* duties, they may not sum to 100%.

Source: WTO Secretariat calculations, based on data provided by EC authorities.

20. The zero rate applies to, *inter alia*, bamboos, cotton liners; ores, slag and ash; pulp; paper and paper board; printed books, newspapers; tin; steel; and products covered by the Information Technology Agreement. Products attracting relatively high duties include: whey and products of natural milk constituents (209.9%); edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies (192.2%); meat of sheep or goats, fresh, chilled or frozen (172.9%); garlic (150.1%); meat of bovine animals, frozen (149.9%); mushrooms (134.5%); meat of swine, fresh, chilled or frozen (120.8%); bananas, including plantains (118.1%); manioc or cassava (117.9%); beet sugar (114.4%); live bovine animals (107.8%); milk and cream (103.3%); semi or wholly-milled rice (101.1%).

(iii) Other duties and taxes

(a) Value-added tax (VAT)

21. VAT applies to imports and locally produced goods at the same rates.[25] While the tax base is fully harmonized, the rates applied by member States are not. The EC legislation requires a standard VAT rate not lower than 15%, with one or two reduced rates not lower than 5% (Table III.4). A "definite" list of exemptions without right of deduction on certain goods and services is foreseen. The current strategy of the Commission is to simplify and modernize the VAT system, work towards a more uniform application of the present arrangements, and facilitate closer administrative

[25] Exporters and importers are required to record their own VAT information and compile detailed trading records, filing them regularly with the national authorities. The administrative costs under this system could be considerable for cross-border trading.

cooperation. In the longer term, however, a definite origin-based system (based on the country of sale) remains a Community goal; this would require greater convergence in the application of VAT rates.[26]

Table III.4
VAT rates applied in EC member States (as at 1 May 2003)

Member State	Super reduced rate	Reduced rate	Standard rate	Parking rate
Belgium	-	6	21	12
Denmark	-	-	25	-
Germany	-	7	16	-
Greece	4	8	18	-
Spain	4	7	16	-
France	2.1	5.5	19.6	-
Ireland	4.3	13.5	21	13.5
Italy	3	10	20	-
Luxembourg	-	6	15	12
Netherlands	-	6	19	12
Austria	-	10	20	-
Portugal	-	5/12	19	-
Finland	-	8/17	22	-
Sweden	-	6/12	25	-
United Kingdom	-	5	17.5	-

Source: Directorate-General Taxation and Customs Union, DOC/2908/2003.

22. A new online service to validate VAT identification numbers was launched on 14 June 2002. The service gives businesses partial access to the VAT Information Exchange System (VIES), thereby reducing the need to contact tax officials for such information. This system is expected to reduce both the time and costs for EC businesses in meeting their tax obligations. [27]

23. On 7 May 2002, the Council adopted a directive related to electronic commerce, and radio and television broadcasting.[28] Under these new rules, VAT is collected at the place the service is consumed (recipients destination). Hence, EC radio and television broadcasting services, and electronically supplied service providers are no longer obliged to collect VAT when selling on markets outside the EC (exports). On the other hand, these services, when provided by third-country suppliers to recipients in the Community (imports), would be subject to VAT. These rules are meant to address previous inadequacies in the taxation of these products and certain distortions in competition (in particular, disadvantages faced by EC companies).[29] Additional measures have been introduced to facilitate registration for e-commerce operators for VAT purposes and for distributing the VAT receipts to the member States where services are used. All these measures came into effect on 1 July 2003.

24. Similar initiatives have taken place for gas and electricity supplies. On 7 October 2003, a directive was adopted changing the place of taxation of natural gas in pipelines and of electricity,

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[26] COM (2001) 260 final, "Tax policy in the European Union - Priorities for the years ahead".
[27] See EC online information available at :http://europa.eu.int/comm/taxation_customs/databases /vies_en.htm.
[28] Council Directive 2002/38/EC, 7 May 2002; and Council Regulation (EC) 792/2002, 7 May 2002.
[29] Under the previous regime, EC suppliers had to charge VAT when supplying digital products, even in countries outside the EC.

from the place of supply to the place of consumption.[30] This was deemed necessary due to differences in the determination of the place of supply among member States, resulting in double taxation or non-taxation and distortion of competition. The Directive will take effect on 1 January 2005. Furthermore, a proposal has been presented seeking to change the place of supply of services, for VAT purposes (where the customer is a trader), from the place where the supplier is established or has a fixed place of business to the place where the customer is located.[31]

25. The Commission has presented a proposal that aims to simplify the rules on reduced rates of VAT in order to ensure uniform application. The purpose of the proposal is to allow member States equal opportunity to apply reduced rates in certain fields (e.g. restaurants, housing, and the supply of gas and electricity) and to rationalize the numerous derogations currently being applied.[32] Furthermore, a proposal has been adopted allowing nine member States to continue applying, for another two years, the experimental reduced rates applied to selected labour-intensive services.[33] A preliminary evaluation of this pilot project showed that it had not led to any substantial employment creation, reduction of the black economy, or lower prices.[34]

26. All acceding countries will take over and implement the EC's *acquis* in taxation upon accession, subject to some transitional arrangements, mainly aimed at postponing the adjustment of VAT levels to the requirements of the *acquis* in socially sensitive sectors. Under these arrangements, reduced VAT rates may continue to be applied (after accession) by some of the acceding countries in restaurant, construction, and certain heating services; and exemptions may be maintained on foodstuffs, books, and pharmaceutical products. All acceding countries will also be allowed to exempt international passenger transport from VAT, and to maintain a higher VAT and registration and exemption turnover threshold. According to the Commission, most acceding countries should have no particular difficulty in applying the *acquis* in taxation.

(b) Excise taxes

27. Excise duties are applied at the same rates on imports and domestically produced goods. The rates are not harmonized among EC member States (Table III.5). Nevertheless, common definitions, units of measurement, and minimum rates are required on alcoholic beverages, manufactured tobacco products, and mineral oils.

28. On 1 July 2002, a new directive revising the rates and structure of excise duties on manufactured tobacco entered into force. The Directive introduced a second requirement for the minimum excise duty to be applied to cigarettes on the most popular price category, in order to narrow differences between tax levels in member States. To address health concerns, the changes also align more closely excise duties on fine-cut tobacco with the level on cigarettes. Similar efforts to harmonize taxation of commercial diesel fuel are under way.

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[30] Council Directive 2003/92/EC, 7 October 2003.

[31] Some service subsectors related to immovable property and transport services will be exempted.

[32] Commission Press Release, IP/03/1024, 16 July 2003.

[33] COM(2003) 825 final, 16 December 2003; and MEMO/04/31, 11 February 2004.

[34] This initiative was first adopted in 1999 for an experimental three-year period (to test its impact on job creation, and in combating the black economy); it allowed the application of reduced rates to specified labour-intensive subsectors, such as bicycle repair, shoes and leather goods repair, window cleaning, and hairdressing.

Table III.5
Excise duties, end 2003[a]
(Euros)

	Beer (/hl/°alc. or /hl/°Plato)		Wine (/hl)		Intermediate products (/hl)		Ethyl alcohol (/hl)		Petrol and gas oil (1000 lit)		Liquid petroleum gas (LPG) and methane (/1000 kg)		Heavy fuel oil and kerosene (/1000 kg)		Cigarettes (/1,000 pieces)
	min	max	min	max	min	max	min	max	min	max	min	max	min	max	
B	1.5	1.7	14.9	161.1	74.4	161.1	1660.9	1660.9	5.0	551.8	0.0	37.2	0.0	551.8	18.7
DK	0.0	68.7	60.6	189.2	60.6	142.0	2019.6	2019.6	281.7	626.2	356.8	468.5	281.3	405.8	65.9
D	0.4	0.8	0.0	136.0	102.0	153.0	730.0	1303.0	61.4	721.0	60.6	161.0	25.0	654.5	61.7
EL	0.6	1.1	0.0	0.0	0.0	45.0	454.0	908.0	21.0	337.0	0.3	100.0	19.0	245.0	4.5
E	0.0	0.8	0.0	0.0	29.7	49.5	647.5	739.0	84.7	428.8	0.0	125.0	14.4	315.8	3.9
F	1.3	2.6	3.4	8.4	214.0	214.0	835.0	1450.0	54.9	636.7	39.4	100.2	16.8	571.0	7.7
IR	19.9	19.9	91.0	546.0	273.0	396.1	3925.0	3925.0	47.4	553.0	35.9	104.7	13.45	325.2	133.4
I	1.4	1.4	0.0	0.0	49.6	49.6	645.4	645.4	121.0	541.8	16.0	284.8	63.8	337.5	3.9
L	0.4	0.8	0.0	0.0	47.1	66.9	1041.2	1041.2	5.0	424.1	0.0	101.6	0.0	295.0	11.9
NL	5.5	31.4	29.5	201.2	72.9	201.2	1775.0	1775.0	46.6	703.7	0.0	78.9	15.5	337.3	55.5
A	1.3	2.1	0.0	144.0	73.0	73.0	540.0	1000.0	69.0	479.0	43.0	261.0	36.0	282.0	21.4
P	3.0	21.3	0.0	0.0	51.3	51.3	440.3	880.5	87.9	548.7	7.5	100.0	13.0	264.3	40.7
FI	1.7	28.6	4.5	235.5	428.9	706.4	168.0	5046.0	70.6	676.2	0.0	0.0	59.6	319.4	15.1
S	16.1	16.1	0.0	242.4	279.5	464.1	5505.2	5505.2	317.7	592.9	145.2	291.9	317.7	409.5	22.0
UK	0.0	19.5	77.9	351.4	252.8	337.1	3116.1	3116.1	67.2	895.3	0.0	143.4	0.0	848.7	154.3

a B: Belgium; DK: Denmark; D: Germany; EL: Greece; E: Spain; F: France; IR: Ireland; I: Italy; L: Luxembourg; NL: the Netherlands; A: Austria; P: Portugal; FI: Finland; S: Sweden; UK: the United Kingdom.

Source: DG General Taxation and Customs Union, "Excise Duty Tables", December 2003.

29. In June 2003, a decision was taken to computerize the system under which goods under excise duty suspension arrangements are moved between traders in the Community.[35] This was considered necessary in the light of the cumbersome paper-based system and the increasing levels of tax evasion, particularly involving alcohol and tobacco. Apart from stemming fraud in the payment of excise duties, the new system is expected to simplify procedures, reduce costs, and enable faster release of goods. It is estimated to take six years to be fully implemented.

30. On 27 October 2003, Council approved a proposed directive on a Community framework for the taxation of energy products.[36] The proposal seeks to reduce distortions in competition between member States as a result of differences in excise duty rates; reduce differences in excise duty rates on energy products between member States; increase the incentive to use energy more efficiently; and allow member States to offer tax incentives to companies in return for specific undertakings to reduce emissions.

31. All acceding countries, with the exception of Malta and Cyprus, have transitional arrangements to postpone compliance with EC legislation on the level of excise duty rates on cigarettes until after accession. The expiry date of the transitional provision ranges from 2007 to 2009. Furthermore, Poland has a one-year transitional arrangement to apply a reduced excise duty rate on certain ecological fuels; this is also the case of Cyprus for the exemption of excise duties on mineral oils for specific uses. A derogation allowing the application of reduced excise duty rates on spirits distilled from own fruits, strictly for personal consumption and under certain limitations, is also granted to the Czech Republic, Hungary, and the Slovak Republic.

[35] Commission Press Release, IP/03/788, 3 June 2003.
[36] Directive 2003/96/EC, 27 October 2003.

(iv) Duty and tax exemptions and concessions

32. The customs code of the EC provides for customs duty relief on account of special circumstances[37]; on re-imported Community goods; on products fished from the sea by member State vessels; and on goods re-exported after inward processing under the drawback procedure, or because they are defective, or do not comply with the terms of the contract.[38] Furthermore, customs duties are suspended under various customs approved treatments, including: external transit; customs warehousing; inward processing; temporary importation; and free zones and free warehouses.

33. The EC has established regulations providing for VAT exemption (or refunds) for taxable persons under various situations. Under the 13th VAT Directive, member States are, in general, required to refund VAT paid by a non-EC-taxable person on goods and services supplied in the territory of the Community. Such refunds may be conditional on third countries agreeing to take comparable measures. Another directive also provides for the exemption from VAT on final importation of certain goods, including personal property belonging to natural persons transferring their residence from a third country to a member State of the EU, in case of marriage and inheritance, with the exclusion of certain goods (e.g. alcoholic and tobacco products, and commercial means of transport). Under specific conditions, VAT exemptions are also granted upon final importation of school outfits, scholastic materials, and other scholastic household effects; capital goods and equipment imported on the transfer of activities; goods of negligible value; certain agricultural products or products intended for agricultural use; therapeutic substances, medicines, laboratory animals, and biological or chemical substances; goods for charitable or philanthropic organizations; goods imported in the context of international relations; goods for the promotion of trade; goods imported for examination, analysis or test purposes; various documents intended for official bodies; and fuel and lubricants present in land motor vehicles and in special containers.

34. Further arrangements exist for exemption from VAT payment by taxable persons established in a country of the EC, but who, over a limited period of time[39], have not had in that member State: the seat of their economic activity; fixed establishment from which business transactions were effected; or a normal place of residence.[40] The exemptions also apply if the taxable person has not supplied any goods or services in that member State, with the exception of transport services and related ancillary services, and other services for which the tax is payable by the person to whom they are supplied.

35. The EC is a signatory to the Convention on Temporary Admission, hence goods imported under temporary admission are exempted from VAT.[41]

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[37] Regulation No. 918/83 lists the goods that qualify for duty relief on account of special circumstances. These include personal property imported by private individuals; goods of negligible value and goods imported by private individuals; articles imported for the purpose of carrying out activities in the public interest; capital goods and other equipment belonging to a firm definitely ending its activities in a third country and moving to the Community; selected products obtained by Community farmers on properties located in third countries; consignments sent to organizations protecting copyright or industrial and commercial patent rights; tourist information material, photographs, and stamps; selected goods needed to carry out transport operations; and funerary materials.

[38] CC Articles 124 to 128, and Articles 184 to 188.

[39] A period of not less than three months or not more than one calendar year, or during a period less than three months where that period represents the remainder of a calendar year.

[40] Eighth Council Directive 79/1072/EEC, 6 December 1979.

[41] Council Decision 93/329/EEC, 15 March 1993. Under the temporary admission customs procedure, goods may be imported into the territory of a member State for a specific purpose (with total or partial relief

36. Small consignments of goods of a non-commercial nature from third countries are also exempted from excise duties and VAT, under certain conditions and limits.[42] Tobacco products and alcoholic beverages are subject to quantitative restrictions. Similar provisions apply to goods in the personal luggage of travellers between EC member States and third countries.[43]

(v) Rules of origin

37. The EC applies both non-preferential and preferential rules of origins. Its non-preferential rules of origin are contained in the customs code and corresponding implementing regulations; the preferential rules of origin are set out in the relevant preferential trade agreements/arrangements (in the implementing provisions of the customs code for autonomous/non-reciprocal preferential arrangements). Non-preferential origin rules are applied mainly for purposes such as trade defence, import surveillance and restrictions, export refunds, and trade statistics. In determining both non-preferential and preferential origin of products that are not wholly produced in a country, the EC uses the sufficient work or process test, defined through: (i) criteria based on the change of tariff headings; (ii) economic criteria based on value-added[44]; and (iii) technical or industrial criteria based on processing operations. In general, origin certificates are required mainly for preferential treatment purposes.[45]

38. An important feature of the EC's preferential rules of origin is the provision for cumulation, which allows the use of materials originating in a partner country (other than the exporting country) to be considered as originating in the exporting country. The EC applies three types of cumulation scheme: bilateral, diagonal, and full. Bilateral cumulation involves only two partners (e.g. EC-Mexico); under diagonal cumulation, materials originating in specific countries, linked through a network of preferential agreements, may be counted as originating in the exporting country (e.g. pan-European system of cumulation)[46]; and under full cumulation, any working or processing operations done within the free-trade area will count together towards the determination of origin (e.g. the EEA). Furthermore, certain EC preferential rules of origin apply the absorption principle and include tolerance rules, especially with regard to textiles.[47]

39. Recent studies found the EC's preferential origin rules to be more restrictive for products with higher preferential margins, such as beverages, tobacco, textiles, clothing, and footwear.[48] Some view origin cumulation as reducing barriers and facilitating trade among participating economies by developing complementary synergies in the area and giving more freedom in investment decisions. Some consider that cumulation extends the preferential nature of an individual preferential trade

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from import duties and taxes) and then re-exported within a specified period without having undergone any change.

[42] Council Directive 78/1035/EEC, as amended, 19 December 1978.

[43] Council Directive 69/169/EEC, as amended, 28 May 1969.

[44] Value-added requirements range from 40% to 75%; e.g. under non-preferential rules of origin, the value of the non-originating materials used in making textile watch straps must not exceed 40% of the ex-works price of the product, whereas for magnetic tape recorders, the value-added must be at least 45%. The highest value-added requirements are in chapters 84 to 94 of the Combined Nomenclature as alternative rules of origin.

[45] Certificate EUR.1, EUR.2, or Form A, invoice declaration.

[46] The pan-European system of cumulation of origin provides for the application of a single set of rules of origin. It is widely used by participating countries as a basis for most other preferential trade agreements.

[47] Under the absorption principle, when a non-originating material acquires originating status by meeting the corresponding processing requirement, it is considered to be fully (100%) originating once incorporated into a final product; tolerance rules allow the use, in the manufacture, of a limited percentage of non-originating materials supplied by non-cumulation-beneficiary countries that would otherwise not be accepted.

[48] Estervadeordal and Suominem (2003); Brenton and Manchin (2002); and Ghoneim (2003).

agreement (PTA) to other PTAs without any legal basis.[49] Furthermore, the operational and administrative costs of certifying and verifying origin are potentially large and can increase efficiency losses. An earlier study estimated the costs of collecting, managing, and storing the information needed for origin verification and administration in Europe to about 3% of product prices. Such high costs could lead traders to abandon the idea of claiming preferences after having weighed the net benefit to be negligible if not negative.[50]

40. The European Commission has recently published a Green Paper (consultation document) on the future of preferential rules of origin. The paper indicates areas where actions are required: determination of a product of origin; the fair application of origin rules; establishment of procedures to reduce the operational and administrative costs of certifying and verifying origin; and ensuring a balance of responsibilities between traders and public authorities.[51]

(vi) Tariff preferences

41. Under its preferential trade agreements (PTAs)[52], the EC provides, on a reciprocal basis, duty-free access to imports of nearly all non-agricultural goods (exceptions sometimes exist, e.g. textiles and aluminium products)[53]; and various tariff preferences (including preferential tariff quotas) on selected agricultural products (Chapter II(5)(i) and (iii)). The tariff preferences are subject to proof of origin, with different cumulation of origin schemes depending on the agreement.

42. Tariff preferences are also provided under the EC's non-reciprocal preferential arrangements (Chapter II(5)(iii)(c)). Arrangements with the overseas countries and territories (OCT) provide for duty-free treatment on all products originating in the OCT. Under the EBA initiative, the EC also provides duty-free access to all goods except bananas, rice and sugar, which are scheduled for duty-free access between 2006 and 2009. Under the Cotonou agreement, 78 ACP countries benefit from duty-free access for industrial, processed agricultural, and fishery products, subject to a safeguard clause, which, according to the Commission, has not so far been invoked. Non-processed agricultural products are generally subject to reduced duties. For certain products (bananas, beef and veal, and sugar), the EC provides special market access under "commodity protocols". Under the EC's GSP scheme, agricultural goods mainly benefit from reduced tariff rates, whereas non-agricultural goods benefit from both duty-free entry and reduced tariff rates, depending on whether the good is classified as "sensitive" or not; the non-sensitive products benefiting from duty-free entry.

43. Observing that sensitive sectors in multilateral negotiations are also sensitive sectors in PTAs, a recent WTO study concludes that "the degree of liberalization achieved in PTAs is less than one may be led to believe".[54] This conclusion would appear to be valid for most of the EC's PTAs. For instance, since the EC already provides low duty rates on non-agricultural goods, the removal of tariffs on these products represents a limited degree of liberalization. On the other hand, market access in sensitive products (agricultural and non-agricultural products) is included in some cases, albeit with less generous tariff preferences.

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[49] For a detailed discussion on rules of origin regimes, see WTO document WT/REG/W45, 5 April 2002.

[50] Garay and Quintero (1997).

[51] Further information is available online at: http://europa.eu.int/comm/taxation_customs/customs/origin/rules_origin/rules_of_origin_en.htm.

[52] These include: the EEA; Europe agreements; customs union with Turkey; stabilization and association agreements; euro-Mediterranean agreements; and free-trade arrangements with Mexico, South Africa, and Switzerland.

[53] For some of the PTAs, duty-free access will materialize only after a transition period.

[54] WTO document WT/REG/W/46, 5 April 2002.

(vii) Import prohibitions, restrictions, and licensing

44. The EC endorses measures restricting trade and economic relations under resolutions of the United Nations Security Council (UNSC); these may include trade prohibitions and restrictions under the competence of the Community. For instance, in accordance with UNSC Resolution 1478, the EC prohibits the direct and indirect imports into the Community of all rough diamonds, and logs and timber products originating from Liberia. In accordance with UNSC resolution 1483, the EC adopted a regulation removing restrictions to trade with Iraq, maintaining only specific restrictions on proceeds from all exports of petroleum, petroleum products, and natural gas from Iraq.[55] Furthermore, a prohibition remains in place for trade in items belonging to institutions of Iraqi cultural property, and other items of archaeological, historical, cultural, rare, scientific, and religious importance, illegally removed from Iraq.[56] Measures restricting the importation of diamonds from Sierra Leone expired in June 2003.

45. The EC also implements import prohibitions, licensing requirements, and other restrictive trade measures in accordance with international conventions and treaties, including the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Basel Convention on the control of transboundary movements of hazardous waste and their disposal, and prescriptions of the International Commission for the Conservation of Atlantic Tunas (ICCAT) and the Commission for the Conservation of Antartic Marine Living Resources (CCAMLR). On 4 March 2002, the EC adopted the Fourth Amendment to the Montreal Protocol on substances that deplete the ozone layer.[57] Furthermore, prohibitions apply to the importation of pelts of certain wild species (e.g. beavers and otters) from countries that permit leg-hold traps or trapping methods that do not meet international humane trapping standards, such as those established in a 1998 Agreement with Canada, the Russian Federation, and the United States. The EC also applies import prohibitions, surveillance, and controls on grounds of technical requirements (including standards, sanitary and phytosanitary, and environmental requirements).

46. Import licences are required for surveillance, quantitative restrictions and safeguard purposes.[58] Community surveillance measures apply to certain iron and steel imports from all countries, and to certain agricultural, textiles, and footwear imports from VietNam.

47. The EC maintains 89 tariff quotas, for protection of some 38% of its agricultural production (Chapter IV(2)(i)(a))[59]; it has made available online, through its data dissemination system (DDS), information on current levels of quota utilization for each of the tariff quotas.[60] Import licences are required, for quota management purposes, on all agricultural products (subject to tariff quotas), such as cereals and cereal products, rice, sugar, oils and fats, milk products, beef and veal, sheep and goat meat, fresh fruit and vegetables, and processed fruit and vegetables.

48. Under the WTO Agreement on Textiles and Clothing (ATC), the Community maintains quantitative restrictions on textiles against: Argentina; Brazil; People's Republic of China; Hong Kong, China; India; Indonesia; Macao, China; Malaysia; Pakistan; Peru; Philippines; Singapore;

[55] The proceeds must be deposited into the Development Fund for Iraq under conditions set out in UNSC resolution 1483.

[56] Council Common Position 2003/495/CFSP; and Council Regulation (EC) No. 1030/2003.

[57] OJ L72/18, 14 March 2002.

[58] WTO documents G/LIC/N/3/EEC/6, 9 October 2003 and G/LIC/N/EEC/6/Add.1, 11 November 2003.

[59] World Bank (2003).

[60] This information is available online at: http://europa.eu.int/comm/taxation-customs/databases /quota-en.htm.

Republic of Korea; Sri Lanka[61]; Chinese Taipei; and Thailand. The EC has bilateral arrangements on trade in textile and clothing products with the following WTO Members: Armenia; Bangladesh; Croatia; Egypt; Kyrgyz Republic; Moldova; Mongolia; and Sri Lanka. Under these arrangements, the EC applies double-checking surveillance without quantitative restrictions. The EC applies quantitative restrictions, on an autonomous basis, on imports from Bosnia and Herzegovina, Democratic People's Republic of Korea, and Serbia and Montenegro. Furthermore, surveillance of imports of textile and clothing products under the double-checking system also applies under agreements with certain countries not members of the WTO: Belarus, Bosnia and Herzegovina, Cambodia, Croatia, FYROM, Kazakhstan, Laos, Moldova, Mongolia, Nepal, Russian Federation, Tajikistan, Turkmenistan, Ukraine, United Arab Emirates, Uzbekistan, and VietNam (surveillance and quantitative restrictions).[62] The EC also maintains quantitative restrictions on imports (from selected countries) of goods resulting from economic outward processing traffic (OPT) arrangements. These arrangements are available only to established EC producers and have the objective of maintaining certain industrial activities in the EC. In practice, they have been used to import clothing products made of textiles that have been exported from the EC and worked or processed in third countries. These imports from countries such as Morocco are currently free of quantitative restrictions**.** OPT restrictions are currently in place for Belarus; China; India; Indonesia; Macao, China; Malaysia; Pakistan; Philippines; Singapore; Sri Lanka[63]; Thailand; and VietNam.

49. Annual quota growth rates are negotiated and are in part dependent on the base levels for individual countries; in general, growth rates for small countries are higher. The quotas are managed by means of licences issued upon presentation of origin certificates from exporting countries; the quantity to be imported must fall within the relevant country quota.[64] There are no licensing fees or administrative charges. Amendments to this regime during the period under review relate to the exemption from quantitative restrictions, licensing requirements, and administrative charges for samples of textile products; rules of origin; and a specific safeguard clause on imports from China.[65] The EC's quota regime on textiles and clothing was to be extended to the acceding countries upon accession on 1 May 2004; it has been adjusted to ensure that trade with the ten new member States can fully take place as before, for the remaining eight months for which the regime is in place. During the period under review, amendments were also made to annexes I, III, V, VII and VIII of the basic regulation to ensure that the Community meets its international obligations, including under the WTO Agreement on Textiles and Clothing.[66]

50. Under the ATC, the EC is currently implementing stage 3 of the integration of the textiles and clothing sector into the GATT. At the commencement of stage 3, on 1 January 2002, an additional 18.08% of the 1990 volume of imports was integrated into the GATT[67], through the elimination of 38 quotas. This brings the cumulative share of the volume of imports integrated into the GATT since

[61] The application of quotas to imports from Sri Lanka has been suspended (Council Decision 214/2001 of 26 February, 2001, OJ L 80, 20 March 2001).

[62] WTO document G/LIC/N/3/EEC/6, 9 October 2003.

[63] Currently suspended under the Memoranda of Understanding in force.

[64] Council Regulation (EEC) No. 3030/93, OJ No. L 275, 8 November 1993. Import authorizations are to be issued within a maximum of five working days, served on a first-come, first-served basis, and valid for a period of six months, which can be extended for three further three-months periods.

[65] Council Regulation (EC) No. 138/2003, 21 January 2003. The clause is intended to bring EC legislation into conformity with paragraph 242 of the report of the working party on the accession of the People's Republic of China to the WTO.

[66] Commission Regulations (EC) No. 797/2002 (OJ L 357, 31 December 2002) and (EC) No. 2344/2002 (OJ L 357, 31 December 2002). These annexes define specific restrictions that apply to particular textile products and supplier countries.

[67] In 1990, 3.9 million tonnes were imported.

1995 to 51.39%, with the corresponding elimination of 52 (out of possible 219) quotas since 1995.[68] Of the 51.39% textile products integrated, 19.86% are from yarns, 13.07% from fabrics, 9.71% from made-ups, and 8.75% from clothing[69]; and of the 52 product categories a total of 23 have been integrated into the GATT.[70] However in terms of trade under quota restriction in 1990, only about 20% has been integrated into the GATT, leaving 80% to be integrated on 31 December 2004. Hence, the liberalization of quantitative restrictions (as required under the ATC) has been back-loaded to the end of the transition period.

51. Existing quotas have been increasing at annual growth rates of between 0.18% and 16.37%, depending on the product category and country; the annual average rate is 6%. Figures released by the International Cloths and Textiles Bureau show the annual growth rate of the value of imports of textiles to be much higher from preferential sources than from other countries, with the former growing by 7.9% per annum and the latter by 3.5%.[71] In 2001, 40 out of possible 219 quotas (18.3%) applicable to WTO Members were utilized at 95% or more, mostly on shirts, T-shirts, jerseys, pullovers, overcoats, raincoats, and other coats.

52. On 6 November 2002, the EC signed an MOU with Brazil. In general the agreement provides for binding of Brazil's tariffs on textile and clothing products and suspension of quantitative restrictions on imports of Brazilian clothing and textiles to the Community. MOUs have been signed with India, Pakistan, and Sri Lanka.

53. A special regime applies to the EC's import arrangements with certain third countries: Albania, Armenia, Belarus, People's Republic of China, Georgia, Kazakhstan, Democratic People's Republic of Korea, Kyrgyz Republic, Moldova, Mongolia, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and VietNam. Under this regime, quantitative restrictions, including surveillance measures could apply. For instance, during the period under review, the EC applied import quotas on certain products from China, due to their "sensitivity" in the Community. The products include footwear, tableware, and kitchenware; the quotas will lapse at the end of 2004. On 3 March 2003, a regulation was adopted on, *inter alia*, a timetable for the phasing-out of the quota regime on these products.[72] For the year 2003, the quotas increased from 21% to 52%.

(viii) Contingency trade measures

(a) Safeguards

54. Council Regulation (EC) No. 3285/94 provides the main legislative framework for the application of safeguard measures to WTO Members.[73] Safeguard measures are applied where a product is imported into the Union in such significantly increased quantities, and or on such terms or conditions as to cause, or threaten to cause serious injury to Community producers. The regulation

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[68] Stages 1 and 2 saw the integration of 16.2% and 17.1%, respectively of textiles and clothing into the GATT. Bilateral quotas eliminated so far, including that applied to the People's Republic of China, total 82 (WTO document G/TMB/N/363, 4 January 2001).

[69] WTO document G/C/W/325, 22 October 2001.

[70] Twelve during the second stage and 11 during the third stage.

[71] See information online, available at: http://www.itcb.org/Documents/ITCB-TDEU02.pdf .

[72] Council Regulation (EC) No. 427/2003 of 3 March 2003 on a transitional product-specific safeguard mechanism for imports originating in the People's Republic of China and amending Regulation (EC) No. 519/94 on common rules for imports from certain third countries. Available online at: http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_065/l_06520030308en00010011.pdf.

[73] OJ L349/53, 31 December 1994, as last amended by Regulation (EC) No. 2472/2000, OJ L286, 11 November 2000.

provides for the definition of serious injury, or threat of serious injury; the consultation procedure[74]; the investigation procedure[75], including the opening up of investigations and collection of information from exporting countries and interested parties; time limits for the initiation and determination of investigations; and the types of safeguard measure that could be implemented. If the safeguard measure leads to the establishment of a quota, account is taken of the need to maintain traditional trade flows and the volume of goods exported under contracts concluded on normal terms and conditions before the entry into force of the safeguard measure. In general, the quota is not to be lower than the average level of imports over the last three representative years for which statistics are available.

55. Separate safeguard provisions apply to non-WTO members[76], and to imports of textile products from certain third countries.[77] On 3 March 2003, the EU adopted a regulation, that amended its regulation on non-WTO Members[78], to bring into line its safeguard provisions on imports from the People's Republic of China with the transitional provisions contained in China's Protocol of Accession to the WTO.

56. Furthermore, EC safeguard regulations provide for the possibility to reduce the extent of "double protection" resulting from the combined effect of anti-dumping or anti-subsidy measures with safeguard measures. Measures that can be taken in this respect may involve amending, suspending, repealing, and providing for exemptions of anti-dumping or countervailing measures in place; the measures are limited in time and applicable only when the relevant safeguard measures are in force.

57. Of the 21 steel products for which the Commission had initiated its safeguard investigations at the time of its last TPR, a positive determination was made on seven products[79]. However, the measures were repealed in December 2003 following the withdrawal of the U.S. safeguard measures on the same products.[80] The EC has also commenced a safeguard investigation on prepared or preserved citrus fruits under the WTO Agreement on Safeguards, and provisional measures were imposed in November 2003.[81] A parallel safeguard investigation, initiated at the same time and for the same products, under the transitional safeguard provisions contained in the Protocol on the Accession of the People's Republic of China, was terminated in December 2003.[82] Furthermore, in March 2004, a safeguard investigation under the WTO Agreement on Safeguards was initiated on farmed salmon.[83]

58. The EC also applies the special safeguard (SSG) provisions of the WTO Agreement on Agriculture on certain products. Under the SSG provisions, the Community notified the WTO of 17 products subject to its price-based safeguard action and 22 products to its volume-based special safeguard actions during the 2001/02 marketing year. Products affected by the price-based action include certain poultry and meat products, cane or beet sugar, and cane or other molasses; volume-

[74] This is undertaken at the request of a member State or on the initiative of the Commission.

[75] This is only undertaken if it is apparent that there is sufficient evidence to justify the initiation of the investigation.

[76] Regulations (EC) No. 519/94, OJ L 67, 10.3.94, p. 89, as last amended by Regulation (EC) No. 427/2003 (OJ L 65, 8.3.2003, p. 1).

[77] Regulations (EC) No. 3030/93, OJ L 275, 8.11.93, p. 1, as last amended by Regulation (EC) No. 138/2003 (OJ L 23, 28.1.2003, p. 1); and Regulations (EC) No. 517/94, OJ L 67, 10.3.94, p. 1, as last amended by Regulation (EC) No. 2309/2003 (OJ L 342, 30.12.2003, p. 21).

[78] Regulation (EC) No. 427/2003, OJ L 65, 8.3.2003, p. 1.

[79] WTO documents G/SG/N/8/EEC/1 and G/SG/N/10/EEC/1, 11 September 2002.

[80] OJ L 321, 6.12.2003, p. 11.

[81] WTO document G/SG/N/6/EEC/2.

[82] OJ L 323, 10.12.2003, p. 11.

[83] WTO document G/SG/N/6/EEC/3.

based measures apply to certain fruits and vegetables including tomatoes, cucumbers, courgettes, oranges, clementines, apples, pears, and plums.[84]

59. All EC safeguard measures in place will be applied by the new members States at the time of accession and whatever safeguard actions the new members have in place will be repealed. Within the framework of the internal market, the Treaty of Accession also contains safeguard provisions for new members, allowing them to apply for authorization to take protective measures, for a period of three years following accession, if sectoral difficulties persist or there is a serious deterioration in their economic situation. Existing member States (the EC-15) may also apply for authorization to take protective measures with regard to one or more of the new member States under similar circumstances.[85]

(b) Anti-dumping

60. Council Regulation 384/96, as amended[86], provides the main legal basis for the EC's anti-dumping measures.[87] On 23 July 2003, the regulation was amended to extend coverage to goods previously under the ECSC Treaty (Chapter II(1)).[88] According to the regulation, anti-dumping duties are to be imposed if three conditions are met: (i) a finding of dumping[89]; (ii) a determination of material injury to the Community industry[90]; and (iii) it is in the interests of the Community.[91] The Commission is responsible for investigating complaints and assessing whether they are justified. It can also impose provisional measures; however definitive measures can only be imposed by the Council. Proceedings for an investigation can be initiated by written request from the Community industry or from a member State. Investigations are normally concluded within 15 months of initiation of the proceeding, during which provisional anti-dumping measures could be imposed within the first nine months. The conclusion of an investigation may lead to termination without measures or imposition of definitive anti-dumping duties. If duties are imposed they will expire five years after their date of imposition or after the conclusion of the review of the measures concerned. According to the Commission, duties imposed are calculated according to the dumping or injury margin, whichever is lower.

[84] WTO document G/AG/N/EEC/43, 5 June 2003.

[85] See online information available at: http://europa.eu.int/comm/enlargement/negotiations /treaty_of_accession_2003/pdf/3_act_of_accession/aa00003_re03_en03.pdf.

[86] A 2002 amendment formally recognized Russia as a market economy in the context of anti-dumping. The March 2004 amendments cover streamlining of the EC's internal decision-making procedure, the introduction of mandatory deadlines in review investigations, and some improved rules on enforcement of measures.

[87] Amended by the following Acts: Council Regulation (EC) No. 2331/96, OJ L 317, 6 December 1996; Council Regulation (EC) No. 905/98, OJ L 128, 30 April 1998; Council Regulation (EC) No. 2338/2000, OJ L 257, 11 October 2000.

[88] Details are contained in Council Regulations (EC) No. 963/2002 and (EC) No. 1310/2002.

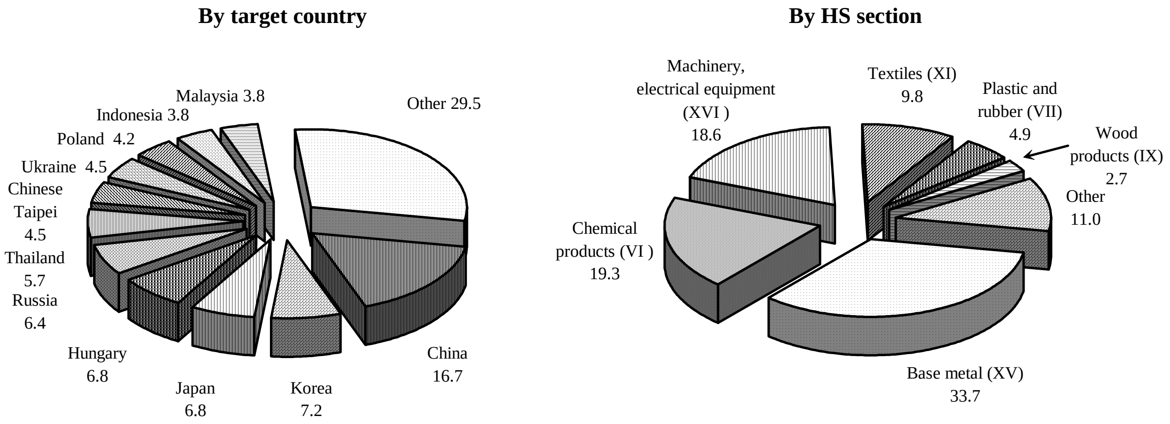
[89] A product is considered dumped if its export price to the Community is less than the comparable price for a like product established in the ordinary course of trade within the exporting country. Computations of the dumping margin could be complicated, as the necessary adjustments for differences in market structure (a distinction is made between market and non-market economies), taxation, time of sales, and range of products considered to be affected have to be taken into account.

[90] The determination of injury requires evidence of: significant increases in the volume of dumped imports, either in absolute terms or relative to production or consumption in the Community; price undercutting; and the adverse impact on Community industry in relation to production and utilization of capacity, stocks, sales, market share, price changes, profits, returns on investments, cash flow, and employment. The Regulation stipulates that there must be a causal link between dumping and injury.

[91] The interests of the Community include those of the industry, and of the users and consumers. The cost to the Community of taking measures must not be disproportionate to the benefits.

Chart III.4
Total anti-dumping measures imposed, 1991-03

Share of total measures (per cent)



Source: **WTO documents.**

61. During 2002, the EC initiated 20 new investigations; seven were initiated in 2003 and three during the first three months of 2004. Fifteen provisional measures were imposed during 2002, nine in 2003, and three during the first three months of 2004; and 25 definitive anti-dumping measures in 2002 (thereby ranking second behind India), three in 2003[92], and five in the first three months of 2004 (Table III.6). The anti-dumping measures were mainly *ad valorem* duties applied at rates ranging from 3.7% to 75%[93]. The main products subject to definitive anti-dumping measures during 1 January 2002 to 31 March 2004 were: urea, ferro-molybdenum, zinc oxides, compact disk recordables, sulphanilic acid, tube and pipe fittings, welded tubes and pipes, polyester filament yarn, para-cresol, fufuryl alcohol, silicon metal, bed linen, sodium cyclamate, and trout. During the same period, a total of 24 investigations were terminated for reasons such as negative determination of injurious dumping or withdrawal of the complaint, and 42 measures expired after their five-year period of duration. On 31 March 2004, the EU had a total of 147 definitive measures in force, of which 32 concerned imports from exporters originating in the People's Republic of China, followed by India and Russia (11 each), and Chinese Taipei and the Republic of Korea (9 each).

[92] According to the Commission, the sharp decline in 2003 is attributable to: the stabilization of the steel market following the imposition of safeguard measures in 2002; the non-initiation of investigations on imports from the ten acceding countries; and the cyclical nature of complaints submission and the consequent imposition of measures.

[93] A considerable number of companies received a 0% duty rate if they are found not to engage in injurious dumping. The average duty rate for companies found to have dumped was 25%.

Table III.6
Anti-dumping measures, 1998-03

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Initiations	20	39	21	43	33	24	42	21	66	31	27	20	7
Definitive measures imposed	19	17	19	19	13	23	23	26	18	40	12	25	3
Measures in force	101	114	117	124	129	143	138	139	151	175	175	174	156

Source: WTO Secretariat, based on information provided by the European Commission.

62. At the time of their accession, new members must apply EC anti-dumping measures in place; their own measures will lapse.

63. A study on the EC's anti-dumping policy metions that anti-dumping duties lead to both a decrease in imports from countries with companies subjected to the measures and an increase from countries with companies not subjected to the measures. Therefore, protection afforded to domestic industry through such measures may not be that significant since some of the benefits accrue to countries not subject to the measures.[94]

(c) Countervailing measures

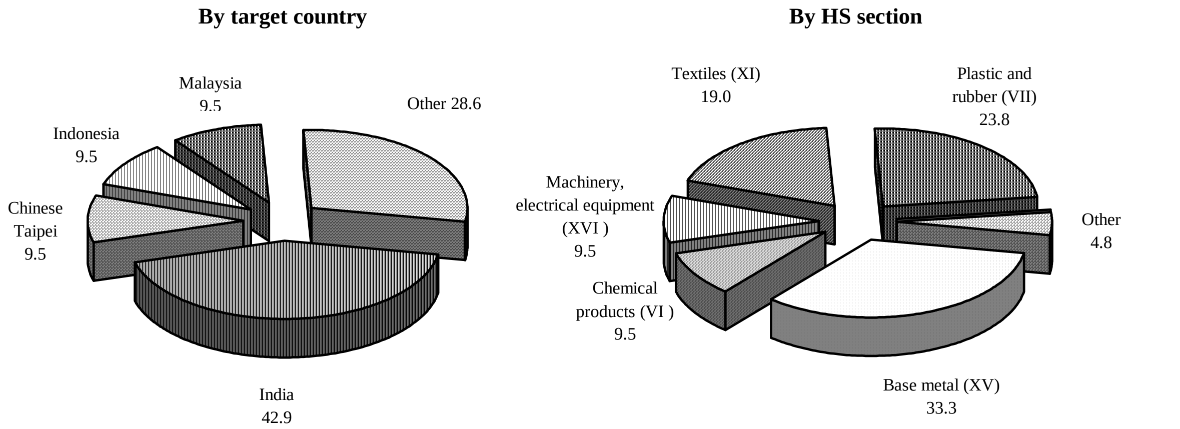
64. Council Regulation (EC) No 2026/97, as amended, provides the main legal framework governing the EC's countervailing measures. Apart from the provisions on the definitions and calculation of subsidies, this regulation is similar to that on anti-dumping, particularly with regard to the determination of injury, the definition of Community industry, initiation procedures, imposition of provisional and definitive measures, and termination of proceedings. The three conditions to be satisfied before the imposition of a countervailing measure are that: (i) the subsidy must be specific (i.e. an export subsidy, or a subsidy limited to a company, an industry or a group of companies or industries); (ii) a material injury to Community industry must exist; and (iii) the interest of the Community must be taken into account. Amendments to the regulation, made in March 2004, cover streamlining of the EC's internal decision-making procedure, the introduction of mandatory deadlines in review investigations, and some improved rules on enforcement of measures.

65. During 2002, the EC initiated three new investigations, one in 2003, and none during the first three months of 2004. Two provisional measures were imposed during 2002, one in 2003, and none during the first three months of 2004; and three definitive measures were imposed in 2002, two in 2003, and one in the first three months of 2004. The measures imposed were mainly *ad valorem* duties applied at rates ranging from 4.1% to 34.8%. The main products subject to definitive countervailing measures during 1 January 2002 to 31 March 2004 were: ring binder mechanisms, suphanilic acid, polyester filament yarn, recordable compact disks, DRAMs, and bed linen. During the same period, a total of three investigations were terminated for reasons such as negative determination or withdrawal of the complaint; three measures expired after their five-year period of duration. On 31 March 2004, the EU had a total of 18 definitive countervailing measures in force (Table III.7), of which ten concerned imports from exporters originating in India. At the time of their accession, new members have to apply the EU countervailing measures in place; at the same time, their own measures will lapse.

[94] Specifically, three years after the initiation of anti-dumping proceedings, the median of import values by targeted countries falls by about 60%, while that of non-targeted countries increases by 40%. Lasgni (2000).

Chart III.5
Total contervailing measures imposed, 1991-03

Share of total measures (per cent)



Source: **WTO documents.**

Table III.7
Countervailing measures, 1996-04

	1996	1997	1998	1999	2000	2001	2002	2003	2004 (3 months)
Initiations	1	4	8	20	0	6	3	1	0
Definitive measures imposed	0	1	2	3	11	0	3	2	1
Definitive measures in force	2	3	3	5	17	16	19	17	18

Source: WTO documents; and information provided by the European Commission.

(ix) Technical barriers to trade

66. Products placed on the market of a member State must comply, where necessary, with both relevant national and Community-wide legislation. The compliance of a product with the requirements of applicable technical regulations is established by means of conformity assessment procedures. Due to the impact differences in technical regulations and conformity assessment procedures could have on trade both amongst member States of the EC, and between the EC and third countries, the removal and avoidance of unnecessary technical barriers to trade, while pursuing a high level of environmental or consumer protection, remain key aspects of the EC's internal market strategy and trade policy.

67. Where they exist, EC's technical regulations lay down product characteristics or their related processes and production methods, and may include or deal with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method.[95] Such regulations are developed at Community level ("harmonized" areas) for EC-wide application, or at national level ("non-harmonized" areas). Exporters benefit from Community harmonization as one set

[95] WTO (2002).

of regulations replaces 15 (25 as from 1 May 2004).[96] In 2001, non-harmonized products accounted for about 21% of the total tariff lines.

68. Product regulations at the Community level are of two main types: those laying down detailed specific technical requirements (old-approach directives) and those with essential (limited) requirements (new-approach directives) defined to meet health, safety and environmental objectives.[97] The old-approach directives apply to motor vehicles, cosmetics, chemicals, foodstuff, and pharmaceutical products, whilst the new-approach directives cover a wider range of products, including toys, construction products, machinery, pressure equipment, medical devices, electrical and electronic equipment, and gas appliances. Under the new-approach directives, the technical solutions to meet the requirements are to be found through voluntary European harmonized standards (such as those of the European standard-setting bodies) or manufacturers own initiatives.

69. European standardization bodies (CEN, CENELEC, and ETSI) have developed harmonized standards for some of the new-approach directives. The application of these standards by a manufacturer presumes conformity with the essential requirements.[98] These bodies have accepted the TBT Code of Good Practice for the Preparation, Adoption and Application of Standards. About two-thirds of the standards developed by CEN and CENELEC are identical to or based on ISO and IEC standards.[99] There are presently around 14,000 European-wide voluntary standards.

70. Under the new-approach directives, the person placing a product on the Community market assumes responsibility for compliance with the Community legislation. The manufacturer must affix the "CE" marking on the product to indicate conformity with the applicable EC requirements, without which the product cannot be placed on the Community market.[100] The steps a manufacturer must take in order to affix the "CE" marking depends upon the sector.[101] General guidelines and detailed procedures for conformity assessment under the new-approach directives have been established under a global approach to certification and testing.[102] Conformity assessment of industrial products is carried out by bodies designated by member States in accordance with the Community procedure for the notification of bodies. The list of such bodies is published online and in the *Official Journal of the European Union*. However, for some products, the EC accepts the supplier's declaration of conformity of the product to the relevant legislation without any mandatory third party intervention.[103] Market

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[96] Mutual recognition may still be required.

[97] It is estimated that trade in products covered only by the major sectors regulated by the new-approach directives is in excess of € 1,500 billion per year.

[98] The European Committee for Standardization (CEN), and the European Committee for Electrotechnical Standardization (CENELEC) develop European standards in a consensual process with national committees (representing the EC-15 member States, Norway, Switzerland, Iceland, the Czech Republic, and Malta). ETSI is the European Telecommunications Standards Institute. About 85% of the work of the European standardization bodies is market-driven, with only 15% consisting of standards mandated by the Commission. A CEN standard is estimated to take on average eight years for final clearance; a CENELEC standard takes three to four years and an ETSI standard over two years. There are plans to reduce these long lead times.

[99] CEN has an agreement with ISO and CENELEC with the IEC.

[100] Information available online at: http://europa.eu.int/comm/enterprise/newapproach /legislation/guide/legislation.htm

[101] DG Enterprise (2000).

[102] Council Decision 90/683/EEC, 13 December 1990 and Council Decision 93/465/EEC, 22 July 1993; Council Decision 93/465/EEC establishes a range of procedures for assessing the conformity of industrial products to the objectives or "essential requirements" laid down by the technical harmonization directives.

[103] WTO document G/TBT/W/218, 30 June 2003. This mainly applies to products under the new-approach directives (e.g. electrical equipment, machinery, toys, medical devices, personal protective equipment,

surveillance is carried out by national authorities and involves monitoring products for compliance, and remedial actions when they do not comply, including penalties for false or misleading declarations. Under a safeguard clause procedure, the Commission is allowed to verify measures taken by the national authorities that restrict the movement of "CE" marked goods.

71. Assessments show that the new-approach directives work well in removing certain aspect of technical barriers to trade (regulatory and non-regulatory). Nonetheless, a recent Commission Communication (2003/C282/02) on the directives identifies the need: for a more coherent approach to conformity assessment and designation of notified bodies; to revise the safeguard clause procedure; and to strengthen enforcement measures, including market surveillance.[104] Subsequently, the European Council adopted a resolution mandating the Commission to follow-up the Communication.

72. In non-harmonized areas, member States may legislate to provide increased transparency, and to prevent unjustified restrictions to trade; they are required to notify the Commission of draft technical regulations and standards. Furthermore, the EC applies the principle of mutual recognition in the internal market. Hence, goods lawfully produced in one cannot be banned from sale on the territory of another, even if they are produced to meet technical or quality specifications different from those applied to locally produced goods, except in cases of overriding general interest (such as health, consumer or environment protection), of which the Commission must be notified. Information on the requirements in non-harmonized areas can be obtained from the TBT enquiry points of the EC member States. [105]A recent report by the Commission gives a favourable assessment of the notification system in avoiding the creation of barriers to the free movement of goods and services. However according to the Commission, non-application of the mutual recognition principle cut trade by up to € 150 billion in 2000.[106] In November 2003, the Commission published a communication clarifying the mutual recognition principle. This communication aims to improve the application of mutual recognition by providing a summary of how it should work and the rights it gives to economic operators. It also clarifies the burden of proof and summarizes when and how the free movement of goods can be restricted.[107]

73. Under the TBT Agreement, the EC and its member States notified the WTO of 95 measures in 2002 and 76 in 2003 (Table III.8). Some recent regulatory developments affecting the EC's technical barriers to trade regime are summarized in Table AIII.2.

74. The acceding countries are to take over the *acquis* on the free movement of goods on accession; this implies the implementation of the EC's technical regulations. During the period leading to accession, the EC has helped the acceding countries to realign their standards with those of the Community. Furthermore, European standard setting bodies have been working in partnership with national partners in the acceding countries. Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (PECAs) have been signed with seven of the acceding countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia, and Slovenia) and an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) with Malta. PECAs and the ACAA represent a recognition of progress made in adopting the relevant EC legislation on industrial products, and in creating the necessary administrative infrastructure required for their effective implementation. According to the Commission, the acceding countries have well understood the new-approach legislation; the necessary institutional capacity is in place and is mostly

recreational craft, radio and telecommunication equipment, and equipment for use in potentially explosive atmospheres).

[104] COM(2003) 240 final, 7 May 2003.

[105] For contact details of enquiry points, see WTO document G/TBT/ENQ/24, 9 March 2004.

[106] COM(2003) 238 final, 7 May 2003.

[107] OJ C265, 4 November 2003.

functioning satisfactorily.[108] Transitional provisions will apply, however, to Cyprus, Lithuania, Malta, Poland, and Slovenia in the marketing of medicinal products and medical devices.[109] The PECAs and the ACAA were repealed on 1 May 2004 upon accession of the partner countries.

Table III.8
WTO notifications of technical regulations by the EC and member States, 1995-03

			EU-15														
Year	**Total**	**EU**	**B**	**DK**	**D**	**EL**	**E**	**F**	**IR**	**I**	**L**	**NL**	**A**	**P**	**FI**	**S**	**UK**
1995	123	31	17	28	2	0	4	1	0	0	0	33	0	0	4	5	0
1996	123	46	13	15	3	0	7	2	0	0	0	0	0	0	7	30	0
1997	437	20	48	23	3	0	5	15	1	0	1	287	2	0	5	22	5
1998	276	36	49	40	3	0	9	20	0	0	2	91	1	0	5	18	2
1999	185	34	23	27	3	0	9	21	0	0	1	48	2	0	3	9	5
2000	148	16	19	25	0	0	6	7	0	0	0	46	0	0	5	15	9
2001	110	7	26	7	0	0	9	9	0	0	0	40	0	0	3	8	1
2002	95	17	11	6	0	0	12	7	0	1	0	15	0	0	5	17	4
2003	76	21	1	16	0	0	5	14	0	2	0	4	0	0	0	9	4

a B: Belgium; DK: Denmark; D: Germany; EL: Greece; E: Spain; F: France; IR: Ireland; I: Italy; L: Luxembourg; NL: the Netherlands; A: Austria; P: Portugal; FI: Finland; S: Sweden; UK: the United Kingdom.

Source: WTO documents; and information provided by the European Commission.

75. Third country assessment bodies (CABs) can take part in the EC's conformity assessment activities through mutual recognition agreements (MRAs). The EC has negotiated MRAs with Australia, Canada, Israel, Japan, New Zealand, the United States, and Switzerland. The main sectors covered are medical devices, pharmaceuticals, telecommunication equipment, electrical equipment, pressure vessels, machinery, aircraft, automotive and lawn mowers, recreational craft, and marine equipment. The agreement with Switzerland is broader, extending to measuring instruments, toys, phytopharmaceuticals, dangerous substances and preparations, construction site equipment, electrical equipment for explosive atmospheres, gas appliances, and tractors.

76. Within the framework of trade or cooperation agreements, the EC is engaged in assistance programmes for standardization, certification, metrology, and quality with several trading partners in Central and Eastern Europe, the Commonwealth of Independent States, the Mediterranean, the Middle East, the Far-East, Latin America, and the ACP States. These programmes include the provision of information, technical support, upgrading of physical infrastructure, conformity assessment and accreditation, and improving the capacity of the country in meeting European quality requirements.[110]

77. The EC is also a partner in various multilateral and plurilateral initiatives on technical harmonization, including with the OECD, the international Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals (ICH), the United Nations Economic Commission for Europe, the Global Harmonization Task Force for Medical Devices, and the International Civil Aviation Authority.

[108] European Commission (2003c).
[109] DG Enlargement (2003).
[110] DG Trade (1997).

(x) Sanitary and phytosanitary measures

78. The Treaty establishing the European Community empowers the Council to adopt legislation for the functioning of the Common market, including the common agricultural policy.[111] In doing so, it needs to take into account public health, consumer protection, and environmental concerns.[112] The EC and its member States are members of the Codex Alimentarius Commission.[113]

79. Five general principles are laid down by Regulation (EC) No. 178/2002 for the EC's food safety regime: (i) a high level of food safety at all stages of the food chain, from primary production to the consumer; (ii) risk analysis as a fundamental component of food safety policy; (iii) full responsibility of operators for the safety of products they import, produce, process, place on the market or distribute; (iv) traceability of products at all stages of the food chain; and (v) entitlement of citizens to clear and accurate information from public authorities.[114] The regulation also provides for the establishment of the European Food Safety Authority (EFSA); strengthens the rapid alert system for human food and animal feed[115]; and gives special powers to the Commission to implement emergency measures to contain serious risks to human or animal health, or to the environment in the EC (Table III.9). It also provides risk managers (decision takers) with the option of pursuing the "Precautionary Principle" when decisions have to be made to protect health but scientific information concerning the risk is inconclusive or incomplete. Furthermore, the regulation allows for risk management actions not only based on scientific assessment, but also on other factors "legitimate" to the matter under consideration. This provision has attracted some criticism, however, as the definition of "other factors" is not clearly defined.

Table III.9
Notification of emergency measures

WTO Notification	Description of content	Date of notification
G/SPS/N/EEC/177	The measures laid down in Decision 2002/757/EC apply to the introduction or the spread of *Phytophthora ramorum*, the production and movement of known host plants of *Phytphthora ramorum* within the Community, the control of *Phytphthora ramorum* and to a more general surveillance for the presence or continued absence of *Phytophthora ramorum* in the member States.	9 October 2002
G/SPS/N/EEC/181	Emergency measures to prevent the introduction of *Pseudomonas solanacearum* (Smith) Smith (Potato brown-rot) into the European Communities in potatoes originating in Egypt from pest-free areas which have been approved in Egypt in accordance with the FAO-ISPM.	19 December 2002
G/SPS/N/EEC/205	The urgent measures notified provide that member States shall prohibit the import of hot chilli and hot chilli products in whatever form, intended for human consumption unless an analytical report accompanying the consignment demonstrates that the product does not contain Sudan red 1.	23 June 2003
G/SPS/N/EEC/207	Special conditions imposed on the import of Brazil nuts in shell originating from Brazil	9 July 2003

Source: WTO documents.

[111] Treaty on European Communities, Article 37(2).

[112] Articles 152, 153, and 95.

[113] The EC adopted a decision to submit a request for accession to the Codex Alimentarius Commission on 17 November 2003, OJ L 309/14. Council Decision 2003/822/EC, 26 November 2003.

[114] Regulation (EC) No. 178/2002 harmonizes the concepts, principles, and procedures to be used by member States in their adoption of national food safety standards. Food safety activities cover the entire food production chain, ranging from animal and plant health to the labeling of food products, as well as animal welfare.

[115] This is a Commission system for the rapid exchange of information among member States (third countries are also allowed to participate) in the event of a serious and immediate risk.

80. The EFSA provides the Commission with independent scientific advice on all matters with direct or indirect impact on food safety. Though decisions on food safety are taken by the Council and in certain cases the Commission[116], the opinions of the EFSA are important in shaping policies and forming legislation related to food safety. Through an Advisory Forum, the EFSA is expected to develop close collaboration and partnerships with representatives of competent bodies in member States, thereby forming an EC-wide scientific networking system on food safety and leading to efficient sharing of information.[117]

81. Various Community-wide legislation has been adopted, in the area of sanitary and phytosanitary standards, on, *inter alia*, animal feeding stuff, animal health conditions, and plant health. On animal feedingstuff, it relates to control by sampling and analysis; control of composition (e.g. additives), undesirable substances, protein sources; and marketing. On animal health conditions of imports from third countries, it relates to veterinary checks, health standards, countries from which imports are authorized, inspections, control of specific diseases, and marketing of specific products. The plant health regulations cover protective measures against diseases of plants and pesticide residues, and the marketing of seeds and the propagating material for agriculture, horticulture, and forestry. Some of these regulations have been the subject of several criticisms from third countries, including that they are much stricter than international regulations (e.g. Codex Alimentarius and OIE), and there are high administrative costs in meeting them.[118]

82. Under current arrangements, in order to export products of animal origin to the EC, a country must be approved for the relevant commodity, and the products must originate in an establishment approved to export to the EC. Where there are no specific Community provisions, food (and feed) is to be considered safe when it conforms to the specific provisions of the national law governing its safety in the territory in which it is circulated. SPS provisions are also contained in several EC's trade agreements; however their coverage and depth vary as some reiterate the obligations under the WTO SPS agreement, while others include more comprehensive annexes (e.g. EC-Chile). Under the SPS Agreement, the EC and its member States (the EC-15) notified the WTO of 43 measures in 2002 and 59 in 2003.

83. Under a Council Directive adopted on 16 December 2002[119], member States are required to implement a number of new measures to, *inter alia*, prevent food business operators from causing the spread of diseases transmissible to animals; subject products of animal origin intended for human consumption to veterinary certification; and to carry out official animal health controls.[120] Furthermore, the directive requires member States to take measures to ensure that third country imports of products of animal origin intended for human consumption comply with the general animal health rules governing all stages of production, processing, and distribution. In order to ensure compliance with Community rules, a list of third countries or regions of third countries, from which imports of specified products of animal origin are permitted, is prepared by the Commission. Under the directive, a third country can only appear on such a list if its audit by the Community has taken place and its competent veterinary authority has provided appropriate guarantees as regards

[116] In the case of emergency safety measures.

[117] In the event of an unresolved substantive divergence over scientific issues between the EFSA and the competent body in a member State, a joint document clarifying the contentious issues and identifying the relevant uncertainties in the data is to be prepared for Council to take the decision.

[118] Otsuki, Sewadeh, and Wilson (2000) estimate that the implementation of EC standards on aflatoxin levels in food compared with regulations based on international standards, would reduce health risk by approximately 1.4 deaths per billion a year and could decrease African exports by more than US$670 million.

[119] Council Directive 2002/99/EC, 16 December 2002.

[120] Nonetheless, experts from the Commission may also carry out on-the-spot checks.

compliance with Community legislation. Veterinary certificates showing that products of animal origin meet Community legislation are required on importation.

84. Regulation No. 1774/2002 (adopted on 3 October 2002) provides that the importation and transit of animal by-products and processed products (not intended for human consumption) are to be prohibited unless in accordance with Community legislation. It thus establishes conditions ensuring that products imported from a third country are of hygiene standards equal or equivalent to those applied within the EC. To this end, the regulation introduces a system of approval for imports of animal by-products from third countries, including an inspection procedure, health certificates and relevant animal institutions.[121] The regulation has been applied since 1 May 2003.[122]

85. Since its last TPR, the EC has adopted two regulations related to food and feed products produced from genetically modified organisms (GMOs).[123] Under a regulation adopted on 22 September 2003, applications for authorization to place genetically modified food and feed products on the EC market are to be lodged with the EFSA through a competent national authority. The EFSA is expected to give its opinion to the Commission within six months.[124] On the basis of the EFSA's opinion and "other factors" (not specified), the Commission is empowered to take a decision in consultation with the Committee on Food Chain and Animal Health within three months. The implementation of the 2003 regulation should pave the way for lifting the moratorium on new authorizations.[125] The second regulation concerns the traceability and labelling of GMOs, and the traceability of food and feed products produced from GMOs.[126] According to this regulation, when placing a genetically modified product on the Community market, operators must transmit to those receiving the product certain details indicating that it contains GMOs. Operators are also required to have in place systems and procedures that support the holding of this information for a five year period. Operators are also required to ensure that products containing GMOs be labelled as such.

86. In response to the WTO ruling on the EC's ban on the use of hormones as growth promoters, the Community adopted a directive seeking to bring its legislation into compliance.[127] The new directive confirms the prohibition of substances having hormonal action for growth promotion and reduces the circumstances under which one of the hormones (oestradiol 17-beta) may be administered to food-producing animals for purposes other than growth promotion. As regards the remaining five hormones, the Commission considers the scientific evidence gathered so far to be insufficient to propose a permanent prohibition[128]; therefore, the prohibition in the amended directive is provisional. The Commission is to review regularly scientific information that may become available, and seeks to obtain additional information.[129]

87. Two laws, aimed at reducing the incidence of food-borne diseases in the EC through zoonotics, were adopted during the period under review. The laws seek to reduce the occurrence of

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[121] WTO document G/SPS/N/EEC/103/Add.4, 16 September 2003.

[122] In response to comments received from third countries, and to help them comply with all its provisions, the Commission adopted regulations laying down a general "transitional period" for third countries that ended on 31 December 2003. Further transitional arrangements have since been granted to Australia, Canada, People's Republic of China, and the United States, provided that certain conditions are met.

[123] Regulation (EC) No. 1829/2003, 22 September 2003.

[124] This can be extended if further information is required. The EFSA consults with the relevant national competent authorities in giving its opinion.

[125] The moratorium was decided by a majority of EC member States in 1999.

[126] Regulation (EC) No. 1830/2003, 22 September 2003.

[127] Directive 2003/74/EC, 22 September 2003.

[128] Testosterone, progesterone, trenbolone acetate, zeranol, and melengestrol acetate.

[129] European Commission Press Release IP/03/1393, 15 October 2003.

zoonotic agents and to monitor them.[130] Other measures adopted include a directive relating to plastic materials and articles intended to come into contact with foodstuff[131]; a decision concerning the performance of analytical methods to be used for detecting certain substances and residues thereof in live animals and animal products; the inclusion of two exotic parasites - small hive beetle and the parasitic mite - to the lists of notifiable animal diseases; and a complete publication (in one source) of the lists of authorized additives in feeding stuffs.[132]

88. A Commission Decision of July 4 2003 imposed prohibitions on imports of Brazil nuts in shell originating in or consigned from Brazil[133], unless the consignments are accompanied by a report containing the results of official sampling and analysis and a health certificate.[134] On 20 June 2003, the Commission introduced emergency measures prohibiting member States from importing hot chilli and hot chilli products (ex CN code 09042090)[135], unless an analytical report accompanying the consignment or a test within the EC demonstrates that the product does not contain Sudan red 1dye.[136] The EC also prolonged the duration of the ban on the placement on the EC market of toys and childcare articles intended to be placed in the mouth by children under three years of age, made of soft PVC containing certain phthalates.[137]

89. During the period under review, restrictions came into force affecting the marketing and use (within the EU) of creosote and hexachlorothene, certain azodyes, and short-chain chlorinated paraffins. On 12 August 2002, the Commission adopted a new mechanism for the allocation of quotas to producers and importers for hydrochlorofluorocarbons for the period 2003 to 2009, limiting their respective percentages to the 1999 levels and taking into account the allocation and claims on import quotas in previous years.[138] Furthermore, through a common system of notification and information on trade with third countries, the EC controls the trade in certain chemicals that are banned or severely restricted on account of their effects on human health and environment; the EC applies the international notification and prior informed consent (PIC) procedure established by the United Nations Environment Programme (UNEP) and the Food and Agriculture Organization (FAO).

90. All the ten acceding countries have transposed the EC *acquis* related to food safety into their national legislation and are to implement them upon accession. Six new member States have requested transitional periods to further upgrade food-processing plants.[139] Other transitional arrangements relate to quality requirements for seeds, animal nutrition, plant protection, and marketing of forest reproductive material.

(xi) Government procurement

91. In 2002, public procurement represented some 16% (€ 1,493 billion) of the EC's GDP. Ensuring transparency and increasing the level of effective competition in the EC's public procurement market remains a priority of the internal market strategy.

[130] European Commission Press Release IP/03/1306, 29 September 2003.
[131] Commission Directive 2002/72/EC, 6 August 2003.
[132] European Commission Notice No. 2002/C329/01.
[133] OJ L168/33, 5.7.2003.
[134] These measures were taken after the Commission's Food and Veterinary Office (FVO) carried out an assessment mission in Brazil.
[135] OJ L154/114, 21 June 2003.
[136] This measure was taken after France discovered the dye in hot chilli products originating from India.
[137] Decision 1999/815/EC, 19 April 1999.
[138] Council Directive 76/769/EEC, as amended.
[139] Products coming from plants under transitional provisions are required to be clearly marked, and are not allowed to be sold outside the national borders; other plants not meeting EC standards will be closed down.

92. Since the last TPR of the EC, there have been no legislative changes to its basic public procurement regime.[140] Under the current legislative framework, there are directives on public supplies, works, and services[141], complemented by a remedies directive. Another directive concerns the procurement by publicly owned entities and private entities with special or exclusive rights operating in the water, energy, transport, and telecommunication areas (utilities directive); this is also complemented by a remedies directive. The scope of application in each of the directives is established by minimum thresholds for contracts, which correspond where necessary to those in the GPA, while below-threshold contracts are covered by the provisions and principles of the EC Treaty. The thresholds have been established at € 200,000 for public supply and public service contracts[142], and € 5 million for public works contracts.

93. Under the current provisions, member States' contracting authorities are, in general, required to define their technical specifications by reference to EC approved standards or technical specifications. However, under EC Law, contracting authorities may not reject tenders with technical solutions equivalent to the specifications they have defined. Contracting authorities can choose between open and restricted procedures to award contracts; negotiated procedures are available under the conditions set out in the directives. The selection of participants is based on their technical, economic, and financial capabilities. The criteria for awarding contracts include either the lowest price or the economically most advantageous tender.[143] Contracting authorities have an obligation to inform, within 15 days, any unsuccessful applicant or tenderer who requests the reason for the rejection of his application or tender.

94. Under the relevant remedies directive, an unsuccessful applicant or tenderer is entitled to challenge contract award procedures by contracting authorities before national review bodies. In respect of the remedies available prior to the signature of the contract, national review bodies must be empowered to take, at the earliest opportunity and by way of interlocutory procedures, interim measures including the suspension of the award procedure. National remedies must also provide for the possibility to set aside illegal decisions such as by removing discriminatory specifications or by cancelling the award decision. For utilities only (directive 93/38/EC), and pursuant to Directive 92/13/EEC, some member States have replaced these two remedies by such measures as the payment of daily fines with the aim of correcting infringements and preventing injury to the interests concerned. Under both remedies directives, when the contract is signed, national review bodies, or in some member States a distinct body such as a Civil Court are empowered to award damages to aggrieved tenderers. In addition, at EC level (Article 226 of the EC Treaty), dissatisfied applicants or tenderers can lodge a complaint relating to a contract award procedure covered by the EC Directives with the Commission services. Where appropriate, the Commission can initiate an infringement procedure against the member State concerned for failure to comply with its obligations under EC

[140] The common public procurement rules relate to: (i) the definition of the type of public purchaser and the scope of contracts subject to the Directives; (ii) the definition of the type of contract award procedure public purchasers should normally use; (iii) technical specifications, whereby preferences are to be given to Community standards and discriminatory technical requirements are banned from the contract documents; (iv) advertisement, i.e. tender notices must be published in the *Official Journal* of the EC, comply with specific requirements concerning deadlines, and be drawn up in accordance with pre-established models; (iv) participation, establishing objective criteria for qualitative selection and for the award of contracts; and (v) obligations as regards statistical reporting to permit the Commission to monitor the functioning of these rules (European Procurement Brochure, available online at: http://www.simap.eu.int/EN/pub/src/welcome.htm).

[141] Directives 93/36/EC and 93/37/EC, 14 June 1993; and 92/50/EC, 18 June 1992, amended by Directive 97/52/EC, 13 October 1997.

[142] The minimum thresholds for supply and service contracts relating to entities operating in the water, energy, transport and telecommunication sectors is € 400,000.

[143] Contractors may be excluded if they are bankrupt or have not met their fiscal obligations with the tax authorities.

Law. Thereafter, if the Commission considers that the member State did not take the appropriate measures to correct the alleged infringement, it can bring the dispute before the European Court of Justice, which will give a definitive ruling on the alleged infringement.

95. Where appropriate, the EC's public procurement market is subject to the disciplines of the Government Procurement Agreement (GPA), to which the EC is a party. Consequently, suppliers of goods and services from GPA member countries may tender for contracts above specified thresholds[144], in accordance with the commitments assumed by the EC.[145] On 12 December 2002, the EC notified the WTO of modifications to its General Notes in Appendix I to the GPA. This modification entitles suppliers and service providers from Switzerland to challenge the award of contracts by EC entities listed in Annex 2 of the GPA (in accordance with the bilateral agreement between the two parties). Other EC preferential trade agreements (Chapter II(5)(iii)) also provide reciprocal access to procurement markets.[146]

96. As part of the preparation for accession, the acceding countries were required to align their public procurement legislation with that of the EC and implement the latter upon accession. As at March 2004, some of the acceding countries were at the final stages of aligning their legislation on public procurement with that of the EC directives. None of the ten acceding countries are party to the GPA, however they all have observer status in the Committee on Government Procurement, with the exception of Cyprus. As a result of their accession to the EC, from 1 May 2004, the same rights and obligations under the GPA have become applicable to the ten acceding countries as to the 15 existing member States.

97. Trends in EC public procurement transparency show a slight increase in the percentage of public procurement contracts published in the *Official Journal* (an indicator of market transparency) to 16.3% in 2002 from 15.4% in 2001. As a percentage of GDP, the value of public procurement, which was openly advertised, increased from 2.5% in 2001 to 2.7% in 2002 (Table III.10). According to the Commission, relatively fewer results of procurement competitions are being made known, as recent trends point to a growing gap between the number of invitations and contract award notices published; of the award notices published in the *Official Journal*, direct cross-border procurement accounted for only 1.26% of award notices in 2001 (1.5% in 2000).[147] A recent study by the Commission shows that foreign subsidiaries bidding for contracts in the member State where they are located tend to have a slightly higher rate of success than member State firms bidding for contracts in their own home countries.[148]

[144] The thresholds for the 2004-05 period ranged from € 154,014 under Annex I entities for goods and services other than construction to € 5,923,624 under Annex III entities for construction services (WTO documents GPA/W/285 and GPA/W/285/Add.4).

[145] Council Decision 94/800/EC, 23 December 1994. The EC's commitments cover the procuring entities listed in Annexes 1, 2 and 3 of Appendix I of its Schedule. These include central government entities, sub-central government entities, and other entities such as those supplying utilities. The contracts are subject to minimum thresholds. Selected goods and services are specified in positive lists (Annexes 4 and 5 of Appendix I) (WTO document GPA/W/35/Rev.1, 8 July 1999).

[146] For instance, the Europe Agreements and Euro-Mediterranean Agreements.

[147] COM(2002) 743 final, "Economic Reform: report on the functioning of the community product and capital market".

[148] For further details, see DG Internal Market (2004).

Table III.10
Open procurement indicators, 1995, and 2000-02

	EC-15	EC-15 Members[a]														
		B	**DK**	**D**	**EL**	**E**	**F**	**IR**	**I**	**L**	**NL**	**A**	**P**	**FI**	**S**	**UK**
	Openly advertised public procurement (% of total procurement)															
1995	8.4	6.9	16.4	5.1	34.1	8.5	5.5	11.4	9.8	5.2	4.8	4.5	15.5	8.0	10.5	15.0
2000	14.9	15.6	20.9	5.6	31.9	25.4	14.6	21.4	17.5	12.3	10.8	13.5	15.0	13.2	17.9	21.5
2001	15.4	18.6	15.8	5.7	35.3	23.4	16.8	19.3	15.3	10.7	12.5	14.6	17.7	15.1	23.4	21.5
2002	16.3	15.8	14.5	7.5	45.7	23.5	19.1	18.0	18.9	13.3	8.9	15.5	19.4	13.9	19.3	21.1
	Openly advertised public procurement (% of GDP)															
1995	1.44	0.99	2.67	0.91	4.87	1.18	0.94	1.54	1.23	0.8	0.99	0.83	2.19	1.3	2.41	3.28
2000	2.41	2.32	3.55	0.96	4.37	3.25	2.44	2.6	2.17	1.67	2.19	2.31	2.12	2.01	3.67	3.81
2001	2.48	2.79	2.90	0.96	4.58	2.97	2.75	2.55	1.94	1.52	2.58	2.36	2.46	2.37	4.68	3.83
2002	2.65	2.40	2.73	1.28	5.77	3.06	3.18	2.39	2.25	2.06	1.90	2.55	2.58	2.28	3.95	3.89

a B: Belgium; DK: Denmark; D: Germany; EL: Greece; E: Spain; F: France; IR: Ireland; I: Italy; L: Luxembourg; NL: the Netherlands; A: Austria; P: Portugal; FI: Finland; S: Sweden; UK: the United Kingdom.
b All figures are estimates.

Note The term "openly advertised" refers to publication in the *Official Journal*.

Source: Eurostat, *Public procurement 1 and 2,* Key Indicators.

98. The Commission observes that increased transparency resulting from the adoption of a comprehensive set of rules on public procurement at EC level, together with a more systematic approach in its infringement policy, has highlighted problems of implementation of the EC regime by the member States. This is evident in the high number of infringements related to public procurement. For instance, the Commission handled 403 complaints concerning the award of contracts in 2002, and 389 in 2003.[149] According to the Commission, the EC's public procurement market is still not sufficiently open and competitive; public purchasers, particularly at the local government level, are unaware of the full extent of the rules, which may account for the low level of cross-border procurement.[150] It is estimated that a 5% cost reduction, resulting from more competitive and efficient public procurement, would save over € 70 billion. Under the Internal Market strategy (2003-06), a number of actions have been proposed to address the situation.[151]

99. Measures are being put in place to simplify, modernize and make more flexible the public procurement market in the EC. A common procurement vocabulary (CPV) seeking to standardize and simplify the description of the subject of contract notices was adopted in 2002.[152] The last TPR of the EC referred to two proposals for new directives on public procurement, one on the coordination of procedures for the award of public works contracts, public supply contracts, and public service contracts, and the other coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors. These two new directives were approved by the European Parliament and Council in the beginning of 2004; they are expected to enter into force in May 2004. EC member States will have up to 21 months to implement the new directive, until which time the current directives will continue to be applicable. According to the Commission, the new

[149] The Commission has decided to follow a more systematic, horizontal approach in handling cases of infringement of the public procurement rules rather than just reacting case-by-case to complaints received (COM(2001)309, p.88).

[150] Cross-border public procurement is estimated to have stagnated at about 10% since 1998.

[151] COM(2003) 238 final, dated 7 May 2003. Available online at:http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0238en01.pdf

[152] Regulation (EC) No. 2195/2002, 5 November 2002.

thresholds in the draft directives would neither change the effective application of the procurement rules nor pose any issues regarding the GPA.[153]

(3) MEASURES DIRECTLY AFFECTING EXPORTS

(i) Registration and documentation

100. With the exception of goods placed under the outward processing or transit procedure, all Community goods intended for export are to be placed under the export procedure. Under the Common Customs Code (section (2)(i)), Community goods declared for export are subject to customs supervision from the time of the acceptance of the customs declaration until the time they leave the customs territory of the Community. Under the normal procedure, the declaration consists of a Single Administrative Document (SAD), as well as other documents, including the certificate of origin necessary for the provision of preferential treatment by importing countries (when applicable), and licences for products covered by the Common Agricultural Policy. Customs authorities can grant permission to simplify the completion of export formalities and procedures.

(ii) Export taxes, charges and levies

101. There is no provision, at the Community level, for the imposition of duties or charges on exports.

(iii) Export prohibitions, restrictions, and licensing

102. Under the EC's regulation on the common rules for exports[154], restrictions are permitted on grounds of public morality, public policy, the protection of health and life of humans, animals or plants, and national cultural treasures.[155] The restrictions remain under the competence of both the Commission and member States. The regulation also provides for measures to be taken in order to prevent a critical situation arising from a shortage of essential products.

103. Export prohibitions are adopted by the Community and its member States as part of the Common Foreign and Security Policy (CFSP). During the period under review, the EC, in accordance with United Nations Security Council (UNSC) Resolution 1483, adopted a regulation repealing all existing comprehensive restrictions to trade with Iraq. However a ban remains in place on the sale or supply of arms and related material, other than those required to serve the purposes of UNSC 1483.[156] The embargo on export of arms to Angola (UNITA) was removed in December 2002.[157] Furthermore, pursuant to the Lusaka Agreement, the arms embargo in place on the Democratic Republic of Congo was amended to allow supplies for personal use by UN personnel; humanitarian or protective use; and landmine clearing equipment. Other countries facing embargoes on EC exports of arms, munitions, military equipment, and (in some cases) equipment for internal repression, are Bosnia and Herzegovina, China (P.R.), Iraq, Liberia, Libya, Myanmar, Sierra Leone, Somalia, Sudan, and Zimbabwe.

[153] WTO document WT/TPR/M/102/Add.2, 31 March 2003.
[154] Council Regulation (EEC) No. 2603/69, 20 December 1969.
[155] For instance, exports of foodstuffs and feedstuffs with high levels of radioactive contamination are banned; and archaeological objects, sculpture, and books (more than 100 years old) require export licences.
[156] Council Common Position 2003/495/CFSP; and Council Regulation (EC) No. 1030/2003, 16 June 2003.
[157] Council Common Position 2002/991/CFSP.

104. The EC's regulation on the control of exports of dual-use items and technology (i.e. items for civil and military purposes) provides a list of items considered as such, a Community export authorization system, and rules for information exchange and consultation between member States concerning decisions to grant export licences.[158] In January 2003, the EC amended and updated the regulation concerning the use of dual-use items and technology in order to enable member States to comply with their international commitments.[159] In June 2003, the Council adopted a Common Position on the control of arms brokering to avoid the circumvention of UN, EC, or OSCE embargoes on arms exports, as well as the criteria set up in the EC's Code of Conduct on Arms Exports.[160]

105. During the period under review, export licences were required for certain products under the common market organization and under tariff-quota commitments with trading partners.

(iv) Export subsidies

106. The EC provides export subsidies for several commodities, including wheat and wheat flour, coarse grains, rice, rapeseed, olive oil, sugar, butter and butter oil, skim milk powder, cheese, other milk products, beef meat, pig-meat, poultry meat, eggs, wine, fresh and processed fruit and vegetables, raw tobacco, and alcohol. The subsidies cover the difference between the higher Community prices (Chapter IV(2)(ii)) and the lower world market prices of the products; therefore, they change with world prices, exchange rate fluctuations, and domestic price levels.

107. For the marketing year 2001/02, total export subsidies granted by the EC were € 2.5 billion. It is estimated that the EC accounts for 90% of all OECD export subsidies.[161] The products receiving the highest share of export subsidies were sugar (18.8%)[162], "incorporated products" (16%), milk products (15.6%), beef (15.1%), butter and butteroil (12.6%), and cheese (7.3%). Overall, the actual export subsidy outlays were about 35% of the EC's WTO export subsidy commitments; however, they were high for specific commodities, such as incorporated products (99.2%), sugar (96.7%), and rice (82.3%).[163]

108. Studies evaluating the effects of the phasing out of the European agricultural export subsidies, after the full implementation of the Agenda 2000 CAP reform, indicate that there will be notable reductions in EC domestic prices as well as a decline in exports, in particular of dairy products; however, there will be a limited impact on arable crop production, prices, and land. In general, the EC's agriculture sector is expected to suffer a welfare loss; however, gains in consumer welfare are estimated to overcompensate this loss, thereby leading to a net welfare gain to the EC.[164]

109. According to the Commission, the EC maintains its readiness to negotiate further reductions in export subsidies on condition that all forms of export subsidization (export credits, abuse of food aid, unfair practices of state trading enterprises) are disciplined.[165]

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[158] Council Regulation (EC) No. 1334/2000, 22 June 2000.

[159] Including the Wassenaar Arrangement, the Missile Technology Control Regime, the Nuclear Suppliers Group, the Australia Group and the Chemicals Weapons Convention (Council Regulation (EC) No. 149/2003, 27 January 2003).

[160] Council Common Position 2003/468/CFSP.

[161] World Bank (2003).

[162] This does not include exports of sugar of ACP and Indian origin.

[163] WTO document G/AG/N/EEC/44, 11 June 2003.

[164] Gohin and Gautier (2003); OECD (2000); and Leetma (2001).

[165] WTO document WT/TPR/M/102/Add.2, 31 March 2003.

(v) Export assistance

110. The EC does not have a policy of direct or indirect assistance to exports. However, such assistance can be offered by individual member States, subject to Community rules. The coordination of credit insurance policies, guarantees, and financial credits is governed by Council Decision 73/391, as amended. This regulation establishes the consultative procedure to take place when a State, state organization, or any body for credit insurance or finance, proposes to grant or guarantee, fully or partially, foreign credits linked to exports of goods or services, which depart from specified Community norms.[166] The Community norms, which cannot be departed from without consultation, refer to the duration of credits, the percentage of local expenditure, and leasing contracts. The duration of any credit granted, whether supplier credit or financial credit must not exceed five years calculated from specified starting points depending on the type of good or service; in the case of guaranteed private credits, the balance of the local expenditure portion payable on credit must not exceed 5% of the contract price[167]; leasing contracts are also to be treated as credits and where their total duration is not expressly restricted, a duration in excess of five years is defined as a deviation from Community norms.

111. The Council Decision 82/854/EEC (10 December 1982) deals with the problem raised by subcontracting (with parties in other member States or in third countries) for the provision of export guarantees and finance; it establishes thresholds below which subcontracts are to be included in the cover granted to a principal contractor[168], and contains provisions on the financing of such subcontracts. Furthermore, a regulation on reciprocal obligations of export credit insurance organizations in member States aims to improve the competitiveness of Community exports on third country markets by facilitating co-operation between export undertakings in different members States.[169] A directive aslo exists to harmonize the main provisions on export credit insurance for transactions with medium and long-term cover.[170]

112. The Community is party to the OECD Arrangement on guidelines for officially supported export credits.[171]

(4) MEASURES AFFECTING PRODUCTION AND TRADE

(i) State-owned enterprises

113. Notifications made by the EC to the WTO indicate that there are currently two state-trading enterprises in the EC: Gaz de France, which produces gas; and Entreprise Minière et Chimique, which produces fertilizers.[172] Gaz de France is also engaged in export activities. Since the last Review of the EC, there have been no developments on the external trading activities of sate-trading enterprises in the EC.

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[166] The norms are listed in Annex I of the Decision.

[167] Consultation shall not be instituted in the case of contracts that provide for payment of the local expenditure portion to be made, at the latest, upon the expiry of a period of three months, calculated from the final completion of the works or deliveries.

[168] The tresholds are 40% for contracts of a value less than € 7.5 million; € 3 million for contracts of a value between € 7.5 million and € 10 million; and 30% for contracts of a value over € 10 million.

[169] 84/568/EEC, 27 November 1984.

[170] 98/29/EC, 7 May 1998.

[171] Council Decision 2002/634/EC, 22 July 2002.

[172] WTO documents G/STR/N/5/EEC, G/STR/N/6/EEC, and G/STR/N/7/EEC, 23 January 2002; and G/STR/N/3/EEC, 23 July 2002.

(ii) Competition policy and regulatory issues

114. The legal basis for the application of competition policy in the EC is in its Treaty.[173] Member States are required to adopt an economic policy "conducted in accordance with the principle of an open market economy with free competition". The EC's competition policy aims to improve consumer welfare and to enhance the competitiveness of European industry. This rests on four main areas: anti-trust rules, merger regulation, liberalization of monopolistic economic sectors, and the control of state aid.

115. During the period under review, major reforms have taken place in most areas of the EC's competition policy in order to meet the challenges of an enlarged union, as well as to address the structural problems that limit the competitiveness and hamper the growth opportunities of the European economy.[174]

(a) Anti-trust

116. The Treaty prohibits (as incompatible with the common market) anti-competitive agreements between undertakings that may affect trade between member States[175], except for those exempted as being beneficial on balance to economic efficiency and consumer interest.[176] Exemptions may be granted by the Commission on an individual basis, following an examination of a particular agreement, or on the whole (i.e. block exemption). The Commission's work in this area has focused increasingly on preventing the most serious forms of anti-competitive behaviour, such as price-fixing and market-sharing cartels.

117. On 16 December 2002, a regulation was adopted to modernize the enforcement system for EC competition rules on restrictive agreements and the abuse of dominant positions. The new regulation abolishes the centralized notification system, in operation since 1962; hence, companies will no longer have to notify their individual agreements to the Commission for clearance if they wish to obtain an exemption. Under the new directly applicable exception system, companies are required to ensure that their agreements do not restrict competition or, in case they do, that they qualify for exemptions under the EC's directly applicable exception system.[177] The Commission argues that these reforms reduce bureaucracy since, after 40 years of their application, companies are generally capable of evaluating the legality of their need. A second feature of the new regulation is that it allows for joint enforcement of the rules governing restrictive practices by the Commission, the national competition authorities, and the national courts. In particular, the application of the exception rules on anti-trust exemption has been extended to allow for their application by national authorities and courts.[178] To facilitate this process, the Commission is setting up a network of European Competition

[173] Articles 81 to 90.

[174] "EC competition policy after May 2004", Speech by Mario Monti, EC Commissioner for competition policy, Speech/03/489, 24 October 2003.

[175] No definition of these undertakings is provided by the Treaty; however, the term is understood to encompass a wide range of legal forms, including companies, partnerships, cooperatives, nationalized industries, and other kinds of public corporations, and individuals, engaged in the production and distribution of goods and services.

[176] Article 81(1) of the Treaty prohibits agreements that: (i) directly or indirectly fix purchase or selling prices or any other trading conditions; (ii) limit or control production, markets, technical developments, or investment; (iii) share markets or sources of supply; (iv) apply dissimilar conditions to equivalent transactions with other trading partners; and (v) make the conclusion of contracts subject to the acceptance by other parties, for further obligations unrelated to the subject of the contract. Article 82 prohibits, as incompatible with the common market, the abuse of a dominant position, without exception.

[177] These agreements will be valid automatically as long as the exception criteria are met.

[178] Under the old legislation, exemption was solely in the hands of the Commission.

authorities (including from the acceding countries) to ensure that anti-trust rules are enforced in a consistent manner. Applicants can bring their cases of complainant or leniency to authorities they consider best placed to handle them. The Commission will continue to handle cases (primarily, but not exclusively), affecting more than three member States. The regulation is set to enter into force on 1 May 2004, the date of accession of the ten acceding countries.[179] The Commission expects the new regulation to enable it focus on the most serious forms of anti-competitive behaviour.

118. A new regulation seeking to reduce the incidence of anti-competitive practices in the EC's motor industry, in particular on the distribution and servicing agreements between car-makers and dealers, entered into force on 1 October 2003, after a one year transition period.[180] Under the regulation, motor vehicle manufacturers can choose between an exclusive or selective distribution system.[181] According to the Commission, the new regulation lifts most of the restrictions that made multi-brand dealership sales uneconomic in practice, such as requirements for separate premises, and management and sales teams for different brands.[182] Other provisions under the new regulation include: the liberalization of after-sales services (such as through granting distributors the choice of carrying out after-sales servicing themselves or sub-contracting it and allowing independent repairers to become authorized within the manufacturer's network without the obligation to sell new cars); allowing manufacturers of components, normally supplied to vehicle manufacturers, to sell these parts directly to all repairers; and improved access to all technical information for independent operators, such as repairers and distributors. However, the latest available figures (November 2003) indicate that, though there is a trend towards greater convergence in car prices within the EC, European consumers can still make significant savings by buying their cars in other member States, i.e. competition and cross-border trade have not yet brought about significant price convergence.[183] Since the figures captured the situation before 1 October 2003 (the date of the full implementation of this regulation), the anticipated convergence in prices might not be fully reflected.

119. On 27 February 2003, the Commission adopted a new insurance block exemption regulation.[184] The regulation exempts certain types of insurance agreements from the general rule governing prohibition in this area[185], provided that the cooperation does not go beyond what is justified by consumer interest, and in particular, does not concern the coverage, terms, or premiums charged in insurance policies offered to consumers. The exempted agreements cover: the joint calculations of risks; joint studies of future risks; the establishment of non-binding standard policy conditions; the establishment and management of insurance pools; and the testing and acceptance of security equipment not subject to EC-wide harmonization. The new regulation came into effect on 31 March 2003 and will be valid until 31 March 2010.[186]

120. On 26 February 2003, Council adopted a regulation giving the Commission clear enforcement powers to review cases relating to air transport between the EC and third countries.[187] The regulation

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[179] This regulation repeals Regulation 17/1962, 21 February 1962.

[180] Commission Regulation (EC) No. 1400/2002, 31 July 2002.

[181] Under the exclusive distribution system dealers are allocated a given territory. A qualitative and/or quantitative criterion is used for the selective distribution system under which any dealer meeting the criterion can join the distribution network; no dealer can be prevented from supplying cars to consumers from abroad.

[182] Car makers may require distributors to display their cars in brand-specific areas within a showroom.

[183] Further details are available online at: http://europa.eu.int/comm./competition/car_sector.

[184] Regulation No. 358/2003 repeals the previous insurance block exemption, Regulation No. 3932/92.

[185] Article 81 of the EC Treaty.

[186] European Commission Press Release, IP/03/291, 27 February 2003.

[187] Council Regulation (EC) No. 41/2004, 26 February 2004. The airline industry is the only sector where the Commission has no clear-cut powers to enforce the competition rules insofar as it involves non-EC carriers.

also empowers the Commission to grant block exemptions on air transport agreements between EC carriers and those of third countries, with the exception of merger cases.[188] Furthermore, a draft regulation concerning unfair competition from subsidized third-country airlines is under consideration; the regulation proposes that complaints be examined to find out whether damage has been caused to the EC airline industry as a result of the subsidy. An out-of-court settlement may be found at any time with the third country. However, in the event of a positive determination, the Commission, with the assistance of an advisory committee, may impose duties on air carriers from third countries benefiting from subsidies. The draft proposal is expected to be adopted by the European Parliament and Council in 2004, and enter into force in the same year. Furthermore, in March 2003, the Commission began a review of the regulation on the application of competition rules to maritime transport.[189] Under the regulation, price fixing and supply agreements or consultations among liner shipping conferences (normally considered as hardcore restrictions) are exempted from EC competition rules. The purpose of the review is to ascertain whether certain provisions of the regulation, in particular the block exemption immunity granted to liner conferences, are still justified and continue to produce the expected benefits.[190]

121. The total number of new anti-trust cases increased from 284 in 2001 to 321 in 2002; the cases initiated by the Commission increased from 74 to 91. Total cases closed declined from 378 in 2001 to 363 in 2002. Nine cartel cases were handled in 2002,with fines imposed totalling € 1 billion.

(b) Mergers

122. The EC's regulation on merger control seeks to avoid a situation in which competition is significantly impeded, in particular by creating or strengthening a dominant position, created or reinforced as a result of mergers and acquisitions.[191] Under the Merger Regulation, the Commission assesses proposed concentrations with a "Community dimension", defined according to turnover, on the basis of whether a dominant position is created or strengthened.

123. During the period under review, Council adopted a revised Merger Regulation, which introduces a new substantive standard for the analysis of mergers on competition grounds (including oligopolies)[192]; rationalizes the timing for the notification of proposed mergers to the Commission, by introducing the possibility for notification prior to the conclusion of a binding agreement, and by abolishing the requirement that transactions be notified within a week of the conclusion of an agreement; seeks to reduce the incidence of "multiple filing", by adopting a system for the referral of merger cases from the Commission to member State competition authorities[193]; introduces more flexibility into the time-frame for the conduct of merger investigations, by adding three weeks to the timetable following the submission of a remedy offer; and strengthens the Commission's fact-finding powers, by enabling it to impose higher fines for failure to comply with requests to supply information. The revised regulation will be applicable from 1 May 2004.

124. Furthermore, in January 2004, the Commission adopted draft guidelines on the assessment of mergers between competing firms, in order to provide a transparent and predictable environment

[188] European Commission Press Release, IP/03/284, 26 February 2003, and IP/04/272, 26 February 2004.

[189] Regulation 4056/86, 22 Decemeber 1986.

[190] Commission Press Release, IP/03/445, 27 March 2003.

[191] The EC's merger regulation was elaborated in the report for the previous review of the EC (WTO, 2002). The main regulation governing merger control in the EC is Council Regulation 4064/89, 21 December 1989.

[192] Commission Press Release, IP/04/70, 20 January 2004.

[193] That is, the best placed authority should examine a particular transaction.

regarding decisions on mergers. The guidelines deal with how to analyse the effect of a merger on competition in a market; and factors that could mitigate an initial finding of likely harm to competition (such as buyer power, ease of entry, etc.). A first draft of the guidelines was subject to public consultations until March 2003. The Commission is also seeking to explore, with member States, several options aimed at ensuring speedier judicial reviews in merger cases.

125. The number of mergers and acquisitions notified to the Commission declined from 279 in 2002 to 212 in 2003. The Commission took 231 final decisions in 2003, of which only eight required in-depth investigations, as opposed to 20 in 2001; all eight transactions were finally approved.[194] There were no prohibition decisions in either 2003 or 2002, but there was a record number of five in 2001; two of them had no conditions attached.

(c) State aid

126. The legislative environment governing the award of state aid in the EC has remained largely unchanged since its last TPR. In accordance with the provisions of the EC Treaty, state aid that distorts intra-Community competition is prohibited.[195] However, under certain circumstances, exceptions to this prohibition may be applied for the purposes of regional development; certain horizontal objectives, such as supporting small and medium-sized enterprises, research and development, environmental protection, rescue and restructuring of firms in difficulty, employment, and training; and specific sectors, including coal and steel[196], synthetic fibres, motor vehicles, ship building, agriculture, fisheries and aquaculture, and transport. The current focus of policy is the reduction of the levels of state aid and its redirection towards horizontal objectives, as confirmed at the Brussels European Council meeting in March 2003.[197]

127. During the period under review, the Commission adopted a block exemption regulation on state aid for employment.[198] The regulation permits EC public authorities to provide aid to enterprises to increase their levels of employment, in particular, of workers from certain specified disadvantaged categories[199]; however, the aid granted should not adversely affect trading conditions in the common market. Other sector-specific state aid rules adopted relate to the film industry[200], ship building, and the steel and coal sectors (following the expiry of the ECSC Treaty). Furthermore, a multisectoral framework on regional aid was adopted to create greater transparency and to reduce the overall level of subsidies for large investment projects.[201]

128. In 2003, about 1,000 cases of state aid were registered, of which over 100 were non-notified cases initiated by the Commission; final decisions were taken on 617 cases and 53 (around 8.6%) were observed to be incompatible with the common market. The latest figures released by the Commission show that € 86 billion was granted in state aid by the EC-15 in 2001[202], up from

[194] According to the Commission, this was because the companies involved submitted undertakings that removed the original competition problems (in five cases), or the initial competition concerns were not confirmed by the in-depth investigation (in two cases).

[195] Article 87.

[196] Communication from the Commission concerning certain aspects of the treatment of competition cases resulting from the ECSC Treaty, OJ C 152, 26 June 2002.

[197] COM (2003) 225 final, 30 April 2003 [Online]. Available at: http://europa.eu.int/comm/competition /state_aid/scoreboard/2003/en.pdf.

[198] Regulation No. 2204/2002, 12 December 2002.

[199] Commission Regulation No. 2204/2002, article 2(f), 12 December 2002.

[200] Communication from the Commission on certain legal aspects relating to cinematographic and other audiovisual works, OJ C 43, 16.2.2002, p. 6-17.

[201] OJ C 70, 19.3.2002, p. 8-20.

[202] Excluding aid to the railway sector, total state aid granted amounted to € 49 billion in 2002.

€ 85.7 billion in 1999 and € 85.2 in 2000. In relative terms, this represents a marginal decline from about 1% of the EC's GDP in 1999 and 2000 to about 0.99% in 2001. However, there are significant disparities between member States. For instance, in 2001, the share of total state aid to GDP ranged from 0.66% in the United Kingdom to 1.58% in Finland (Table III.11).[203] The indicator of total aid minus aid to agriculture, fisheries, and transport, shows the Netherlands (0.15%), Luxembourg (0.16%), and the United Kingdom (0.17%) to have the lowest allocation of state aid, and Portugal (0.77%), Denmark (0.68%), and Ireland (0.65%) to have the highest. In absolute terms, Germany granted the highest level of aid (€ 23 billion) in 2001, followed by France (€ 16 billion), and Italy (€ 12 billion).

Table III.11
EC State aid as percentage of GDP, 2001

		EC-15 Members[a]														
Type	**EU**	**B**	**DK**	**D**	**EL**	**E**	**F**	**IR**	**I**	**L**	**NL**	**A**	**P**	**FI**	**S**	**UK**
Total aid	**0.99**	1.34	1.36	1.14	1.02	0.74	1.10	1.20	1.01	1.30	0.98	0.99	1.04	1.58	0.71	0.66
Total aid[b]	**0.38**	0.31	0.68	0.58	0.36	0.42	0.42	0.65	0.35	0.16	0.15	0.26	0.77	0.29	0.19	0.17

a B: Belgium; DK: Denmark; D: Germany; EL: Greece; E: Spain; F: France; IR: Ireland; I: Italy; L: Luxembourg; NL: the Netherlands; A: Austria; P: Portugal; FI: Finland; S: Sweden; UK: the United Kingdom.

b Total state aid less agriculture, fisheries, and transport.

Source: COM (2003) 225 final.

129. In 2001, most aid went to transport (46%) and manufacturing (25%).[204] The agriculture sector received 15% and coal and services received 7% and 4% respectively. Significant differences existed in the distribution of aid across member States. For instance, 74% of Luxembourg's sectoral aid was allocated to transport, whereas the equivalent allocation for Portugal was 2%. Similarly, Finland allocated 65% of its sectoral aid to agriculture, whereas Denmark and Germany each allocated 9% (Table III.12). In 2002, aid earmarked for horizontal objectives, including cohesion objectives, accounted for 73% of total aid minus agriculture, fisheries, and transport. According to the Commission, member States have continued to redirect aid towards horizontal objectives of Community interest: the share increased from an average of 62% in 1998-00 period to 69% in 2000-02. Furthermore in 2002, some 59% of state aid granted to the manufacturing and services sectors by the the EC-15 was in the form of grants, 24% in tax exemptions, 6% in soft loans, 3% in guarantees, 3% in tax deferrals, and 6% in equity participation.

130. All acceding countries will take over and implement the EC's *acquis* in competition policy upon accession, including state aid, subject to a few transitional arrangements. The transitional provisions apply to the phasing-out of EC-incompatible fiscal aid to small and medium-sized enterprises, and offshore companies; the conversion of incompatible fiscal aid to large companies into regional investment aid; and the provision of state aid for environmental protection and for the restructuring of shipbuilding and steel industries. The expiry date for these transitional arrangements ranges from 2005 to 2011. According to the Commission, the Czech Republic, Malta, Poland, and Slovakia must enhance efforts to ensure proper enforcement of all state aid measures.[205]

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[203] The high proportion in Finland is due to the high proportion of aid to agriculture (accounting for some 65% of total aid in the country).

[204] Some 63.3% of state aid granted to the manufacturing sector by the the EC-15 was in the form of grants, 26.1% in tax exemptions, 6.6% in soft loans, 3.1% in guarantees, 0.5% in tax deferrals, and 0.3% in equity participation.

[205] European Commission (2003c).

Table III.12
EC State aid by sector, 2001[b]
(Per cent)

Type	EU	EC-15 Members[a]														
		B	DK	D	EL	E	F	IR	I	L	NL	A	P	FI	S	UK
Manufacturing	**25**	18	26	33	35	22	21	35	33	11	15	24	17	16	20	12
Tourism	**0**	0	-	0	-	0	-	2	1	-	-	1	1	-	-	0
Financial services	**2**	-	-	0	-	-	10	8	-	-	-	-	1	-	-	-
Media, culture and services	**1**	0	1	0	0	1	2	2	0	2	1	-	39	1	6	1
Employment and training in manufacturing and services	**3**	5	23	0	-	11	0	7	1	-	0	1	16	1	1	11
Transport	**46**	66	41	40	46	28	40	27	56	74	62	31	2	17	51	64
Agriculture and fisheries	**15**	11	9	9	18	16	21	18	10	13	22	42	25	65	21	11
Coal	**7**	-	-	18	-	22	6	-	-	-	-	-	-	-	-	1

a B: Belgium; DK: Denmark; D: Germany; EL: Greece; E: Spain; F: France; IR: Ireland; I: Italy; L: Luxembourg; NL: the Netherlands; A: Austria; P: Portugal; FI: Finland; S: Sweden; UK: the United Kingdom.

Source: COM (2003) 225 final.

(iii) Intellectual property rights protection

131. The intellectual property rights regime in the EC is governed by both Community-wide legislation and legislation of member States. Since the ratification of the Nice Treaty, the EC has assumed a greater role in the external competence on intellectual property rights protection (Chapter II(2)). Member States' legislation takes into account Community legislation, and commitments under international agreements, including with the European Patent Convention, World Intellectual Property Organization (WIPO) conventions and treaties, and the WTO TRIPS Agreement. According to the Commission, the protection of intellectual property rights by international conventions has led to some standardization of national legislation in specific fields. However, it does not provide an adequate basis for the completion of the single market. Therefore, the Commission seeks to further harmonize member State national legislation. During the period under review, there were further developments to strengthen the EC's intellectual property regime.

(a) Industrial property

Trade marks and industrial designs

132. On 27 October 2003, the European Council adopted a decision approving the accession of the Community to the Madrid Protocol concerning the international registration of marks.[206] In this regard, a new regulation on the Community trade mark was adopted.[207] The new legislation allows Community trade mark holders and applicants to apply for international protection for their trade marks under the Madrid Protocol. It also allows holders of internationally registered (under the Madrid Protocol) trade marks to apply for protection under the Community trademark system. The Protocol will enter into force for the EC in the last quarter of 2004. Currently, the EC's Office of Harmonization in the Internal Market (OHIM) is preparing to receive the first of these applications. Community trade marks are valid for ten years following the filing date and can be renewed for an indefinite number of ten year periods.

[206] The Protocol was adopted in Madrid on 27 June 1989.
[207] Council Regulation (EC) No. 1992/2003, 27 October 2003.

133. In 2002, OHIM received 45,104 applications and registered 35,896 Community trade marks; a total of 168,190 were registered between 1996 and 2002.

134. On 21 October 2002, the Commission adopted a regulation allowing OHIM to begin registering community designs in early 2003. Registration of Community designs (CD) is expected to offer companies EC-wide protection for a maximum of 25 years.[208] OHIM started receiving applications for Community designs on 1 April 2003**.**

135. On 19 February 2004, Council adopted a regulation seeking to improve the Community trade mark (CTM) system[209], with respect to the system of searches, which, under the previous regime, was considered to unnecessarily prolong the procedure for registration, and to have a high administrative burden, without providing applicants with a valuable and cost-effective tool for monitoring purposes. Furthermore, the new regulation envisages that professional representations registered with OHIM would be able to conduct business in the EC wherever they reside.[210] Other provisions in the proposed regulation include abolishing nationality and reciprocity conditions required for applying for a CTM; and changes to the decision-making rules for appointments of the Board of Appeal of OHIM.[211]

136. All acceding countries will take over and implement the EC's intellectual property regime upon accession. In order to protect the unitary character of the CTM and CD, those already granted will be automatically extended to the territory of the acceding countries, taking into account prior rights existing in the acceding country.

Patents

137. There are three methods for filing for patents in EC member States. Patents may be filed through the national procedure, with the competent national authority; through the unitary procedure, available at the European Patent Office (EPO), in order to obtain a European patent; and through the international procedure, available under the Patent Cooperation Treaty (PCT). The Commission continues to seek to harmonize legislation in areas where differences in national legislation impede the functioning of the internal market.

138. In March 2003, a common political approach was reached on a draft regulation on the Community patent; however complete agreement is yet to be reached. The aim of the draft regulation is to provide for the creation of a single industrial property right (across the EC) to be granted by the European Patent Office. The regulation also envisages the introduction of a "Community Patent Court" to decide on legal disputes in respect of Community patents. The latter has been justified by the Commission on the grounds that "only a centralized Community court can guarantee, without fail, unity of law and consistent case law". If adopted, this regulation could eliminate the distortions to competition created by the territorial nature of national protection of rights and allow for the free movement of goods protected by patents. The draft proposal concerning the harmonization of legislation on patents for computer-related inventions, which existed at the time of the previous TPR of the EC, is yet to be adopted.

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[208] Commission Press Release IP/02/1535, 22 October 2002. Companies will still have the option of registering designs under national law as harmonized by Directive 98/71/EC, if they so prefer.

[209] Council Regulation (EC) No. 422/2004, 19 February 2004.

[210] This is to avoid situations where the transfer of professional place of residence or business to another member State lead to the loss of entitlement to represent clients before the central industrial property body of the former country of residence.

[211] European Commission, COM(2002) 767 final, Proposal for a Council Regulation amending Regulation (EC) No. 40/94 on the Community trade mark; and Commission Press release, IP/03/77, 20 January 2003.

139. Information on patent applications in 2001, compiled by the trilateral web-site of the EPO, the Japanese Patent Office, and the United States Patent and Trade Mark Office (USPTO), indicates that almost all the activities of the three entities concern each other (Table III.13). The EPO received 106,243 applications for European patents in 2001, of which 49% were filed by European Patent Convention (EPC) members; the rest were mainly from the United States (28%), and Japan (15%). In 2002, the EPO granted 47,384 patents, of which 54% to EPC members, 25% to the United States, and 17% to Japan.[212]

140. With respect to the protection of plant varieties, applicants in member States may use either the national system or the unitary procedure available at the Community Plant Variety Office (CPVO). In 2002, the CPVO received 2,223 applications for Community plant variety rights and 1,704 titles. As at 31 December 2002, almost 7,800 Community plant variety rights were in force.[213]

Table III.13
Patent applications at the European Patent Office by bloc of origin, 1996-2002

Year	EPC States	Japan	USA	Others
1996	49.2	17.8	29.2	3.8
1997	50.1	17.6	28.1	4.2
1998	50.2	16.8	28.6	4.4
1999	50.4	16.4	28.4	4.8
2000	49.4	17.0	28.3	5.3
2001	48.8	18.0	27.7	5.5
2002	50.3	15.0	28.3	6.4

Source: The Trilateral Offices [Online]. Available at: www.european-patent-office.org.

141. In the area of biotechnological inventions, a report released by the Commission concluded that member States need to fully and swiftly implement the Directive on the legal protection of biotechnological inventions in order to keep the EC from falling behind its competitors.[214]

(b) Geographical indications

142. Community-wide rules exist for the protection of geographical designation of origin and indication (GI) for agricultural products and foodstuffs, wines, and spirits.[215] For agricultural products and foodstuffs, there is a Community-wide system of examination and registration. Associations of producers and/or processors working with the same agricultural product or foodstuff, or other natural or legal persons, under certain conditions, are entitled to apply for registration for an EU-wide GI. The application for registration is to be sent either to the relevant member State, for GIs of products of EC origin, or to the authorities in the country in which the geographical area is located, for GIs of products of non-EC origin. If the EC member State or the relevant authority in the third country considers that the application meets the requirements for registration, they transmit it to the European

[212] Further information is available online at: http://www.european-patent-office.org/tws/tsr_2002/ch4/4_3.html.

[213] Further information is available online at: http://www.cpvo.fr/en/default.html.

[214] IP/02/1448, 10 October 2002. During the period under review, the Commission referred eight member States (Austria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, and Sweden) to Court for failure to implement the Directive on the legal protection of biotechnological inventions. The Directive aims to clarify certain principles of patent law applied to biotechnological inventions, whilst ensuring that strict ethical rules are respected. The Directive should have been translated into national law of all member States by 30 July 2000 (Commission Press release, IP/03/991, 10 July 2003).

[215] Council Regulation (EEC) No. 2081/92, 14 July 1992; Council Regulation (EC) No. 1493/1999, 17 May 1999; and Council Regulation (EEC) No. 1576/1989, 29 May 1989.

Commission, which verifies whether the conditions are met. The application requires a specification containing the name and description of the product; the definition of the geographical area; the methods of preparation; factors relating to the geographic area; the inspection bodies; details of labelling, and any other legislative requirement. If the Commission is satisfied with the application, it publishes its positive conclusions in the *Official Journal* of the EC and, if no objections are raised (by interested parties from the EU or third countries) within three months of publication, the product is entered in the Communty's register. The Commission examines any objections before taking a decision whether to grant the GI. For wines and spirits, the role of the Commission is less important. Community legislation establishes the general level of protection, leaving responsibility for control and protection of the relevant GIs with member States. Once communicated to the Commission and published, GIs enjoy EC-wide protection.

143. During the period under review, amendments were made to the regulation establishing common rules on the protection of geographical indications and designations of origin for agricultural products and foodstuffs.[216] The amendments include: changes to the scope of the regulation (inclusion of wine vinegar and removal of mineral water)[217]; extension of the list of products covered by Annex I (foodstuffs) and Annex II (agricultural products); empowering the Commission to impose conditions requiring that packaging takes place in the limited geographical area when justified on grounds of safeguarding quality, traceability, and control; and granting WTO Members the right of objection to the registration of EC GIs. Other amendments include provisions for regulating cases where geographical names are entirely or partially homonymous; and rights that have been acquired through use.

144. During the period under review, EC member States also cleared a shortlist of 41 EC regional quality products whose name the EC seeks to recuperate under the ongoing multilateral trade negotiations on agriculture.[218] The list is expected to be updated with GIs from the new member States.

(c) Copyright and related rights

145. In the field of copyright and related rights, there have been no changes to the regulatory framework at the Community level during the period under review, apart from the conclusion of a bilateral agreement extending the legal protection of databases to the Isle of Man. The period for member States to implement the directive on the harmonization of certain aspects of the copyrights and related rights in the information society expired on 22 December 2002.[219] As regards future initiatives, the Commission intends to submit a Communication on the Management of Copyright and Related Rights in spring 2004. The Communication is intended to identify measures to create a more favourable environment for cross-border marketing and licensing of these rights.[220]

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[216] Regulation No. 692/2003 came into force on 24 April 2003.

[217] Council noted that Regulation 2081/92 was not suitable for registering mineral and spring waters, and that there were difficulties relating to the use of identical names for different waters and of invented names not covered by the provisions of the regulation. According to the Commission, Council Directive 80/777/EEC, of July 1980, on the exploitation and marketing of natural mineral waters provides adequate regulation at the Community level.

[218] Under wines and spirits, these include Bordeaux, Champagne, Porto, Rioja, and under other products, Feta cheese, Roquefort cheese, and Parma ham.

[219] Directive 2001/29/EC, 22 May 2001.

[220] COM (2003) 238 final. Available online at: http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0238en01.pdf.

(d) Enforcement

146. The Commission reports that some 17,000 legitimate jobs are lost annually through piracy and counterfeiting in the EC. The major areas appear to be in software, where it is estimated that 37% of software used in the EC is pirated; and shoes and clothing, where 22% of sales in the EC are pirated and counterfeit goods.[221] According to estimates from the Commission, pirated and counterfeit goods account for about 5-7% of the EC's international trade: in 2001, their value on the legal community market was € 2 billion. This represents an increase by over 900% in the number of articles intercepted, compared with 1998.[222] In 2002, the 7,553 procedures undertaken resulted in the interception of 85 million articles; in 2001 about 94 million articles were seized in 5,056 procedures. In 2002, the main articles seized were cigarettes (37%), CD's, DVD's and cassettes (14%), and clothing and accessories (11%).[223] Data released for the first two quarters of 2003 record 4,559 procedures and the seizure of about 50 million articles. To tackle this problem, Council approved a regulation to combat counterfeiting and piracy.[224] The new regulation sets out the conditions under which customs authorities may intervene where goods are suspected of infringing intellectual property rights, and provides harmonized procedures by which right holders may apply for action to be taken. In cases of violation, member States are required to apply penalties that are proportionate and dissuasive. Under certain conditions, infringing goods could be destroyed without the obligation to initiate proceedings to establish whether an intellectual property rights has been infringed.[225] The regulation enters into force on July 2004.[226]

147. Tackling piracy and counterfeiting of goods has been established as one of the priorities within the Commission's internal market strategy for 2003–06. In this respect, a directive on the enforcement of intellectual property rights was approved by Council in April 2004.[227] The objectives of the directive are to harmonize national laws on the enforcement of intellectual property rights among member States and to establish a general framework for the exchange of information between the competent national authorities. The new directive includes procedures covering evidence and the protection of evidence, and provisional measures, such as injunctions and seizure.[228] Remedies available to right holders include destruction, recall or permanent removal from the market of illegal goods, financial compensation, injunctions, and damages. Furthermore, judges are empowered to order certain persons to reveal the names and addresses of those involved in distributing the illegal goods or services, along with details on the quantities and prices involved. There are also rules on who may apply to courts, on presumption of authorship of copyright or ownership of related rights, and on legal costs.

148. According to the Commission, the acceding countries have mostly adopted the necessary legislation for the protection of intellectual property rights, and have strengthened their relevant enforcement bodies. Nonetheless, a relatively high degree of violations persists compared with the

[221] COM (2003) 238 final. Available online at: http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0238en01.pdf.

[222] From 10 million articles to 100 million articles.

[223] Further information is available online at: http://europa.eu.int/comm/taxation_customs/customs/counterfeit_piracy/counterfeit8_en.htm.

[224] Council Regulation (EC) No 1383/2003, 22 July 2003. Available online at: http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_196/l_19620030802en00070014.pdf.

[225] European Commission Press Release IP/03/1059, 22 July 2003.

[226] The new regulation replaces Regulation 3295/94/EC, 22 December 1994.

[227] COM(2003) 46 final. Available online at: http://europa.eu.int/eur-lex/en/com/pdf/2003/com2003_0046en01.pdf.

[228] The directive covers infringements of intellectual property rights provided under Comity law and/or national law of member States.

situation in the existing EC members, hence the need to step up the fight against piracy and counterfeiting in the coming years.[229]

[229] European Commission (2003c).

IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. Since its last TPR, the EC has continued to reform its Common Agricultural Policy (CAP), so as to lower distortions and achieve greater market orientation. The reforms are also contributing to the reduction of the burden of agricultural support on the EC's economy, mainly through the decoupling of payments from production. However, tariff protection and domestic support to agriculture, together with the limited liberalization of agricultural products, even under the EC's preferential agreements, continue to limit foreign competition and the influence of world market signals, and to generate surpluses of certain products. The policy has made subsidies important for exports of some surpluses, as well as of some processed agricultural products. Tariffs on agricultural imports (major division 1 of ISIC, Revision 2) average 10% - 16.5% on the WTO definition of agricultural products - in 2004 (down from 10.1% in 2002), with rates ranging up to 209.9% (Chapter III(2)(ii) and Table AIII.1). In 2002, support to agricultural producers was 36% of farm receipts (above the OECD average of 31%), and the total amount spent on CAP still represents over 40% of Community expenditure.

2. Since 2003, the EC has operated a new Common Fisheries Policy (CFP), aimed at addressing some of the main problems faced by the industry, including the overexploitation of certain fishing stocks. The main changes to the previous CFP are: the adoption of a long-term approach to fisheries management; a new fleet policy; socio-economic measures; access to waters and resources; control and enforcement; and involvement of stakeholders in decision-making. Tariff protection on fishing is 10.5%, on average, in 2004 (up from 10.4% in 2002), with rates ranging up to 23%.

3. The EC has an energy-intensive economy, which is about 50% self-sufficient in energy. Support is still granted for, *inter alia*, more efficient environmentally friendly energy. Changes to the energy policy guidelines are being discussed to achieve security of energy supply, complete the EC internal market, and enhance competition in the subsector. Under recently enacted legislation, the electricity and natural gas markets have been further liberalized and made more efficient. Imports of electricity are duty free.

4. Productivity growth in EC manufacturing (major division 3 of ISIC, Revision 2) has continued to decelerate, giving rise to the notion that this sector may become relatively less important for the EC economy. Moreover, the sector is still a major beneficiary of state aid. As a result, the EC is implementing wide-ranging programmes to increase its efficiency, and to become the most competitive economy in the world by 2010. Tariffs on manufactured imports average 6.4%, (down from 6.5% in 2002); relatively high rates apply to some processed food products.

5. Services continue to be, by far, the most important contributor to the EC's real GDP and employment, despite weak productivity growth in the Community, particularly in the sector. Furthermore, the sector has lagged behind others in creating a single market, largely because of differences in regulation across member states. The EC has taken measures to address some of the structural problems in certain services subsectors, notably through the Financial Services Action Plan (FSAP), the reform of the regulatory framework on telecommunications, and progress on the Action Plan for transport. Further liberalization of services is considered as the most important mid- and long-term goal of EC reforms, since it would boost the overall competitiveness of the economy.

(2) AGRICULTURE

(i) Main features

6. Agriculture represented 2% of GDP of the 15 member States of the European Communities (the EC-15) in 2002, and 3.9% of GDP of the ten acceding countries (the C-10). Agriculture, including hunting, forestry and fishery activities, employed 4% of the working population of EC-15, down from 4.3% in 2000, whereas agriculture and related activities employed 13.4% of the total work force of the C-10 in 2002 (Table IV.1). The cultivated area of the EC-15 accounted for 130.8 million hectares in 2002; in the C-10 it was 36.2 million hectares, with Poland accounting for almost half of this amount. The Community currently has around 11 million farmers, of which close to 4 million are from the C-10. The average size of farms is about 19 hectares in the EC-15, and around 7 hectares in the C-10.[1]

Table IV.1
Selected agricultural statistics, 2002

	Utilized area ('000 hectares)	Final production (€ Million)	Share of household consumption expenditure devoted to food, beverages and tobacco[a] (%)	Share of employment in civilian working population[b] (%)	Real income (1995=100)	
					2002	% change from 2001
Austria	3,387	5,704	15.5	5.7	95.3	-2.8
Belgium	1,393	7,056	16.3	1.8	107.8	-7.7
Cyprus	144[c]	..	32.7	5.4	..	..
Czech Rep.	3,652	3,283	26.4	4.9	..	..
Denmark	2,690	8,348	17.4	3.2	81.1	-26.2
Estonia	890[c]	475	32.7	6.5	..	..
Finland	2,216	4,288	18.7	5.5	106.6	7.2
France	29,622	64,813	14.3	4.1	108.9	-0.9
Germany	16,971	41,454	16.2	2.5	110.9	-18.0
Greece	3,917[c]	12,189	20.6	15.8	111.8	5.7
Hungary	5,867	6,077	27.7	6.1	..	..
Ireland	4,372	5,746	16.5	6.9	92.6	-11.4
Italy	15,341	43,639	16.9	4.9	110.7	-1.7
Latvia	2,480	587	32.9	15.3	..	..
Lithuania	3,487	1,067	38.9	18.6	..	..
Luxembourg	127	256	19.7	2.0	91.1	1.1
Malta	10	146	26.5	2.1	..	..
Netherlands	1,933[c]	20,114	14.3	2.9	81.2	-7.5
Poland	16,891	13,241	28.0	19.6	..	..
Portugal	3,813	6,258	22.7	12.5	136.8	-2.2
Slovak Rep.	2,240	1,677	28.7	6.6	..	..
Slovenia	506	1,062	22.0	9.7	..	..
Spain	25,554	37,335	18.8	5.9	125.1	1.2
Sweden	3,039	4,710	17.3	2.5	114.8	-1.5
U.K.	15,722[c]	24,465	13.8	1.4	64.0	3.9
EC-15	**130,809**	**286,372**	**16.2**	**4.0**	**107.2**	**-3.4**
C-10	**36,167**	**27,615[d]**	**28.3**	**13.4**	**..**	**..**

.. Not available.

a 2001.
b Employment in agriculture, hunting, fishing and forestry.
c 1999.
d Without Cyprus.

Source: DG Agriculture (2004), *Key Agricultural Statistics*, Table 2.0.1.2, and DG Agriculture (2003), *Agriculture in the EU – Statistical and Economic Information 2002*, p. 32, Brussels.

[1] DG Agriculture (2003b).

7. Forests in the EC-15 cover 130 million hectares, around 36% of its total landmass. Forest type and coverage varies greatly across the EC, reflecting bio-geographic and climatic diversity, as well as differing traditions of land use. In recent decades, changes have been brought about by intensified management practices, the use of exotic tree species, the introduction of animals for hunting, and drainage. Moreover, repeated forest fires have produced changes in the Mediterranean region. These problems have affected the productive capacity of forests as a source of raw materials for timber-based industries, and their capacity to act as a carbon sink that lessens the effects of climate change. As a result, a new scheme, "Forest Focus", is in place to monitor and safeguard the Community's forests; it runs from 1 January 2003 to 31 December 2006, with a budget of € 61 million for the period.[2]

8. Agricultural income for the EC-15 fell by 3.4% on average in real terms in 2002 (in contrast with increases of 4.5% in 2000 and 6% in 2001) due to a sharp fall in the prices of many crops (e.g. cereals, oilseeds, and potatoes) and animal products (e.g. pigmeat, poultry, and milk), which more than offset the increase in the total volume of production.[3] With the exception of Greece, Spain, Luxembourg, Finland, and the United Kingdom, the EC-15 registered declines in real income in 2002; the sharpest decline (26.2%) was in Denmark. In 2002, real incomes were above their 1995 levels in nine countries of the Community, with the United Kingdom at the bottom of the list (36% below its 1995 level). However, farmers often complement their agricultural income by revenue from non-farm sources.

9. In 2002, average income in the EC-15 decreased most significantly in farms specialized in pork and poultry production (-38.7% compared with 2001 income levels), followed by mixed (crops and livestock) production (-15.9%), wine (-7.5%), and milk (-7.3%). Farms specialized in the production of other permanent crops and horticulture experienced a rise, in average income, of 18.6% and 11.7%, respectively. In value terms, milk remains the single most important agricultural product (14.5% of the EC-15 agricultural production in 2002, up from 13.8% in 2000), followed by pigs (10.2%) and cattle (9.1%). In 2002, pigs represented 18.1% of the C-10 agricultural production, followed by milk (14.9%), and wheat (8.8%).

10. The EC-15 is the world's leading trader (exporter and importer) of agricultural products, and is self-sufficient in most agricultural products subject to the CAP. In 2002, the highest level of self-sufficiency (the ratio of domestic production to consumption) was attained in whole-milk powder, followed by skimmed milk powder, sugar, wheat, and butter. Some EC agricultural production is thus reliant on export opportunities. In 2000, the EC-15 exports of individual commodities accounted for a substantial portion of world trade: wine (39.8%), pigmeat (36.1%), cheese (35.8%), milk powder (32.5%), butter (21.2%), eggs (19.1%), and sugar (16.8%).

(ii) Common Agricultural Policy (CAP)

(a) Overview

11. The Agenda 2000 reform of the CAP provides the basic framework for EC's agricultural policy over the period 2000-06.[4] In June 2003, the EC's Council of Ministers decided to reform the CAP, as from 2004-05. The main mechanisms of the CAP are: Guaranteed Common Prices and Common Market Organisations (CMOs) for 18 product categories.[5] In marketing year 2000/01, the EC-15's total Aggregate Measurement of Support (AMS) amounted to € 43,654 million (compared

[2] European Commission Press Release IP/02/1103, 19 July 2003.
[3] DG Agriculture (2003a).
[4] DG Agriculture (2000).
[5] See WTO (2002) for a description of the CMOs.

with a commitment level of € 67,159 million), while domestic support through green box and blue box measures reached € 21,845 million and € 22,223 million, respectively.[6] The combined share of output payments and market price support fell from 91% of producer support in 1986-88 to 61% in 2000-02, while payments based on area planted/animal numbers increased from 2.8% to 27.3% over the same period. This has somewhat increased the exposure of farmers to world market signals.[7] Nevertheless, the total value of aid that potentially has the most production-distorting effects (market price support, output payments, and input subsidies) accounted for 68.7% of support to producers in 2002 (down from 69.9% in 2000).[8]

12. The EC's rural development regulation under the Agenda (second pillar of the CAP) includes accompanying measures (e.g. agri-environmental measures, early retirement schemes, afforestation, and payments to assist farmers in least-favoured areas). These and other measures, such as investment, training, promotion, and conversion of agriculture, are to some extent, co-financed by EC member States, with 60% to 85% of the financing coming from the EC budget. Funding for this second pillar over the period 2000-06 amounts to € 38.3 billion. Around € 4.8 billion were made available for 2004, 2% higher than actual expenditures in 2003.[9]

13. The EC also finances Leader+, an initiative to encourage and support a series of small-scale pilot approaches to integrated rural development, at the local level in selected areas of the EC. The total EC contribution over 2000-06 is more than € 2 billion, financed under the European Agricultural Guarantee and Guidance Fund (EAGGF). In 2002, the Commission also created a special aid fund of between € 500 million and € 1 billion for natural, technological or environmental disasters, available both to member States and applicant countries.[10]

14. On 10 December 2003, the Commission adopted a regulation on "*de minimis*" aid for agriculture and fisheries. After consultation with member States and third parties, the Commission plans to implement it towards the end of 2004. The regulation exempts national aid of up to € 3,000 per farmer and fisherman (over three years) from the requirement of prior notification.[11] To avoid large-scale support operations, any member State granting such aid has to respect an overall ceiling roughly equal to 0.3% of its agricultural or fisheries output. If all member States fully use this possibility, it would amount to an average "*de minimis*" aid of around € 290 million per year for the whole EC, i.e. 2.2% of the annual value of agricultural state aids of € 13 billion.

15. A total of € 43.2 billion was spent on the CAP in 2003 (compared with € 41.5 billion in 2001), i.e. over 40% of Community expenditure. Expenditure is channelled mainly through the EAGGF managed by member States and monitored by the Court of Auditors. Appropriations for the guarantee section of the EAGGF for 2003 were € 44.6 billion. France received the largest share of

[6] WTO document G/AG/N/EEC/49, 1 April 2004.

[7] The prices received by EC farmers were, on average, 33% above world market prices in 2000-02 (compared with 76% in 1986-88) (OECD, 2003a).

[8] OECD (2003f).

[9] OECD (2003a).

[10] As a response to flooding and droughts, new measures were made available: derogations to allow grazing on set-aside land, advances on direct payments, cereals from intervention stocks sold at a discount price to farmers for animal feed, and derogations and faster procedures for decisions on rural development assistance. In 2002, for example, farmers in flooded regions of Germany received advances of 50% of arable payments, with € 516 million being brought forward from the 2003 budget. Farmers in southern parts of Italy affected by persistent drought received advances of 50% of payments at a total cost of some € 300 million (OECD, 2003).

[11] One out of two farmers receives less than € 2,000 on direct EC payments each year. This is the first time the Commission proposes "*de minimis*" aid in agriculture and fisheries (European Commission, Press Release) [Online].

EAGGF assistance in 2002, in line with its 22.6% share in overall EC agricultural production, followed by Germany, Italy, and Spain (Table IV.2).

Table IV.2
EAGF guarantee and guidance expenditure by member State, and national expenditure on agriculture, 2002

	Share in EC agriculture production (%)	EAGF guarantee (€ million)	EAGF guidance (€ million)	EAGGF total (€ million)	Share in total EAGGF (%)	National expenditure on agriculture[a] (€ million)
Austria	2.0	1,090	17.0	1,107	2.4	900
Belgium	2.6	942	12.9	955	2.1	400
Denmark	3.2	1,221	2.5	1,224	2.7	250
Finland	1.4	838	37.0	875	1.9	1,500
France	22.6	9,752	140.6	9,893	21.5	3,500
Germany	15.5	6,784	548.2	7,332	16.0	1,900
Greece	4.0	2,634	411.5	3,046	6.6	270
Ireland	2.0	1,709	36.2	1,745	3.8	510
Italy	15.0	5,672	487.1	6,159	13.3	1,100[b]
Luxembourg	0.1	37	0.3	37	0.1	35
Netherlands	7.2	1,133	13.4	1,146	2.5	1,000
Portugal	2.1	754	353.0	1,107	2.4	350
Spain	12.3	5,933	833.3	6,766	14.7	720[b]
Sweden	1.6	817	22.4	839	1.8	400
UK	8.4	3,643	81.5	3,725	8.2	1,100
Total	**100.0**	**43,214**	**2,997**	**46,211**	**100.0**	**13,935**

a Provisional data.
b Data do not include regional expenditures.

Source: DG Agriculture (2004), Tables 2.0.1.2, 3.4.2 and 3.4.10, [Online]. Available at: http://europa.eu.int/comm/agriculture [10 April 2004].

16. In terms of products, the largest share of EAGGF expenditure was devoted, in 2002, to arable crops (43%, up from 41% in 2001), followed by beef and veal (18%, up from 15% in 2001), and milk products (6%, up from 4.5% in 2001).[12] Rural development now constitutes 10% of EAGGF Guarantee spending. In marketing year 2000/01, the distribution of the AMS among the main beneficiary agricultural products showed: beef (25.6% of the total), white sugar (13.3%), butter (10.2%), tomatoes (6.1%), common wheat (5.2%), apples (5.1%), barley (5%), and olive oil (4.7%).[13] According to the OECD, the producer support estimate (PSE) for the EC remains very high, particularly for beef and veal, wheat and other grains, sugar, milk, and sheepmeat; eggs benefit the least (Table IV.3).[14]

[12] DG Agriculture (2003a).
[13] WTO document G/AG/N/EEC/49, 1 April 2004.
[14] The PSE is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impact on farm production or income. For further details see OECD (2002b).

Table IV.3
Main indicators of support by commodity, 1986-02

		1986-88	2000-02	2000	2001	2002[a]
Wheat	PSE (€ million)	7,879	9,757	9,950	9,243	10,078
	Percentage PSE	51	46	46	46	46
Maize	PSE (€ million)	2,928	2,616	3,038	2,812	1,997
	Percentage PSE	53	35	41	37	28
Other grains	PSE (€ million)	5,238	6,110	6,014	6,199	6,116
	Percentage PSE	56	51	50	51	52
Rice	PSE (€ million)	395	269	136	349	321
	Percentage PSE	57	31	17	40	37
Oilseeds	PSE (€ million)	2,828	1,884	2,157	1,806	1,689
	Percentage PSE	59	35	39	34	31
Sugar	PSE (€ million)	2,883	2,357	2,614	2,008	2,449
	Percentage PSE	60	48	50	44	49
Milk	PSE (€ million)	19,002	17,523	16,335	17,088	19,147
	Percentage PSE	57	44	42	41	48
Beef and veal	PSE (€ million)	11,956	21,047	17,720	20,108	25,313
	Percentage PSE	55	73	66	73	79
Sheepmeat	PSE (€ million)	3,616	3,050	3,507	3,333	2,312
	Percentage PSE	70	46	53	49	38
Pigmeat	PSE (€ million)	2,839	6,201	5,933	5,884	6,786
	Percentage PSE	16	24	25	20	26
Poultry	PSE (€ million)	1,770	3,432	3,295	3,535	3,466
	Percentage PSE	24	37	37	35	38
Eggs	PSE (€ million)	644	230	244	124	323
	Percentage PSE	13	4	4	2	6
Other commodities	PSE (€ million)	24,740	25,791	25,205	25,474	26,694
	Percentage PSE	29	22	22	21	22
All commodities	PSE (€ million)	86,718	100,266	96,146	97,963	106,689
	Percentage PSE	40	35	34	34	36

a Provisional

Note: The producer support estimate (PSE) for "other commodities" is the residual of the PSE for all commodities minus the PSE for the commodities listed above.

Source: OECD (2003), *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2003*, Paris.

17. Overall, the EC's total agriculture transfers, as a share of its GDP, decreased from 2.7% in 1986-88 to 1.3% in 2000-02, partly as a result of the shift from market price support measures towards payments based on area planted and herd size (Table IV.4). The proposals for a long-term reform perspective for sustainable agriculture represent an opportunity to further increase the market orientation of the CAP and reduce the production and trade distortions for a number of commodities.

18. The PSE for the EC, as a percentage of total production value, declined, on average, from 40% in 1986-88 to 35% in 2000-02. However, support to producers increased from 34% of farm receipts in 2001 to 36% in 2002 (above the OECD average of 31%). The decline in world prices and, to a lesser extent, an increase in payments based on input constraints were the main factors explaining the increase in support in 2002. Reflecting the evolution of world prices, the implicit tax on consumers, as measured by the consumer support estimate (CSE), went from -24% in 2001 to -28% in 2002.[15]

[15] The CSE is an indicator of the annual monetary value of gross transfers to (from) consumers of agricultural commodities, measured at the farm gate, arising from policy measures that support agriculture regardless of their nature, objectives or impacts on consumption of farm products. For further details see OECD (2002b).

Table IV.4
Transfers associated with agricultural policies in the EC, 1986-02

		1986-88	2000-02	2000	2001	2002[a]
PSE	€ million	86,718	100,266	96,146	97,963	106,689
	US$ million	95,426	92,296	88,606	87,734	100,549
	(%)[b]	40	35	34	34	36
CSE	€ million	-64,137	-49,127	-48,585	-46,122	-52,672
	US$ million	-70,518	-45,241	-44,775	-41,306	-49,641
	(%)[c]	-41	-26	-27	-24	-28
Total transfers [d]	€ million	100,624	112,823	108,577	110,456	119,438
	US$ million	110,771	103,849	100,061	98,921	112,564
	(% of GDP)	2.7	1.3	1.3	1.3	1.3
Memo item:						
Total transfers for all OECD countries	€ million	275,029	342,514	348,682	341,122	337,737
	US$ million	302,251	315,045	321,335	305,501	318,300
	(% of GDP)	2.3	1.2	1.3	1.2	1.2

a Provisional.
b PSE as a percentage of total value of production (valued at domestic producer prices), adjusted to include direct payments and to exclude levies on production.
c CSE as a percentage of total value of consumption (valued at domestic producer prices).
d Total transfers are not the sum of PSE and CSE; they cover the total value of production and include not only transfers to agriculture, as measured by the PSE and CSE, but also other transfers associated with agricultural policies.

Source: OECD (2003), *Agricultural Policies in OECD Countries,* Paris.

19. The EC has 89 tariff quotas on agricultural products, managed by the Commission on the basis of first-come-first-served (20), historic imports (22), and mixed allocation methods (47).[16] The average filling ratio for tariff quotas is 67% each year.[17] In the marketing year 2002/03, full utilization occurred in imports of live sheep and goats; meat of sheep or goats; poultry cuts; butter; cheese; certain fruits (including apples, pears, table grapes, cherries, and almonds); and vegetables (e.g. potatoes, carrots, and sweet peppers); while there was significant under-utilization for wheat; meat of swine; bran; and sweet potatoes.[18] A recent World Bank study estimates that tariff quotas affect about 38% of EC's agricultural production.[19]

20. In the marketing year 2002/03, the basic price for sheepmeat was abolished; intervention prices for cereals, rice, sugar beet, milk, butter, and pigmeat were maintained at the 2001/02 levels.[20] In July 2002, the intervention price for beef and veal was replaced by a basic price for storage, set at € 2,224 per tonne, i.e. 26.2% below the 2001/02 intervention price.[21]

21. In the marketing year 2000/01, the EC invoked the price-based special safeguard (SSG) clause under the WTO Agreement on Agriculture for sugar, molasses, and a number of poultry products, while the volume-based SSG clause was made operational for some fruit and vegetable products.

[16] This includes methods involving licences issued on a first-come, first-served basis and systems where licence requests are reduced *pro rata* where they exceed available quantities. Importers' shares are generally allocated and licences issued in relation to quantities demanded and often prior to the commencement of the period during which the physical importation is to take place.

[17] European Commission (2003h).

[18] WTO document G/AG/N/EEC/45, 18 June 2003.

[19] World Bank (2003).

[20] The intervention prices were: cereals (€ 101 per tonne), rice (€ 298 per tonne), sugar beet (€ 48 per tonne), milk (€ 2,055 per tonne), butter (€ 3,282 per tonne), and pigmeat (€ 1,509 per tonne) (OECD, 2003a).

[21] The basic price for beef is a price at which private storage may be triggered. There is a safety net intervention price of €1,560 per tonne.

22. Liberalization of agricultural products under the EC's various bilateral and regional trade agreements remains limited (Chapter II(5)(iii)). Processed agricultural goods imported into the EC from its preferential partners are subject to customs duties comprising an industrial and an agricultural component. While all industrial components enjoy substantial preferential tariff treatment, tariff reductions on agricultural components are still limited.

23. The simple average MFN tariff on agricultural products is 10%. In general, tariffs are lower on agricultural products not produced in the EC (e.g., coffee, tea, spices), but are considerably higher on primary CAP and processed products (Table AIII.1). Border protection and domestic support, together with the limited liberalization under the preferential agreements, have insulated some products from competition and generated surpluses. The policy has thus made subsidies indispensable for exports of some of the surpluses, as well as for exports of certain processed agricultural products. The Commission notified an allocation of € 2.6 billion to export subsidies in the marketing year 2001-02 (down from € 5.6 billion 1999-00), principally on milk and milk products (37%), sugar (19%), and beef meat (15%).[22]

24. Since the last TPR of the EC, in the WTO Committee on Agriculture, Members have raised several questions in areas such as the EC's tariff quota administration[23]; the CAP Mid-Term Review to reduce trade-distorting domestic support[24]; budget contribution by Member States on the EC's restructuring and conversion programme[25]; the EC's sugar policy, including export subsidies[26]; and the EC's price-based special safeguard actions.[27] Since mid 2002, issues have also been raised in the WTO SPS Committee concerning the EC (Chapter III(2)(x)).

25. On 26 June 2003 in Luxembourg, the Council of Agriculture Ministers agreed to reform the CAP, beginning in 2004-05.[28] In addition, on 23 September 2003, the Commission presented to the Council of Ministers and the European Parliament three reform options for the sugar regime, which has never been fundamentally reformed. At the same time, it adopted reform proposals for tobacco, olive oil and cotton (section (b) below), which would enter into force in 2006.[29] The reform of the CAP is aimed at, *inter alia*: establishing a more stable policy framework for the sector; putting greater emphasis on addressing the interest of consumers and taxpayers; increasing market orientation through simpler and less trade-distorting support measures; keeping budgetary costs stable and manageable; safeguarding the rural economy and environment; and helping in negotiating an agreement under the WTO that meets the needs of the EC's agriculture and society.[30]

26. The key element of the CAP reform is the introduction, as from 1 January 2005, of a single farm payment scheme (SFPS) "decoupled" from production.[31] Member States may decide to maintain certain "coupled" elements. The SFPS will replace most of the existing premia under different CMOs. It is subject to the requirement to keep all farmland in good agriculture and environmental conditions ("cross-compliance"). Other measures of the reformed CAP include reduction in direct

[22] WTO documents G/AG/N/EEC/32, 18 June 2001, and G/AG/N/EEC/44, 11 June 2003.
[23] WTO document G/AG/R/31, 27 August 2002.
[24] WTO document G/AG/R/32, 6 November 2002.
[25] WTO document G/AG/R/33, 7 January 2003.
[26] WTO document G/AG/R/34, 15 May 2003.
[27] WTO document G/AG/R/35, 26 August 2003.
[28] This was followed, on 29 September 2003, by CAP reform decisions adopted by the EC's Council of Ministers.
[29] European Commission (2003a). On 18 November 2003, the Commission adopted the reform proposals on tobacco, olive oil, and cotton (European Commission Press Release IP/03/1559, 18 November 2003).
[30] DG Agriculture, "CAP Reform Summary", *Newsletter* July 2003, Brussels.
[31] Member States may delay implementation of the SFPS up to 2007.

payments ("modulation") for bigger farms to finance the new rural development policy; reforms in the intervention mechanism for products with structural imbalances such as butter, rye and rice; adjustments in support mechanisms for other products (e.g. durum wheat, drying aids, starch potatoes, dried fodder, and nuts); and a mechanism for financial discipline that ensures the reform budget, fixed until 2013, is not overshot. Reforming the CAP involves many detailed changes, some taking place over several years. The key policy elements of the CAP reform are summarized in Box IV.1, while Table IV.5 presents a comparison between the main measures of the current CAP with those of the reformed CAP on key arable crops and animal products.

27. The reformed CAP has greater market orientation and lower market distortions than the current CAP, mainly because of the significant decoupling of payments from production. For the same reason, income transfer efficiency is improved and the administrative burden is reduced. These benefits would be maximized if all member States were to make full use of the scope for converting commodity-linked payments into the new SFPS.[32]

28. The CAP reform makes significant changes to the EC *acquis communautaire* on which the negotiations of the C-10 were based. In their current form, the CAP reform texts take no account of the results of those negotiations or of the enlargement itself. Therefore, the Commission has made a proposal to adapt both the Act of Accession and the CAP reform texts to ensure that they can function in an enlarged EC. In particular, in order to maintain the general approach taken on the progressive introduction of direct payments, the proposal foresees that the new direct payments introduced by the CAP reform would be subject to the same phasing-in schedule as all other direct payments: 25% of the present system in 2004, rising to 30% in 2005, 35% in 2006, and 100% in 2013. In terms of expenditure, the payments would be: € 2.1 billion in 2004, € 3.6 billion in 2005 and € 3.9 billion in 2006. The proposal also maintains both the option for the C-10 to apply a hectare-based single area payment scheme (SAPS) instead of the new SFPS, and the principle of topping up direct payments.[33] On cross-compliance, farmers in the C-10 will become subject to the CAP reform rules from 2005, , while the mechanisms of financial discipline and modulation should not be applicable to the C-10 until the phase-in of direct payments in those countries has reached the EC-15 level.

[32] France is to use the partial coupling options by implementing the SFPS in 2006, when 25% of arable aid payments will remain coupled to production, as will 50% of ewe premium payments (the remainder being paid in decoupled form). France will also retain 100% of the suckler cow premium in coupled form, as well as 100% of the calf slaughter premium and 40% of the beef slaughter premium (Agra Europe, 18 February 2004).

[33] Topping-up would be possible under the classical scheme until the end of 2006, under the SAPS until the end of 2008, and under the new SFPS from 2005 (DG Agriculture, 2003c).

Box IV.1: CAP reform: The major elements of the reformed CAP

(1) Single farm payment scheme

A single farm payment scheme (SFPS) will replace most of the premia (direct aid payments to farmers) currently offered. The new scheme will no longer be linked to what a farmer produces (it will be "decoupled"). The amount of the payment will be calculated on the basis of the direct aids a farmer received in a reference period (2000-02). A major aim of the SFPS is to allow farmers to become more market oriented. Management decisions, formerly influenced by what the CAP offered in subsidies, may now be taken on the basis of market requirements. In order to ensure continued land management activities throughout the EC, beneficiaries of direct payments will be obliged to keep their land in good agricultural and environmental conditions. Farmers, who fail to comply with this requirement, will face reductions in direct payments (see "cross-compliance", below).

(a) Decoupling

The SFPS comes into operation on 1 January 2005. However, member States may delay implementation up to 2007. Full decoupling is the general principle from 2005 onwards. However, member States may decide to maintain a proportion of direct aids to farmers in their existing form, at national or regional level, but only under well-defined conditions and within clear limits:

- they may retain 25% of the basic area payments for cereals and other arable crops of the SFPS or, up to 40% of the supplementary durum wheat aid in order to continue the existing coupled per hectare payments;
- 50% of the sheep and goat premia can be granted as coupled payments;
- in the bovine subsector, member States may keep up to 100% of the suckler cow premium and up to 40% of the slaughter premium coupled. Alternatively, they could keep 100% of the slaughter premium coupled or, instead, up to 75% of the special male premium;
- in the dairy subsector, decoupling will take place once the reform is fully implemented (2007). Member states may opt to apply decoupling from 2005;
- drying aid, and direct payments in the outermost regions and the Aegean islands need not to be integrated into the single payment scheme.

(b) Additional coupled payments

Member States may grant "additional payments" to support agricultural activities that are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural production. These additional payments may use up to 10% of the funds available for a certain subsector included in the SFPS in the member State concerned. The additional payment must be within the overall limits laid down for the particular subsector.

(c) Dairy payments

Dairy direct aids will be introduced in stages and fully implemented by 2007. Generally, dairy payments will form part of the SFPS from 2006-07 onwards, unless member States decide on an earlier introduction of decoupling within a regionalized application of the SFPS. At the latest, two years after implementation of the SFPS by all member States, the Commission will submit a report to the Council, if necessary with appropriate proposals, on any market disturbances or structural developments that may have taken place as a result of maintaining sector-specific direct payments.

(2) Compulsory cross-compliance

The reformed CAP puts greater emphasis on cross-compliance. Cross-compliance was voluntary for member States and applied to environmental standards only. It is now compulsory. All farmers receiving SFPS and other direct payments are subject to cross-compliance. A "priority list" of 18 statutory European standards has been established on environment, food safety, and animal health and welfare, and farmers are to be sanctioned for non-respect of these standards, in addition to the sanctions generally applied, through cuts in direct payments. The reduction shall not exceed 5% and, in case of repeated non-compliance, 15%. But if non-compliance is intentional, the percentage reduction shall not, in principle, be less than 20% and may go as far as total exclusion from one or several aid schemes and apply for one or more calendar years. Beneficiaries of direct payments will also be obliged to maintain all agricultural land in good agricultural and environmental condition, in order to avoid land abandonment and subsequent environmental problems. Where a farmer fails to comply with such requirements, reductions in payments will be applied as a sanction.

Box IV.1 (cont'd)

Control of cross-compliance requirements will be carried out on the basis of IACS (integrated administration and control system for certain EC aid schemes) with a high level of flexibility as regards the required control rates. This will ensure that control can rely on the existing mechanisms established in the fields concerned. To facilitate the application of cross-compliance the Commission will outline indicators for each legal obligation. Member States may retain 25% of the money collected through the application of cross-compliance (i.e. non-compliance by farmers). They must ensure that there is no significant decrease in their total permanent pasture area.

(3) Modulation and financial discipline

In order to finance the additional rural development measures, direct payments for larger farms will be reduced (the mechanism known as "modulation"), by 3% in 2005, 4% in 2006 and 5% from 2007 onwards. Direct payments of up to € 5,000 per farm will remain free of reductions. One percentage point (i.e. 20% of the modulation money generated in a particular member State) will be allocated to the member State concerned. The remaining amounts will be re-distributed among member States according to: agricultural area; agricultural employment; and GDP per capita in purchasing power. However, every member State will receive at least 80% of its modulation funds. Reductions in direct payments will not apply in the accession countries until direct payments reach EC levels. Outermost regions of the EC and the Aegean islands will be exempt from modulation. Member States will be permitted to continue with domestic modulation up to the level required to fund rural development programmes established before 2006.

A "financial discipline" mechanism will be applied in order to keep CAP spending in line with the strict budgetary ceilings laid down by EC leaders at the European Council meeting in Brussels in October 2002. This means that direct aid will be adjusted when forecasts indicate that spending in the relevant areas of the CAP (market expenditure and direct payments – subheading 1 (a) of the financial perspective) will exceed established ceilings, reduced by a safety margin of € 300 million. In other words, if overspending on direct aids is forecast then direct aids will be reduced to ensure that the budget is not exceeded. The Council will fix the necessary adjustment each year, based on a Commission proposal. This mechanism aims to ensure that CAP expenditure is kept on a tight rein.

(4) Strengthened rural development policy

A modulation rate of 5% will result in additional rural development funds of € 1.2 billion a year being made available. The reform also includes a significant extension of the scope of available instruments for rural development, starting in 2005, to further promote food quality, meet higher standards, and foster animal welfare. Support to agri-environmental measures will be increased to pay a maximum of 85% of the cost in areas covered by "Objective 1" (instead of 75%) and 60% (instead of 50%) in other areas. It will be for members States and regions to decide if they wish to take up these measures within their rural development programmes. The new measures will comprise:

- *Food quality measures*: incentive payments will be available for farmers who participate in recognized schemes designed to improve the quality of agricultural products and production processes, and give assurances to consumers on these issues; and support will be available to producer groups for activities intended to inform consumers about, and promote, goods produced under quality schemes. Public support will be permitted up to a maximum of 70% of eligible project costs.
- *Meeting standards*: member States may offer temporary and digressive support to help their farmers to adapt to the introduction of demanding standards based on EC legislation on the environment, public, animal and plant health, animal welfare, and occupational safety. Aid will be payable on a flat-rate basis over a maximum of five years, up to a maximum of € 10,000 per holding year, and will be reduced over the implementation period.
- *Farm advisory service*: establishment will be voluntary for member States until 2006. From 2007, member States must offer advisory services to their farmers. Farmers' participation will be voluntary. In 2010, the Council will decide whether the advisory system should become compulsory for farmers. They may benefit from pubic support to a maximum of 80% of the cost of such services, subject to a ceiling of € 1,500.
- *Animal welfare*: there is now provision to support farmers who enter into commitments for at least five years to improve the welfare of their farm animals; the commitments must go beyond usual good animal husbandry. Support will be payable annually on the basis of the additional costs and income forgone from such commitments, with annual maximum payment levels of € 500 per livestock unit.

Source: Directorate General for Agriculture (2003), "CAP reform summary", *Newsletter*, July 2003, Brussels.

Table IV.5
Current and reformed CAP for key arable crops and animal products

	Current CAP	Reformed CAP
Arable crops		
Cereals	• Intervention price at € 101.31/t • Direct payments of € 63/t multiplied by the reference yield. • Monthly increments (seven steps each adding € 0.93 /t to intervention price)	• No change. • No change • Cut of monthly increments by 50%.
Rye	• Rye intervention at the general cereals level	• Abolition of rye intervention and introduction of a transitional measure (MS): more than 50% of total EU rye production will receive at least 90% of the modulation generated in the MS. In such a case, at least 10% of modulation money may also use optional derogation from full decoupling principle
Durum wheat	• Specific supplementary payments: - € 344.5/t in "traditional" areas - € 138.9/t in areas where the production is "well-established" within the limit of the maximum guaranteed area (MGA) • Supplements depending on the use of certified seeds.	• Decoupling from 2005 onwards and reduction of supplements: - in "well-established" areas to € 93/ha in 2004, € 46/ha in 2005 and zero afterwards - in "traditional areas" to €3 13/ha in 2004, € 297/ha in 2005, € 285/ha from 2006 onwards • From 2004-05, introduction of special premium of € 40/t, depending on certain criteria.
Oilseeds	• Alignment of the area payment for oilseeds and cereals	• Decoupling, no change in direct payments
Protein crops	• Specific supplementary payment of € 9.5/t times the reference yield	• Specific supplementary payment of € 9.5/t will be maintained and converted into crop specific area payment of € 55.57/ha. • MGA of 1.4 million ha
Rice	• Intervention price at € 298.35/t (paddy rice) • Direct payment of € 52.65 /t multiplied by the reference yield (per hectare, within MGA)	• 50% cut in intervention price to € 150/t, triggering intervention on limited quantity of 75,000 t maximum • Compensation payments of € 177/t of which € 75/t granted as a crop-specific payment (blue box) • Reduce national MGAs to 1999-01 average or the current MGA, whichever is lower • Mandate for the Commission to negotiate tariff quotas on rice imports (Article XXVIII of GATT-94)
Starch potatoes	• Measures for producers: Minimum price of 178.31 €/t Payment of € 110.54/t	• Payment to producers 60%, coupled, 40% to be integrated in single farm payment • Production refunds and minimum price for starch potatoes maintained
Energy crops	• Non-food regime on set-aside land (contract with processor required)	• € 45/t for energy crops (contract with processor required) • MGA of 1.5 million ha, no allocation by MS • Growing on set-aside land possible but no energy crop premium in this case
Drying aids	• Supplementary payment for cereals, oilseeds, linseed, flax and hemp of € 19/t	• Increase supplementary payment from € 19/ha to € 24/ha
Dried fodder	• Direct payments: € 68.83/t for dehydrated fodder € 38,64/t for sun dried fodder	• Support for dried fodder will be redistributed between growers and processing industry: Direct support to growers will be integrated into single farm payment National ceilings will apply Processing aid of € 33/t for dehydrated fodder and sun-dried fodder Commission report and proposals if appropriate by 30 September 2008
Nuts	• Multi-annual quality/marketing improvement plans, operated by producer groups • Specific measures repealed in 1996 but possible to keep plans running until they expire (10 years), the last plans expiring in 2006-07 • No specific support measures afterwards	• Flat-rate payment of € 120.75/ha with MS top-up option up by € 120.75/ha MGA of 800,000 ha
Animal products		
Beef	• Basic price at € 2,224/t with private storage possible at 103% of this price Safety-net intervention level of € 1,560/t	• Adaptations for calculation of Annex VII: Number of suckler cow premia for Austria is increased by 50,000 animals, regional ceiling for special premium to be reduced accordingly. Number of suckler cow premia in Portugal to be increased to 416,539 animals in the context of a conversion programme

Table IV.5 (cont'd)

	Current CAP	Reformed CAP
	• Headage payments: € 150 for steers (two payments); € 210 for bulls/year; and € 200/year for suckler cows. • Slaughter premium per head of € 80 (bulls, steers, cows) and € 50 (calves). • Eligibility criteria: up to 1.8 LU/ha (from 01.01.03, currently 1.9 LU), head limit of 90 (with derogation). • Extensification premium: € 100 per premium (stocking density 1.4 LU/ha) • Other options for MS: € 80 per premium for a stocking density below 1.4 LU/ha and € 40 for 1.4 to 1.8 LU/ha. • National envelope (budget)	Percentage of heifers that can receive suckler cow premium increased from 20% to 40%. Number of slaughter premia for Italy increased to 1,892,201 animals. Calves are defined as bovine animals aged more than one month and less than eight months; a maximum carcass weight to be defined.
Dairy	• Quota-regime valid until 2008. • Stepwise reduction of intervention price by 15% from 2005-06 onwards. • Cow premium rising from € 8.62/t to € 25.86/t of quota from 2005-06 onwards including additional payment ("top-up" premium and/or area payment). • Global increase of quota by 2.39% (first increase for ES, IT, EL and IRL in 1999-01 and other MS from 2005-07).	• Quotas maintained to 2014-15. • Agenda 2000 decision (= price cut of 15%, compensated by direct payments, extra quota) will be replaced by asymmetric price cuts: butter: 7% in 2004, 7% in 2005, 7% in 2006 and 4% in 2007 SMP: 5% in 2004, 5% in 2005, and 5% in 2006. • Compensation payments, including national envelope, will become on average € 11.81/t in 2004, € 23.65/t in 2005, and € 35.5/t from 2006 onwards. • The pending quota increase for 11 MS will be postponed from 2005 to 2006; additional quota is allocated to Greece (120 000 tonnes), Portugal (Azores) will obtain further exemption from the levy for 73,000 tonnes in 2003-04, reduced stepwise to 50,000 tonnes, to become permanent additional quota from 2005-06 onwards. • Ceiling to butter intervention: 70,000 tonnes in 2004 to be reduced in annual steps of 10,000 tonnes to arrive at 30,000 tonnes from 2008 onwards. • Intervention will only be open between 1 March and 31 August.

Note: LU= livestock unit.

Source: Directorate General for Agriculture (2003), CAP Reform Summary, Newsletter, July 2003, Brussels.

(b) Policy by selected products

29. In several key agricultural product categories, such as cereals, beef, dairy, and wine, the CAP has undergone certain reform processes over the past decade. Since 1992, the CAP has entailed gradual reduction of payments based on output and market price support measures (e.g. intervention prices, export subsidies, tariffs and tariff quotas), with a view to basing farmer income support increasingly on area planted or herd size. In addition, on 22 April 2004, reforms were decided on tobacco, olive oil and cotton[34], while sugar reform is under discussion.

Tobacco

30. The EC-15 is the world's fifth largest tobacco producer, though tobacco production represents only 0.4% of its agricultural output. Greece and Italy account for more than 75% of the EC-15 raw tobacco production. In the 1990s, the area under tobacco in the EC-15 decreased at a rate of 2.6% per year, while the EC-15 average yield rose from 2 to 2.7 tonnes per hectare. The tobacco subsector employs 2.4% of total annual working units in the EC-15 agriculture sector.[35] A few large capital-intensive farms coexist with many small, labour-intensive farms, less integrated with markets. Over the last decade, there has been a reorientation towards the production of high-quality varieties, and prices of EC-produced raw tobacco on international and domestic markets have increased. The EC-15

[34] European Commission, Press Release IP/04/521, 22 April 2004.

[35] One annual work unit corresponds to the work of one person occupied on an agricultural holding on a full-time basis (minimum of 225 eight-hours working days, per year).

also imports raw tobacco, and is a major exporter of cigarettes and other processed tobacco products.[36]

31. MFN tariffs on tobacco and manufactured tobacco substitutes average 18.3%, with rates ranging up to 74.9%. The CMO for tobacco supports producers in the EC-15 through a premium system based on the level of production, modulated according to quality criteria and subject to individual production quotas for each tobacco variety. It also relies on measures to convert production through a quota buy-back programme and a Community Tobacco Fund (CTF). CAP expenditure on tobacco was € 973 million in 2001, i.e. 2.3% of the EAGGF budget. With a view to reducing the difference in excise duties and prices among member States, a new Directive was adopted in 2002, establishing revised minimum duties on tobacco products, notably on cigarettes (Chapter III(2)(iii)(b)).[37] Some doubts have been voiced, within the EC, about the sustainability of the tobacco subsector and the social justification for production-related payments for tobacco growers, given the apparent contradiction between those aids and EC public health policies.

32. The current tobacco premium is to be decoupled and integrated into the SFPS over a four-year transition period starting in 2006, to avoid, according to the Commission, a disruptive effect on production.[38] During this period, at least 40% of the tobacco premium will have to be included in the SFPS. Member States may decide to retain up to 60% as a coupled payment. This is to be accompanied by a phasing-out of the CTF.[39] The global support to tobacco is to remain at its present level. In 2006, the reform will start with the transfer of all or part of the current tobacco premium into entitlements for the SFPS.

Olive oil

33. The EC-15 accounts for about 80% of world production of olive oil. In 1998/99, the area under olive groves was about 4% of the EC's useable agricultural land, of which 44.5% was in Spain, 26.3% in Italy, 18.8% in Greece, and 9.7% in Portugal. Olive groves involve about 2.5 million producers, close to one third of all the EC-15 farmers, provides seasonal employment in winter, and significant off-farm employment in the associated milling and processing industry. The size of specialized olive holdings range from an average of 13.5 hectares in Spain to 3.2 hectares in Greece. While olive oil represents about 3% of total world oil consumption, the demand has risen at a rate of 6% per year since 1995/96, in light of its positive image in terms of healthfulness and quality. In the last ten years, EC-15 olive oil exports have doubled, reaching almost 324,000 tonnes in 2001/02, while imports, mainly from Tunisia to Italy, have remained stable.[40]

34. MFN tariffs on olive oil average 67%, with rates ranging up to 75.8%. The current CMO for olive oil, created in 1966, relies on production aid as the main measure of support. The aid is granted, at a rate of € 1,322.5 per tonne, to all producers on the basis of the quantity of olive oil produced, subject to the national guaranteed quantity (NGQ) currently totalling 1.78 million tonnes. Mechanisms regulating the amount of aid granted to producers have been put in place for cases where member States over- or undershoot their NGQs. Intervention buying-in has been replaced by a private storage aid scheme. Export refunds have been set at zero since 1998 without any negative impact. A

[36] European Commission (2003a).

[37] Directive 2002/10/EEC of 12 February 2002, OJ L46 of 16 February 2002.

[38] As from 2010, tobacco aid will be completely de-linked from production, 50% will be transferred to the SFPS and the remaining 50% will be used for restructuring programmes under the rural development policy (European Commission, Press Release IP/04/521, 22 April 2004).

[39] The CTF will continue to finance information measures as long as there is coupled aid (European Commission Press Release IP/03/1559, 18 November 2003).

[40] European Commission (2003a).

production refund is granted for olive oil used in vegetable and fish preserves. In 2001, further emphasis was given to control and quality aspects, most notably through the "EC Quality Strategy for Olive Oil", which established product and marketing standards.

35. The CAP reform for olive oil consists in converting part of the existing production-linked payments into direct income support, starting in 2006. According to the Commission, full conversion could negatively affect certain traditional producing regions and result in low-output olive groves. Under the proposal, 60% of the average olive oil production-linked payments during 2000-02 (€ 2.3 billion per year for the EC-15) will be converted into entitlements under the SFPS for holdings larger than 0.3 ha; payments for smaller holdings would be completely decoupled from 2006.[41] The remaining 40% of the direct aid would be retained by the member States as national envelopes for an additional olive grove payments to producers, calculated on a per hectare or per tree basis. On 1 November 2004, the Oils and Fats Regulation should be replaced by a new regulation comprising measures for the domestic market, trade with third countries, as well as the promotion of quality.[42] The current private storage measures for olive oil will be retained as a safety net. The refunds relating to exports and manufacture of foodstuffs preserved in olive oil will be repealed. The current regime will continue to apply for the marketing year 2004/05.

Cotton

36. The EC-15 is the world's main net importer of raw cotton, with 708,000 tonnes of imports and 227,000 tonnes of exports in 2002. The EC-15 contributes only 2.5% to world cotton production. Cotton contributes only 0.5% to the EC-15 agricultural output, but is very important for Greece, and to much lesser extent, to Spain. Greece produces almost 80% of total EC production of 1.55 million tonnes of raw cotton, and cotton accounts for 9% of its final agricultural output. Cotton holdings are characterized by their large number (71,600 in Greece and 7,600 in Spain) and small size (4.9 ha in Greece 4.9 ha. and 12 ha in Spain, on average). Most cotton producers in the two main EC producing countries belong to producer organizations, whereas at the processing level, there is a mixture of private enterprises and cooperatives.

37. MFN tariffs on cotton average 6.4%, with rates ranging up to 8%; access is free under EBA and Cotonou preferences. The CMO for cotton dates from the time of accession of Greece to the Community in 1981. The regime, last modified in 2001, is centred on a direct aid per tonne of raw cotton, subject to a NGQ for each member State. The level of aid to processors, who pay a minimum price to producers, is fixed periodically on the basis of the difference in a "guide price" and the world price. Since 1995/96, the "guide price" has been fixed at € 1,063 per tonne, with a minimum price of € 1,010 per tonne. The NGQ is fixed at 782,000 tonnes for Greece, 249,000 for Spain, and 1,500 tonnes for other EC-15. Adjustments can be made to the amount of aid paid out if production over- or undershoots the guaranteed quantities. The EC-15 does not grant export subsidies for cotton. The Commission is of the view that there is a need to tighten budget discipline and reduce the total area dedicated to intensive cotton production, which causes environmental problems.[43]

38. The CAP reform for cotton consists in transferring 65% of the producer-support expenditure per member State to the SFPS, in the form of direct income aid, starting in 2006. The member States will retain the remaining 35% of the expenditure as national envelopes for the new area payment to cotton producers, in zones suitable for that crop. The new area payment will be granted for a

[41] According to the Commission, to avoid imbalance in the market, access to the SFPS will have to be limited to olive-growing areas existing prior to 1 May 1998, and to new plantings approved by the Commission (European Commission Press Release IP/04/521, 22 April 2004).

[42] The Oil and Fats Regulation 136/66 EEC covers, *inter alia*, olive oil and tables olives.

[43] European Commission (2003a).

maximum area of 455,360 ha (370,000 ha in Greece, 85,000 ha in Spain, and 360 ha in Portugal). If the eligible area under cotton exceeds the maximum area, the aid per hectare will be reduced proportionally. The establishment of inter-branch organizations will be encouraged to enhance the quality of the cotton produced.[44]

Sugar

39. The EC-15 is a key player on world sugar markets, with a 13% share of production (third largest producer), 12% of consumption, 15% of exports and 5% of imports. The EC-15 is a net sugar exporter. Net exports represent, on average, 20% of the EC-15 sugar production and 2-3.5% of its exports of agri-food products. Sugar is produced throughout the EC-15, with the exception of Luxembourg; Germany and France account for more than half, followed by the United Kingdom and Italy (8% each). EC-15 sugar production oscillates between 15 and 18 million tonnes. The C-10 produce about 3 million tonnes, with Poland accounting for two-thirds. Sugar beet covers 1.8 million hectares in the EC-15, accounting for 1.4% of the utilized agricultural area, and provides close to 1.8% of agricultural output in value.

40. MFN tariffs on sugar and sugar confectionary average 23.6%, with rates ranging up to 114.4%. Sugar has so far stayed out side the CAP reform process, including under Agenda 2000. Some of the main reasons for changing the EC sugar regime are: continual decline in prices due to chronic world over supply of sugar; sugar from the EC-15 is not competitive on world markets, with subsidies in the order of 75% of the intervention price required for sales to take place; constraints on subsidized exports under the WTO Agreement on Agriculture imply growing stocks of sugar under unchanged internal demand conditions; high cost of the regime to consumers; and the limited benefits from the regime mainly accrue to a small number of beet farmers and sugar processors in the EC.[45] Sugar producers benefit from a system that combines border protection, supply control, and support prices. The intervention price for sugar is currently set at € 631.9 per tonne for refined sugar and € 523.7 per tonne for raw sugar. The EC-15 market price has been two to three times higher than international reference prices over recent years.

41. The Commission has three reform policy options for the sugar regime (Table IV.6). It is expected to make a formal reform proposal by mid-2004 after the Council and Parliament conduct a political debate on the subject.[46] The current sugar regime expires in 2006. According to the Commission, the main aim is to modify the EC sugar framework to bridge the gap between domestic and world prices, and shift support from product to producer, while examining the likely effects on international markets, especially with respect to the impact it may have on developing countries in general, and ACP countries benefiting from the Sugar Protocol in particular.[47]

[44] An envelope of € 22 million is to be shared between member States on the basis of the average area eligible for aid during 2000-02, and will be an integral part of the second pillar of the CAP (European Commission Press Release IP/04/521, 22 April 2004).

[45] Court of Auditors, "Special Report No. 20/2000 concerning the management of the common organisation of the market for sugar, together with the Commission's replies" (OJ C 50/1 of 15/2/2001).

[46] European Commission Memo/03/232, 18 November 2003.

[47] European Commission (2003).

Table IV.6
EC policy options for sugar: advantages and disadvantages

Advantages	Disadvantages
Extension of current regime	
• Production and producer incomes are maintained in the majority of regions, though the level of both decreases gradually. • Budget cost of the regime decreases progressively. • Current preferences to ACP/EBA countries are maintained.	• Restructuring and improved competitiveness of the sector are delayed. • Non-restricted quantities of imports, under preferential agreements, at non-competitive prices, are attracted to the EC market. • Maintenance of EC production is threatened. • Distortions in competition and inequalities between producers remain. • The sugar CMO remains complex. • No environmental improvement is achieved. • Dependence of uncompetitive developing countries on the EC market is maintained; this delays the necessary restructuring.
Price decrease	
• Restructuring and improved competitiveness of the sector are facilitated. • Ensures a better balance between supply and demand in the EC market, and reduces production surpluses and world market distortion. • Distortions in competition and inequalities between producers are lessened. • Consumer prices for sugar come down. • Diversification in the market for sweeteners takes place. • Budget cost of the regime is reduced. • Competitive LDCs/ACP producers maintain preferential access.	• Revenue falls for the ACP countries benefiting from the sugar protocol; the least competitive might even stop exports. •The question of the need to introduce restructuring and/or reconversion measures is raised.
Liberalization	
• Competitiveness of the sector is improved in the medium to long term. • World market distortions are reduced. • Export refunds are suppressed. • Budget cost of the regime is reduced to the cost of compensation. • The common market organization for sugar is simplified. • Increased market opportunities for low cost/competitive producers.	• Price stability is no longer assured. • A large part of the EC sugar industry irreversibly disappears. • Producer incomes fall with significant effects on certain rural communities. • Revenue falls for the ACP countries benefiting from the Sugar Protocol, and most will probably be uncompetitive. • The question of the need to introduce restructuring and/or reconversion measures is raised, including for the affected ACP countries. • Production of sweeteners is no longer competitive and disappears. • Profitability of sugar refineries is threatened. • Risk of reduced crop rotation.

Source: European Commission (2003), *Accomplishing a sustainable agricultural model for Europe through the reformed CAP: the tobacco, olive oil, cotton and sugar sectors*, Brussels.

(3) FISHERIES

(i) Main features

42. The EC-15 ranks third in the world, with about 6% of total catches and aquaculture.[48] Spain is the leading producer among the EC-15 (19%), followed by Denmark (18%), and the United Kingdom (13%). The value of output of the processing subsector is nearly twice the value of production of the catching subsector. Total employment by fisheries exceeds half a million people.

[48] The production of fishery products by the aquaculture industry (the farming of aquatic organisms including fish, molluscs, and crustaceans) has increased significantly over the past decade, and today represents 31% of the total value of fishery production in the EC-15. The value of aquaculture production in countries such as Finland and Greece is greater than the value of their landings (European Commission, 2001a).

The EC-15 has a 200-mile fishing zone off the coastal areas of the North Atlantic and the North Sea, which is fished by Community vessels, as well as vessels from countries that have concluded bilateral agreements with the EC. Pelagic fish, such as herring, sandeels, sprat, horse mackarel, sardines and mackerel, make up about 50% of total catches. However, cod or larger pelagic fish, are more important economically even though they represent less than 10% of the volume of total catches. MFN tariffs on fishing products average 10.5%, with rates ranging up to 23%.

43. The EC-15 has just under 100,000 vessels. Over the past decade, the number of vessels has decreased by 7%, while the capacity of the fleet has fallen by 5% in tonnage and 7% in engine power. This was largely due to the EC-15 policy to cut fleet overcapacity to reach a better balance between fishing efforts and available fish resources. The EC-15 fleet is rather old, with an average age of 19 years.

44. In 2002, the EC-15 recorded a € 10 billion trade deficit in fishery products, with imports of € 12.3 billion and exports of € 2.3 billion. Norway is the primary supplier of fishery products to the Community (15.8% of the EC-15 fishery imports), and Japan is the first consumer of the EC-15 fishery exports (16% of the EC-15 fishery exports). Spain has been increasingly the main exporter and importer of fishery products *vis-à-vis* third countries; while in terms of intra-EC-15 trade, Denmark is the main exporter and France the main importer. In 2001, the EC-15 ranked second among world importers of fishery products with about one quarter of the total; it was sixth among world exporters, with a share of 5.5%.[49]

45. Total catches in the C-10 fell by over two thirds between 1991 and 2000, due to overfishing and the collapse of markets when the Soviet Union broke up. As a result, enlargement is not expected to significantly increase the fisheries resources in the Community. Only Poland and, to a lesser extent, the three Baltic countries have a relatively large fishing industry. In 2000, total catches in the acceding countries represented 9.1% of the catches by the EC-15; Poland was first, accounting for almost 40% of the C-10's catches, followed by Latvia (24.6%), Estonia (20.5%), and Lithuania (14.3%). Aquaculture in the C-10 was 5.9% of total aquaculture production in the EC-15 in the same year; Poland, the Czech Republic, and Hungary were the main producers.[50]

(ii) Common Fisheries Policy (CFP)

46. Since 1 January 2003, the EC has had a new CFP, aimed at achieving biologically, environmentally and economically sustainable fisheries by, *inter alia*, better conserving fish stocks, protecting the marine environment, ensuring the economic viability of the European fleet, and providing good food quality to consumers.[51] Several important fish stocks, such as cod, are on the verge of collapse as a result of overexploitation.[52] Beyond the damage to fish stocks, such a situation has had a significant negative effect on fishermen's income, the balance of the marine ecosystem, and the supply of fish to the EC market.

47. A long-term approach to fisheries management has been adopted, involving the setting of multi-annual recovery plans for stocks outside safe biological limits, and of multi-annual management plans for stocks.[53] The approach aims to avoid sudden changes in total allowable catches (TACs) from one year to another, and allow fishermen to operate under more stable conditions. Given the high risk of collapse of certain fish stocks, plans have been in place, since 2003[54], for a 65% reduction in cod fishing (equivalent to a quota of 22,659 tonnes), and a 50% cut for other stocks for which the International Council for the Exploration of the Sea (ICES) recommends a zero catch.[55] As a result of

[49] Eurostat (2003b).
[50] Eurostat (2003c).

the enlargement, the Commission proposed to incorporate the C-10 into the quota system for all those stocks where such countries are entitled to fishing possibilities.[56]

48. The former system of Multi-Annual Guidance Programmes (MAGPs), which proved ineffective at tackling the overcapacity of the EC fleet, has been replaced by a system that puts more responsibility in member States to achieve a better balance between fishing capacity and available resources. It includes: (i) reference levels, based on the MAPGs set for 31 December 2002, and to be automatically reduced whenever any capacity is withdrawn with public aid; (ii) phasing-out of public aid (available only up to the end of 2004) to private investors to help them renew fishing vessels under 400 GT (gross registered tonnes) or modernize vessels that are at least five years old[57]; (iii) a € 32 million "scrapping fund", established to achieve additional reductions in fishing efforts required under recovery plans[58]; and (iv) aid (available until the end of 2004) for permanent transfers of EC

[51] The final decision was taken at the Agriculture and Fisheries Council, Brussels, on 16-20 December 2002. The new CFP arose because some elements of the CFP, which dates back to 1983, had to be reviewed by 31 December 2002; the Commission decided to widen the review to the whole CFP. In March 2001, the Commission issued a Green Paper on the operation of the CFP and, in May 2002, it presented a first series of proposals to reform the CFP. Although several changes have already been made to the CFP since 2003, much remains to be done in terms of measures, including a Code of Conduct for responsible fisheries in Europe (DG Fisheries, 2003c).

[52] The number of stocks in a critical state has continued to grow: ICES identified 14 stocks in 2003, compared with 9 in 2002 (European Commission Memo/03/32, 14 October 2003).

[53] In addition, if a serious threat to the conservation of resources or to the marine ecosystem is posed by fishing, emergency measures taken by the Commission are applicable for six months and renewable for further six months. Emergency decisions taken by member States for their own waters are valid for three months. Member States can adopt conservation and management measures applicable to all fishing vessels within their 12-mile zones, provided that these measures are non-discriminatory, and proper consultation is undertaken (DG Fisheries, 2002).

[54] Scientists from the ICES and the Scientific, Technical, Economic Committee on Fisheries (STECF) had advised a moratorium on the fisheries concerned. Because of the economic and social consequences that such moratorium would have on the respective fleets, the Commission proposed, as an alternative, substantially reduced fishing possibilities for certain fish stocks. The Council finally agreed on temporary recovery measures for such fish stocks and set TACs at levels generally higher than those proposed by the Commission (DG Fisheries, 2003c).

[55] In addition, the Council is currently assessing other proposals made by the Commission, including a review of current maximum fishing effort ceilings taking into account the reduction of fishing opportunities since 1995 (when the regulations came into force), and the levels of fishing activity based on the period 1998-02; and the extension of the fishing effort system to pelagic fisheries, which also require extra protection (DG Fisheries, 2002).

[56] TACs are proposed according to the relative stability established in the Treaty of Accession. In the Baltic, the stocks concerned include cod, herring, salmon, and sprat (European Commission Press IP/03/1768, 14 October 2003).

[57] Member States that grant public aid for the renewal of the fleet will have to reduce the overall capacity of their fleet by a minimum of 3% of the reference levels. For every GT introduced in the fleet with public aid over 2003-04, member States will have to decommission, without aid, an equivalent capacity (1:1, entry/exit ratio) for vessels up to 10 GT or 1.35 tonnes (1:1.35, entry/exit ratio) for vessels over 100 GT (DG Fisheries, 2003c).

[58] Vessels whose fishing efforts have to be reduced by 25% or more as a consequence of a recovery plan are eligible for aid from this fund; premiums are 20% higher than those available for decommissioning under the Financial Instrument for Fisheries Guidance (FIFG) (DG Fisheries, 2002).

vessels to third countries, including through the creation of joint enterprises with third-country partners.[59]

49. Aid from member States to fishermen and vessel owners who have temporarily stopped their fishing activities, due to unforeseeable circumstances, can be allocated for three consecutive months or for six months over 2000-06.[60] Aid will be extended to support the retraining of fishermen to help them convert to professional activities outside fisheries, while allowing them to continue fishing on a part-time basis.

50. The regime restricting access to the 6-to-12-mile zones to vessels that traditionally fish in those waters will be maintained until 31 December 2012, when the Council reviews the situation on the basis of a Commission report. The access arrangement restricting the Shetland Box will be maintained until the end of 2004, when the Council decides on possible amendments. On access to Western Waters (from the Bay of Biscay to the British Isles), all member states' vessels, including those from Spain and Portugal, which are now fully integrated into the CFP, are submitted to the same regime of effort limitation on the basis of activity during 1998-02 and fishing opportunities. As from 2003, vessels from Spain, Portugal, and Finland have the right to fish for unregulated or unallocated resources in the North Sea.

51. Responsibility to ensure effective control, inspection and enforcement of the CFP rules remains with the member States.[61] However, the Commission will continue to be responsible for the evaluation and control of the application of CFP rules by the member States, including the possibility of taking immediate preventive measures if there is evidence that fishing activities could lead to a serious threat for the conservation of resources.[62] The use of satellite vessel-monitoring systems (VMS) will be extended to vessels over 18 metres overall from 1 January 2004 and to vessels over 15 metres one year later.

52. Regional Advisory Councils (RACs), comprising fishermen, scientists and other representatives from environmental and interested consumer groups, will be established. National and regional authorities from any other member State may participate and the Commission may be present at their meetings. The RACs may be consulted by the Commission and may submit recommendations. Each RAC covers sea areas under the jurisdiction of at least two member States.[63]

53. In the context of the CFP reform, other measures taken include: a Community Action Plan adopted in June 2003 to integrate environmental protection requirements into the CFP (in late 2003, the Commission proposed measures to minimize by-catches of cetaceans in fishing gear); a Community Action Plan for the eradication of illegal, unreported, and unregulated fishing (IUU); a strategy for the sustainable development of European aquaculture; an Action Plan to counter social,

[59] Limited to exports to countries with which the EC has signed a fisheries agreement to set up joint enterprises; the amount of the premium is limited to 30% of the FIFG scrapping premium for exports and to 80% for joint enterprises (DG Fisheries, (2003c).

[60] Aid may be extended from one year to the next if temporary interruption results from the implementation of a recovery or multi-annual management plan, or from emergency measures decided by the Commission or member States (DG Fisheries, 2002).

[61] Cooperation among member States has been reinforced so that each member State, in addition to being responsible for controlling its own fleet within its own waters and outside Community waters, may control vessels flying its flag throughout Community waters, except in the 12-mile zone of another member State (DG Fisheries, 2003c).

[62] These measures will be applicable for a period of three weeks and prolonged up to six months. The Commission can also penalize member States that exceed their fishing opportunities by deducting quotas (DG Fisheries, 2002).

[63] DG Fisheries (2003c).

economic, and regional consequences of the restructuring of the EC fishing industry; and a Community Plan to reduce discards of fish and to prevent catches of unwanted fish.[64]

54. The Financial Instrument for Fisheries Guidance (FIFG) remains the leading form of financial assistance to the subsector. Its main purposes are: to assist in fishing-reduction efforts decided by the Council, which sets out (for each member State) the objectives for fleet restructuring and the means to achieve them; to finance investment, including in fleet renewal and modernization of fishing vessels; and to counter the social, economic, and regional consequences of the restructuring of the EC fishing industry derived from the new CFP. The FIFG budget for 2000-06 amounts to € 3.7 billion (up from € 2.7 billion during 1994-99); € 2.6 billion are earmarked for Objective 1 regions[65], and the rest for other areas. Spain is expected to receive 46% of the FIFG over 2000-06, followed by Italy (10%), France (7%), and Portugal and the United Kingdom (6% each).[66]

55. Since December 2002, member States no longer have to notify the Commission of national aid that co-finances projects benefiting from FIFG support. The Commission has also adopted a draft regulation proposing to exempt most categories of state aid from prior notification to the Commission. The categories proposed include aid for promotion and/or advertising of fisheries products, scrapping of fishing vessels, and aquaculture and inland fishing. Once adopted, the block exemption will apply to aid granted to SMEs for amounts below € 1 million or to aid designed to finance projects with a maximum eligible amount of € 2 million.[67]

56. The European Regional Development Fund (ERDF) supports several fishing activities, including fisheries-dependent areas. During the period 2000-06, € 83.1 million (equivalent to 0.4% of the total ERDF funding of € 19.2 billion) are likely to benefit regions dependent on fishing: € 78.6 million under Objective 1, and € 4.5 million under Objective 2.[68] Moreover, the European Social Fund (ESF) supports various transnational projects, mainly in Spain, France, Italy, and Portugal, dealing with training and diversification in fisheries and aquaculture. Overall, during 2000-06, ESF funding allocated to regions that include fisheries-dependent areas amounts to € 5.2 billion, of which € 4.3 in Objective 1 regions.[69] Support for rural development in fisheries-dependent areas outside Objective 1 regions is also provided by the EAGGF. Planned expenditure for agriculture and fisheries activities under EAGFF amount to € 11.4 billion during 2000-06 (€ 7.8 billion within and € 3.6 outside of Objective 1 areas).[70]

[64] DG Fisheries (2003c).

[65] Objective 1 refers to regions where development lags behind and/or in remote places.

[66] Additional measures have been foreseen for vessels and fishermen affected by multi-annual management plans. For example, vessels forced to reduce their activity by more than 25% will be eligible for a 20% increase of the FIFG scrapping premium. In addition, € 32 million were made available in 2003 to complement FIFG allocations for the scrapping of vessels.

[67] In addition, the Commission adopted, on 5 November 2003, a proposal to amend some of the FIFG provisions to implement the EC strategy for sustainable aquaculture.[67] An amendment to Article 12 of the FIFG regulation (socio-economic measures) has also been proposed to grant fishermen with at least five years experience non-renewable individual compensatory payments to help them diversify their activities while remaining involved in fishing (European Commission, 2002a).

[68] Objective 2 refers to funds to support economic and social conversion in industrial, rural, urban or fisheries-dependent areas facing structural difficulties.

[69] This does not include Objective 3 interventions that do not single out any sector-specific area that should or could primarily benefit from ESF support.

[70] European Commission (2002a).

57. The CMO for fishery and aquaculture products comprises[71]: common marketing standards on quality, grades, packaging, and labelling of both Community and imported fresh fisheries products; producers' organizations (POs) (composed of fishermen) established in each member State, and implementing the supply-side instruments of the CMO; a price support system that sets minimum prices below which fish products cannot be sold; and rules for trade with non-Community countries. For 2003, the budgeted amount for price support interventions was € 14.5 million. As from 1 January 2002, the CMO requires consumers to be informed about the production method, the catch area, and the exact commercial designation of the product they buy; it also introduces some elements of traceability of fisheries products.[72] These requirements also apply to imports from third countries. Table IV.7 lists the key characteristics of the five main intervention mechanisms of the CMO in fishery and aquaculture.[73]

58. The EC's commercial policy on fishery products has led to the opening of new autonomous tariff quotas on fishery products for the processing industry (Table IV.8). The Community tariff quotas on all fishery products are managed on a first-come-first-served basis. In certain cases, the tariff reduction cannot be invoked when the import price is below a reference price; in these cases the full tariff is applied.[74] Preferences are granted under regional trade agreements (notably EFTA and the Cotonou Agreement) and the GSP.

59. An important aspect of the Community's fisheries policy, in the light of fragile fish stocks within its territorial waters and fleet over-capacity, remains the development of fishing opportunities elsewhere, either through bilateral agreements[75], or on the high seas, through regional fisheries organizations (RFOs).[76] The Community’s "Southern" agreements concern mainly African and Indian Ocean countries, and provide for access by Community fishing vessels in exchange for Community financial assistance and fees from vessel operators. The tuna agreements provide for no direct

[71] The last major revision of the CMO, adopted in December 1999, was implemented as from 1 January 2001. See WTO (2002).

[72] Commission Regulation 2065/2001.

[73] The CMO contains additional, optional instruments that can be used at the discretion of member States under the supervision of the Commission: exclusive recognition to a single PO for a given area; restrictions on non-members for a limited period; and establishment of interbranch organizations. For example, representatives of catching, retailing and processing branches from different regions can cooperate to implement measures of benefit to the entire industry (European Commission, 2002h).

[74] The reference prices, below which tariff reductions do not apply, may be fixed for products that are the subject of: (i) tariff reduction or suspension arrangements; (ii) autonomous tariff suspensions for an indefinite period of time adopted within the framework of the reform of the CMO; and (iii) other trade arrangements that provide for compliance with a reference price and are in line with the Community international undertakings (Council Regulation 2574/2001). For 2002-03, the species concerned by reference prices were herring, cod of the species *Gadus morhua*, deep water prawns of the species *Pandalus borealis*, and Alaska Pollack (WTO, 2002).

[75] The EC has 21 bilateral fisheries agreements in force, 4 with Northern European countries: Faeroe Islands, Greenland, Iceland and Norway; and 17 with African and Indian Ocean countries: Angola, Cape Verde, Comoros, Cote d'Ivoire, Gabon, The Gambia, Guinea, Equatorial Guinea, Guinea Bissau, Kiribati, Madagascar, Mauritius, Mauritania, Mozambique, Sao Tomé and Príncipe, Senegal and Seychelles. However, the latest protocols with The Gambia and Equatorial Guinea were not renewed (DG Fisheries, 2003a).

[76] The 10 RFOs to which the EC is a contracting party are: North-West Atlantic Fisheries Organisation (NAFO); North-East Atlantic Fisheries Convention (NEAFC); Indian Ocean Tuna Commission (IOTC); North Atlantic Salmon Conservation Organisation (NASCO); International Baltic Sea Fishery Organisation (IBSFC); Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR); International Commission for the Conservation of Atlantic Tuna (ICCAT); General Fisheries Council for the Mediterranean (GFCM); Westerns Central Atlantic Fishery Commission (WECAFC); and Fishery Committee for the Eastern Central Atlantic (CECAF). The EC is also applying, on a provisional basis, the International Dolphin Conservation Programme (IDCP) (DG Fisheries, 2003b).

competition between Community and local fishing fleets. The "Northern" agreements exchange fishing opportunities/rights between Community fleets and the fleets of third countries, and financial compensation is provided by the Community to Greenland and the Baltic countries. The Community budget for fisheries agreements was € 183 million for 2003, down from € 189 million in 2002.

Table IV.7
Intervention mechanisms of the CMO in fishery and aquaculture

Mechanism	Purpose and main features	Products covered	Aid amounts	Destination of products
Financial compensation	Withdrawal from the market of products whose price has fallen to the level of the withdrawal price, for up to 8% of the quantities put up for sale each year (10% for pelagic species)	20 fresh or chilled products	85% of the withdrawal price if less than 4% of withdrawals; from 2003, 55% of the withdrawal price where withdrawals amount to 4-8% (4-10% for pelagic species)	Destruction, by-products (oil, meal for animal feed) or donation to charitable organizations
Carry-over aid	Withdrawal from the market of products whose price has fallen to the level of the withdrawal price, for up to 18% of the quantities put up for sale each year, minus the % of quantities covered by financial compensation	23 fresh or chilled products	Amount of technical and financial costs of processing and storage (fixed each year)	Processing and storage, then return to the market
Independent withdrawals and carry-overs	Withdrawal from the market of products of regional or local importance whose selling price has fallen to the level of the independent withdrawal price, for up to 10% of the quantities put up for sale each year, provided that no more than 5% are eligible for flat-rate compensation	18 fresh or chilled products	Flat-rate aid (=flat-rate compensation or flat-rate premium) Flat-rate compensation: 75% of the independent withdrawal price Flat-rate premium: fixed each year	Same as Community withdrawals and carry-overs
Private storage aid	Temporary withdrawal from the market of the products concerned if they cannot be disposed of at the Community selling price, up to 15% of the quantities put up for sale	10 products frozen on board	Amount of technical and financial storage costs	Storage then return to the market
Compensatory allowance for tuna	Direct aid to producers of tuna delivered to the processing industry if the market prices fall	5 tuna species	Depends on market prices – subject to a ceiling	Raw material delivered to the Community processing industry

Source: European Commission (2002), *The Common Organisation of the Markets in Fishery and Aquaculture products*, p.21, Brussels.

60. As part of the reform of the CFP, measures are planned, at the level of RFOs, in particular to develop control and inspection systems within each RFO, regulate certain fishing activities on the high seas, identify and monitor IUU vessels, promote uniform action plans to curb illegal fishing, and identify and quantify illegal catches.

61. The placement of fishery products on the Community market, whether of domestic or foreign origin, is subject to sanitary regulations to protect the health of consumers.[77] A Commission Decision

[77] Council Regulation 91/493/EC concerns fishery products, and Council Regulation 91/492/EC concerns live bivalve molluscs. See DG Fisheries and DG Sanco online information for other food hygiene legislation of application to fishery products. Available at: http://europa.eu.int/comm/fisheries [12 October 2003].

sets the conditions for imports into the Community from each country based on a report of a mission of experts.[78] A Commission Decision sets out a list of 113 countries from which imports of fishery products into the Community are permitted; imports of fishery products are not permitted from countries not on the list.[79] Part I of the list identifies 85 origins ("fully harmonized" countries) with practices and legislation considered in line with the Community's; imports from these origins are authorized, subject only to spot checks and verifications. Part II of the list identifies the other 28 "pre-harmonized" countries from which guarantees have been received concerning their inspection systems and their legal sanitary requirements, but which have not been verified by an on-the-spot inspection.[80] Imports are provisionally authorized on the basis of documentary evidence, and Community inspection is carried out. Part II of the list has been extended to 31 December 2005, due to delays and the possibility of revised legislation as a result of the White Paper on Food Safety.[81]

Table IV.8
Tariffs and tariff quotas on fishery products

Product	**Tariffs and tariff quotas**
Alaska Pollack, frozen fillets and meat	Imports of an unlimited amount at 0% (for an indefinite period)
Cod, fresh, chilled or frozen, excluding liver and roes	Imports of an unlimited amount at 3% (for an indefinite period)
Cod and fish of the species *Boreogadus saida*, salted or in brine, but not dried or smoked	An autonomous quota opened for 3 years. Quota for 2001-03: 10,000 tons at 0% for each year
Surimi, frozen	Imports of an unlimited amount at 3.5% (for an indefinite period)
Blue Grenadier, frozen fillets and meat	Imports of an unlimited amount at 3.5% (for an indefinite period)
Prawns, in shell, fresh, chilled or frozen	Imports of an unlimited amount at 0% (for an indefinite period)
Shrimps and prawns, cooked and peeled	An autonomous quota opened for 3 years. Quota for 2001-03: 5,000 tons at 6% for each year
Tuna loins	An autonomous quota opened for 3 years. Quota for 2001-03: 4,000 tons at 6% for each year
Herring, fresh, chilled or frozen	An autonomous quota opened for 3 years. Quota for 2001-03: 20,000 tons at 0% between 1 November and 31 December of each year
Herring, spiced/vinegar cured, in brine, preserved in barrels of at least 70 kg. net drained weight	An autonomous quota opened for 3 years. Quota for 2001-03: 5,000 tons at 6% for each year

Source: DG Fisheries (1999), Information Notes: "Reform of the Common Organisation of the Markets in fishery and aquaculture products, Annexes III and IV [Online].

(4) ENERGY

62. The EC is an energy-intensive economy; energy consumption has increased by 1% to 2% per year since 1986. While industrial demand for energy has been relatively stable, the demand from households and the tertiary sector has increased as a result of the transition to a more service-oriented economy. The EC's own energy supply covers barely half of its needs; fossil fuels (oil, coal, and natural gas) make up four fifths of the EC's total energy consumption and almost two thirds of its imports.[82] Natural gas from the Russian Federation alone represents nearly 20% of EC's total energy consumption. Renewable energy sources represent only 6% of the EC's current energy balance. The

[78] The test applied to imports is whether the hygiene conditions under which production is carried out in the country of origin can be considered to be equivalent to that required from Community producers; a competent authority responsible for the public health aspects of fishery products must also exist.

[79] Commission Decision 97/296/EC.

[80] Council Decision 95/408/EC, as amended.

[81] Council Decision 2003/912/EC.

[82] The cost of oil production is 2-7 times the world price; the EC has 8 years of reserves. The EC has 2% of the world's natural gas reserves, and has 20 years reserve. It has 2% of the world's uranium reserves, and 40 years reserve (European Commission, 2002b).

energy demand in the C-10 countries is likely to surge, especially in the period leading up to 2010, when their economies are expected to grow much faster than the EC-15's (Chapter I(4)).

63. In November 2002, the Commission published the Green Paper "Towards a European strategy for the security of energy supply", which sets out new energy policy guidelines. The two main policy aims of the EC in energy are security of energy supply and completion of the internal market. Security of supply means, *inter alia*, better energy efficiency, diversification of sources and technologies, reduction of import dependency, promotion of domestic production, guidance of energy consumption, and development of the trans-European energy network.

64. In 2002, € 21 million were budgeted to support the trans-European energy network programme. In addition, € 32 million were budgeted to finance several other energy-related programmes: Carnot (clean and efficient use of solid fuels); Sure (safe transport of radioactive materials); Altener (promotion of renewable energy sources); Save (promotion of energy efficiency); Synergy (promotion of international cooperation in energy); and Etap (studies, analyses and forecasts on energy). Moreover, € 19 million were allocated to support activities related to nuclear energy.[83]

65. On 25 November 2002, a political agreement was reached by the Council of Energy Ministers on the adoption of new legislation on gas and electricity markets through: the Acceleration Directive, aimed at completing the internal gas and electricity markets[84]; a regulation on cross-border electricity trade, aimed at enhancing competition within the internal electricity market; and a Directive on security of supply in the gas subsector, aimed at clarifying and defining the responsibilities of market operators as regards security of supply. A 2003 Directive changed the place of taxation of natural gas in pipelines and of electricity, from the place of supply to the place of consumption. In addition, on 20 March 2003, the Council agreed to a proposed directive for the taxation of energy products to, *inter alia*, improve the functioning of the internal market by reducing divergence in excise duty rates among member States, and help to meet the environmental objectives of the Community and the Tokyo Protocol (Chapter III(2)(ix)).

66. The essential elements of the Acceleration Directive are: market liberalization for all non-domestic gas and electricity customers as of 1 July 2004, and for all other customers, including private households, as of 1 July 2007; reinforced universal service obligations in the electricity subsector (guarantee of supply at reasonable prices); legal and functional unbundling for transmission system operators as of 1 July 2004[85]; introduction of a regulated third party access regime for transmission and distribution networks and liquefied natural gas facilities; the need for the establishment of regulatory authorities to, *inter alia*, fix methodologies underlying the calculation of the network access tariffs; and derogations (by the Commission) from regulated tariffs for major new gas infrastructure.

67. The main elements of the regulation on cross-border trade are: establishment of a compensation mechanism in favour of transmission system operators for costs incurred as a result of hosting cross-border flows of electricity[86]; setting harmonized principles on cross-border transmission charges, in particular the application of non-discriminatory, transparent, and non-distance-related charges for network use; setting rules to maximize availability of transmission capacity; establishment

[83] European Communities (2003a).

[84] Council document 14867/02 on gas, and Council document 14869/02 on electricity, both of 27 November 2002. Revision of Directives 96/92/EC on electricity and 98/930/EC on gas.

[85] For distribution system operators, functional unbundling as of 1 July 2004, and legal unbundling as of 1 July 2007 (DG Competition, 2003a).

[86] Compensation to be paid by the operators of the transmission systems from which cross-border flows originate and the transmission systems where those flows end.

of principles to deal with congestion; involvement of regulators in tariff and capacity allocation issues; and setting of penalties by member States for regulation infringements.

68. The Commission considers that when this legislation is finally adopted, it is to be accompanied by strict application of EC competition law, since various energy markets are often still dominated by "national champions"; the liberalization process will likely lead to further mergers, and certain energy companies may try to benefit from state aid to improve their competitive situation.[87]

(5) MANUFACTURING

(i) Overview

69. The importance of the manufacturing sector in terms of its contribution to GDP and employment in the EC-15 has been decreasing over time. Some 20 million SMEs constitute the backbone of the sector. Developments in the EC-15 manufacturing show considerable diversity during 1979-02: employment and output declined in textiles and clothing, and leather and footwear; whereas some other industries (e.g. chemicals, rubber and plastics, telecommunications equipment, office machinery and electrical equipment) have shown marked increases. Overall, the trade surplus on manufactured goods has improved, rising from € 31.5 billion (0.6% of GDP) in 1989 to € 95.2 billion (1.1% of GDP) in 2001.[88]

70. After a decade of downsizing and restructuring, the structure of the manufacturing sector in the majority of the C-10 is between that of the "EC-South" (Greece, Portugal, and Spain) and the "EC-North" (Germany, France, Italy, and the United Kingdom).[89] The C-10 have particularly high employment shares in textiles and clothing, leather, and wood. Table IV.9 shows a comparison between the structure and size of the manufacturing sector in the EC-15 and the Central and East European (CEE) countries (i.e. the C-10, excluding Cyprus and Malta, and including Bulgaria and Romania). In general, the most important manufacturing subsectors in the CEE are food, beverages and tobacco; transport equipment; and basic metals and fabricated metal products. In the Baltic countries, textiles and wood products have large weight. The C-10 manufacturing sector is negligible compared to the EC-15's.[90] According to a report by the Commission, FDI has contributed to the modernization of manufacturing in the C-10; however, the ability of many domestically owned enterprises to cope with increased competition in the single market remains weak.[91]

71. The Lisbon European Council of 23 and 24 March 2000 set a new strategic policy objective for the EC: "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion". Achieving this depends, to a great extent, on the ability of the Community to develop the competitiveness of its manufacturing industry. To this end, in December 2000, the Council adopted the "Multiannual Programme for Enterprise and Entrepreneurship, and in particular for SMEs

[87] DG Competition (2003a).

[88] European Commission (2003g).

[89] In particular, manufacturing production structures in the Czech Republic, Hungary, Slovenia, and Slovak Republic are very close to the EC-15 average (European Commission, 2003g).

[90] Measured at 2000 exchange rates, the share of the eight CEE countries (acceding in May 2004) in total manufacturing production in an enlarged EC (comprising themselves and the EC-15) was 4.4%. Nevertheless, if expressed in terms of purchasing power parities, which correct the undervaluation of the currencies of some of the THE C-10, their share would double to 9% (it would be 10.7% if Bulgaria and Romania were included). In 2000, the eight CEE countries' manufacturing employment represented 15% of that of an enlarged EC (European Commission, 2003g).

[91] European Commission (2003g).

2001-05". On 11 December 2002, the Commission adopted a document, "Industrial Policy in an Enlarged Europe", which revisits the broad objectives and principles of the EC's industrial policy set out in a communication of 1990.[92] The programme and the new document highlight the slowdown in productivity in the EC as a serious cause of concern, as well as the need to increase the competitiveness of its economy, including manufacturing.

Table IV.9
Structure and size of the manufacturing sector in the CEEC and the EC-15, 2000

	Industry share in total manufacturing [a] (Per cent)		Production share[b] of CEEC in an enlarged EC[c] (Per cent)		Employment share of CEEC in an enlarged EC[c] (Per cent)
	CEEC	EC-15	Using exchange rate	Using PPPs	
Total manufacturing	100.0	100.0	5.0	10.7	20.9
Food products; beverages and tobacco	19.1	13.7	6.8	14.3	24.2
Textiles and textile products	4.9	3.9	6.3	13.5	36.9
Leather and leather products	0.9	0.9	5.0	10.9	32.6
Wood and wood products	3.2	1.9	7.9	16.0	28.4
Pulp, paper and paper products; publishing and printing	5.5	7.6	3.6	7.7	11.8
Coke, refined petroleum products and nuclear fuel	7.1	6.0	5.8	13.2	36.6
Chemicals, chemical products and man-made fibres	7.2	10.1	3.6	8.0	16.7
Rubber and plastic products	3.9	3.8	5.1	10.6	16.0
Other non-metallic mineral products	4.8	3.4	6.8	14.3	24.8
Basic metals and fabricated metal products	12.5	11.1	5.5	12.2	17.5
Machinery and equipment	5.7	8.9	3.2	7.1	19.1
Electrical and optical equipment	10.2	12.0	4.2	9.1	16.2
Transport equipment	11.3	13.6	4.2	9.0	16.0
Other manufacturing	3.7	2.9	6.2	12.9	23.3

a Shares in total manufacturing production (in nominal terms, converted using exchange rates).
b Production values in the year 2000 converted using current exchange rates, and using purchasing power parities (PPP) for 1999.
c In this table, "enlarged EC" is the sum of the EC-15 and CEEC. CEEC refers to the eight Central and East European countries that acceded in May 2004, plus Bulgaria and Romania.

Source: European Commission (2003), *European Competitiveness Report 2003*, p. 191, Brussels.

72. Some of the main priorities are to meet the challenges of globalization, and to achieve an "Enterprise Europe" (a horizontal enterprise policy) by 2005. According to this document, the EC "needs to address the entire business environment to enable enterprises, whatever their size, legal form, sector or location, to grow and develop in a way that is compatible with the overall EC goal of

[92] COM (1990) 556 of 16 November 1990.

sustainable development". The Community has to develop new technologies, including information and communication technologies (ICT) and biotechnology; and its industry needs to become more innovative. The Community must develop its entrepreneurial capacity, take risks and grow new and bigger businesses; it must improve market access for goods and services.[93]

73. On 8 May 2003, the Commission adopted a new definition of SMEs, aimed at promoting entrepreneurship, investment and growth; facilitating access to venture capital; cutting administrative burdens; and increasing legal certainty. The definition maintains the different SMEs thresholds, but provides for a substantial increase of the financial ceilings, as a result of inflation increases since 1996, when the first Community SME definition was made.[94] The new definition will be used from 1 January 2005.

74. The manufacturing sector is a major beneficiary of state aid. During 1990-02, of the 120 individual awards of rescue and restructuring aid, around 90 were for manufacturing firms in difficulty; in total, an estimated € 45 billion of state aid was awarded. During the 1990s, the bulk of *ad hoc* aid granted in the EC was for the restructuring programme in the German Bundeslander and for rescuing or restructuring companies and large conglomerates in other member States.[95] In 2002, € 93 million were budgeted for the research programme, "Promotion of innovation and encouragement of SME participation"; and about € 90 million annually are allocated to SME-oriented projects as part of the 2001-05 enterprise and entrepreneurship programme.[96]

75. MFN customs tariffs on manufactured goods average 6.4%, with rates ranging up to 209.9% on food manufactures (Chart IV.1). Specific tariffs are levied on products, such as alcoholic beverages, meat and edible offal of poultry, and cheese and curd; compound duties apply to, *inter alia*, preparations of vegetables, and meat and edible offal; and mixed duties to, *inter alia*, sugar confectionary, and ice cream.

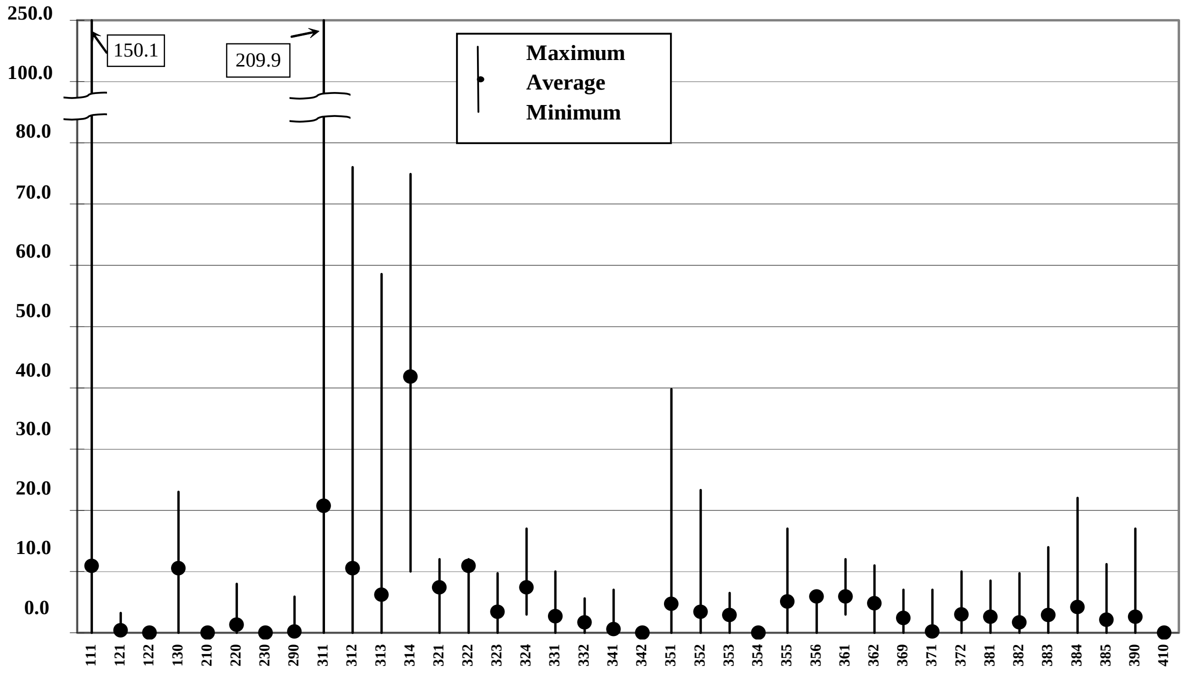
[93] European Commission (2002f).

[94] According to the new definition, micro companies have less than ten employees, and a turnover/or balance sheet of up to € 2 million (previously undefined); small enterprises have less than 50 workers, and a turnover/balance sheet of up to € 10 million (previously € 7 million and € 5 million, respectively); and medium-sized companies employ less than 250 workers, have a turnover of up to € 50 million (€ 40 million before), or balance sheet of up to € 43 million (€ 27 million previously) (European Commission, Press Release IP/03/652, 8 May 2003).

[95] Aid amounts vary from less than € 1 million to more than € 20 million. Of the 120 firms, around 35 were in Germany, 20 in France, 15 in Spain and Italy, and 5-10 in Austria, Belgium, and Portugal; in other member States, there were at most tow aid cases (European Commission, 2003g).

[96] European Communities (2003a).

Chart IV.1
EC tariffs by ISIC classification[a], 2004



Description

111 Agricultural and livestock production
121 Forestry
122 Logging
130 Fishing
210 Coal mining
220 Crude petroleum and natural gas production
230 Metal ore mining
390 Other mining
311 Food production
312 Other food products and animal feeds
313 Beverages
314 Tobacco manufacturing
321 Textiles
322 Manufacture of wearing apparel, except footwear
323 Leather products, except footwear and wearing apparel
324 Footwear, except vulcanized rubber or plastic footwear
331 Wood and wood products, except furniture
332 Manufacture of furniture and fixtures, except primarily of metal
341 Paper and paper products
342 Printing, publishing and allied industries

Description

351 Industrial chemicals
352 Other chemicals, including pharmaceutical
353 Petroleum refineries
354 Manufacture of miscellaneous petroleum and coal products
355 Manufacture of rubber products n.e.s.
356 Manufacture of plastic products n.e.s.
361 Pottery, china and earthenware
362 Manufacture of glass and glass products
369 Other non-metallic mineral products
371 Iron and steel basic industries
372 Non-ferrous metal basic industries
381 Fabricated metal products, except machinery and equipment
382 Non-electrical machinery including computers
383 Electrical machinery apparatus, appliances and supplies
384 Transport equipment
385 Professional and scientific equipment
390 Other manufacturing industries
410 Electrical energy

a International Standard Industrial Classification, Revision 2

Source: WTO Secretariat calculations, based on data provided by the EC authorities.

(ii) Selected industries

(a) Textiles and clothing

76. The EC is the world's largest importer of textiles and clothing products, and exporter of textile goods; it ranks second in the world in terms of exports of clothing products. In 2002, the subsector accounted for 5.8% of total EC trade: imports amounted to € 71.6 billion and exports to € 43.8 billion. The subsector accounts for about 4% of total EC manufacturing production and 7% of manufacturing employment (2.1 million jobs). There are 177,000 enterprises, mostly SMEs, with a combined turnover of € 200 billion.[97] MFN tariffs on textiles, wearing apparel, and leather products average 7.6%, with rates ranging up to 17%.

77. On average, the subsector plays a more important role in the economy of the C-10 than in the EC-15 in terms of output and employment. The C-10's exports are mostly (between 66% and 100% depending on the country and the product) to the EC-15. The C-10 are the destination for 16% of the EC-15's total exports of yarns and 8% of all textiles exports.[98]

78. The textile and clothing subsector does not enjoy any specific incentives. However, like any other manufacturing industry, it can benefit from the incentives listed in the guide of "Grants and Loans from the EC". In addition, it can profit from actions that specifically target sub-contracting activities (10-60% of total activities in the subsector of member States).[99]

79. The EC applies quotas on imports of certain textile and clothing products from WTO Members, and under bilateral agreements with non-WTO members (Chapter III(2)(vii)). Ecs' imports of textiles and clothing under quota represent less than a third of its total imports of these products.[100]

80. Under the WTO Agreement on Textiles and Clothing (ATC), the EC submitted the list of products covered in the first, second, and third phases of integration into the GATT 1994; as from 1 January 2005, the remainder will be integrated, resulting in the removal of all EC quotas on these products (Chapter III(2)(vii)). In anticipation of this, on 28 October 2003, the Commission proposed measures to promote competitiveness in the subsector. These include R&D and innovation in areas of specific relevance (e.g. technical textiles); education and training policy (e.g. improvement of SME's access to existing funding opportunities by simplifying the procedures); regional policy (e.g. completion of the Euro-Mediterranean area by 2005); exploration of the use of labelling to facilitate access to EC products that respect international labour or environmental standards; and examination of the use of a "Made in Europe" label of origin to promote European quality products.[101] Currently, only textile products that comply with certain labelling requirements may be marketed within the Community.[102]

81. In general, certain studies estimate the global welfare gains from the ATC to range between US$6.5 billion and US$324 billion. Some studies predict that the ATC, when fully implemented, will

[97] European Commission Press Release IP/03/1463, 28 October 2003.

[98] European Commission (2003e).

[99] Subcontracting is present in all areas of the textiles and clothing subsector, but it is of particular importance in the finishing, knitting and clothing industries (European Commission, 2003b).

[100] European Commission (2003e).

[101] A High-Level Group (comprising the Commission, member States, and stakeholders) will be set up to explore initiatives and make recommendations. The Commission intends to report on the results achieved by spring 2005 and again by the end of 2006 (European Commission Press Release IP/03/1463, 28 October 2003).

[102] Council Directive 96/74/EC, 16 December 1996, on textile names.

account for up to two-thirds of all gains from the Uruguay Round, whilst others put it at merely 5%.[103] The distribution of the welfare gains is unequal and differs from a study to another.[104] With regard to the EC, one study finds that it would reap total welfare gains of some € 25.3 billion per year, of which 97% would derive from elimination of quantitative restrictions and 3% from tariff reform.[105] The welfare gains are expected to result from lower consumer prices and re-allocation of resources to more efficient sectors. However, in the medium-term, there could be some adjustment costs (including the loss of employment in the textile and clothing subsectors) as resources move to other sectors.

(b) Chemicals

82. Chemicals is the main manufacturing subsector in the EC-15 in terms of value added (7.5% of the manufacturing value added in 2001).[106] Excluding pharmaceuticals, it contributes 1.3% to total GDP. The chemical industry is rather capital intensive, but still provides 1.7 million jobs in the EC-15 (4.2% of the workforce in manufacturing). In 2000, the turnover of the industry was € 417 billion. It is a key supplier to virtually all sectors of the economy. About 30% of chemicals is further processed within the industry. In the EC-15 it is mainly concentrated in Germany (26.2% of the EC-15 production in 2000), followed by France (17%), the United Kingdom (13.5%), and Italy (11.6%). In 2000, the subsector was made up of 22,890 enterprises, of which SMEs represent more than 95%. In 2002, chemicals had trade surplus of over € 60 billion. Environmental expenditure in the EC-15 chemicals, rubber and plastics industries amounts to € 7.7 billion per year, i.e. 3.5% of their value added, and accounts for 23% of total the EC-15 environmental protection expenditure in all industries.[107] MFN tariffs on industrial chemicals and basic industrial chemicals average 4.7%.

83. The chemicals subsector is also important in the C-10, and its contribution to total manufacturing ranges from about 4% in Latvia to 8% in Hungary. The turnover of the industry in the C-10 was € 16 billion (roughly 4% of the EC-15 chemical production). In general terms, the subsector has suffered a declined in output in the C-10, with most of the loss occurring in the first years of transition to a market economy, and then after the Russian crisis in 1998.[108]

84. According to the Commission, the current legislative system for chemicals is cumbersome, has been largely unable to identify the risks posed by many chemicals, and is slow to address already established risks. It distinguishes between "existing" and "new" chemicals, using 1981 as a basis; they are regulated under different procedures. As a result, the Commission adopted a White Paper on 13 February 2001[109], and, on 29 October 2003, presented a proposal for a new regulatory framework for chemicals that would replace over 40 Directives and Regulations, by introducing a single, integrated system, treating new and existing substances equally; the system is called REACH (Registration, Evaluation, and Authorization of Chemicals).[110]

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[103] Most studies use computable general equilibrium models (CGE). See OECD (2003c).

[104] In general, most studies predict that China will experience the highest growth. Some studies also point to the loss by some LDCs as their preferential margins are eroded. Industrialized countries, on the other hand, are expected to witness substantial welfare gains from lower consumer prices and more efficient resource allocation in the long run. See Harrison, Rutherford and Tarr (1997), pp. 216-252; and Diao and Somwaru (2001).

[105] Francois, Glismann and Spinanger (2000).

[106] European Commission (2003p).

[107] European Commission (2003o).

[108] European Commission (2000).

[109] COM(2001)88.

[110] The proposal has been forwarded to the European Parliament and the Council of Ministers for adoption under the co-decision procedure (European Commission Press Release IP/03/1477, 29 October 2003).

85. The aim of REACH is to secure a high level of protection for human health and the environment, while ensuring the efficient functioning of the internal market, and stimulating innovation and competitiveness in the subsector. The key elements of the new system are placing responsibility on the industry to manage the risks of its chemicals. Other elements are: increasing the threshold for registering new substances from 10 kg. to 1 tonne, and the maximum time-limit for exemption from registrations for R&D from 6 to 15 years; establishing a Chemical Agency to ensure the consistent application of the system, and to manage the database of all registered chemicals; evaluation by the national authorities of substances and animal testing; and substances of very high concern (e.g. carcinogenic, mutagenic, toxic, bio-accumulative) would require authorization for particular uses from the Commission. The direct costs of REACH to the chemicals industry are estimated at € 2.3 billion over an 11 year period.[111]

(c) Coal and steel

86. The EC-15 produces about 74 million tonnes of hard coal (less than 2% of world production), down from 470 million tonnes in 1953, and imports around 180 million tonnes. Hard coal is currently produced by France, Germany, Spain, and the United Kingdom. After enlargement, the Community's coal production is expected to more than double. Production costs of European coal are relatively high, mainly because of difficult geological conditions: the average cost of producing coal in Europe is 3-4 times the international market price. Employment in the coal industry has also decreased consistently over the years, to less than 72,000 people (down from 1.7 million fifty years ago).[112] Imports of coal are duty free.

87. The EC-15 produces 159 million tonnes of steel (about 15% of world production), up from 39 million tonnes in 1953; the industry employs 276,000 workers (employment peaked at 774,000 in 1972). New technologies, privatization, and cross-border mergers improved the industry's performance during the 1990s. Since 1998, the domestic market has been fully absorbing the Community's steel production, and steel has to be imported from third countries. Most of the C-10 have an important steel industry, and together they produce over 40 million tonnes. During the last decade, a restructuring process in the C-10 resulted in the closure of many inefficient facilities and a workforce reduction by some 65%. Privatization of the remaining state-owned steel companies in these countries is almost complete.[113] Tariff protection on iron and steel is very low, with tariffs averaging 0.2%, but ranging from zero (e.g. on steel) up to 7%.

88. The European Coal and Steel Community (ECSC) treaty expired on 23 July 2002, fifty years after coming into force.[114] The Amsterdam Council of 16-17 June 1997, called on the Commission to take measures to transfer the ECSC's net assets and liabilities (€ 1.6 billion) resulting from the levy on ECSC products to the overall EC budget, and to fund research activities in the two subsectors: 72.8% of annual interest on ECSC net assets are devoted to research on steel and 27.2% on coal.

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[111] European Commission Press Release IP/03/1477, 29 October 2003.

[112] European Commission Press Release IP/02/898, 19 June 2002.

[113] As part of their EC accession process, the THE C-10 were given a grace period during which state aid could be given only if certain conditions were met. One of these conditions was the adoption of a national restructuring programme, such as those adopted by the Czech Republic in 2002, and Poland in 2003 (European Commission, 2003r).

[114] Belgium, France, Germany, Italy, and Luxembourg decided to create the ECSC, the first European supranational institution, to manage the peaceful use of coal and steel, which had traditionally been the key engines of national military efforts. The ECSC was the starting-point of the European Community as created in 1957.

89. After the expiry of the ECSC, the EC decided on a new framework for coal aid, which is to apply until 2010. Under this framework, the Commission may approve aid for the reduction of activity, subject to certain conditions.[115] Total state aid for coal production fell from € 5.6 billion in 1995 to € 3.3 billion in 2002. As a general rule, rescue and restructuring aid for the steel industry is prohibited[116]; however, in 2003, the Commission authorized aid for environmental and R&D purposes.

(6) SERVICES

(i) Overview

90. In 2002, services accounted for 71% of the EC-15's real GDP and employed 68% of its labour force; the size of the sector varies considerably across member States.[117] In the C-10, services represent 66.7% of real GDP, and 54% of total employment. The EC-15 is the world's leading exporter and importer of commercial services (Chapter I(3)(ii)). Nearly 90% of all SMEs in the EC-15 are in services industries. The problem of weak productivity growth in the Community is particularly acute in services[118], with rates in the private sector declining from 1.9% during 1991-95 to 1.4% over 1996-00. This may be associated with an insufficient use of information and communication technologies (ICTs), particularly in subsectors such as retail and wholesale trade and financial services. For the same periods, productivity growth rates increased from 4.8% to 6.8% in ICT-producing service industries (i.e. telecommunications).

91. Services has also lagged behind other sectors in creating a single market, and accounts for only 20% of the EC-15 cross-border trade, mainly because of differences in regulation across member States, and red tape for EC companies operating outside their home countries.[119] As a result, on 13 January 2004, the Commission presented a proposal for a Directive that sets out a framework for creating a genuine internal market for services by 2010.[120] The Commission regards this as perhaps

[115] For example, aid should be part of a closure plan, and aid for current production and aid for investments of up to 30% of the total cost for coal mines have to demonstrate that they are competitive *vis-à-vis* imported hard coal of a similar quality.

[116] European Commission (2003q).

[117] The share of services in total employment ranges from 56% in Portugal to 76% in the Netherlands; in terms of value added, services represent between 60% (Ireland) and 80% (Luxembourg) of the total (European Commission, 2002d).

[118] With the exception of two of the seven member states for which comparable data are available (France and the United Kingdom), services sector productivity growth declined during the second half of the 1990s (European Commission, 2003g).

[119] In 2002, a Commission report listed 92 remaining barriers encountered by companies wishing to offer services in more than one EC country, *Financial Times*, 18 November 2003.

[120] This deadline was set by the Lisbon Strategy. The services covered by the proposal account for around 50% of all economic activity in the EC. The Commission proposes, *inter alia*, mutual recognition between member states for documents that allow companies to provide services; the introduction of "one stop shops" for permits to do business in each member State by 31 December 2008; a ban on requiring permits unless they are justified in the general interest. The Commission also suggests banning: all general prohibitions on commercial communications for regulated professions; the requirement for companies providing services occasionally or temporarily to have a permanent establishment on their territory or to oblige companies to follow the rules of their host country in addition to those of their home country; and the requirement for workers from elsewhere in the EC to register with local authorities (European Commission, Press Release IP/04/37, 13 January 2004).

the most important mid- and long-term goal for reforms; the financial services subsector, in particular, is crucial because it will boost the overall competitiveness of the economy.[121]

92. Since the last Review of the EU, some of the major developments in the sector concern progress on the Financial Services Action Plan (FSAP); the reform of the regulatory framework for telecommunications; and the evolution of the Action Plan for transport, e.g. the tabling of legislation on integrating rail markets, and the establishment of the European Maritime Safety Agency in June 2002 and of the European Aviation Safety Agency in July 2003. However, many other services activities are not subject to a comprehensive internal market policy; these include tourism, distribution, construction, engineering and consultancy, certification and testing services and employment agencies.[122]

93. Under the General Agreement on Trade in Services (GATS), the EC scheduled commitments across virtually all major service categories, and ratified the GATS Fourth and Fifth Protocols on basic telecommunications and financial services. As a result of the EC's commitments under the Fourth Protocol, the framework regulating the EC-15 nationals was extended to all foreign operators, with minor limitations on market access and national treatment.[123] The commitments made by the EC under the Fifth Protocol extend the principle of the single passport to third-country providers, subject to various limitations, mostly member-state specific, on market access and, in a few cases, on national treatment.[124] The EC maintains MFN exemptions under Article II of the GATS. In April 2003, the EC-15 notified the WTO of its intention to replace the existing GATS schedules and lists of MFN exemptions of EC-12, the EC-15 and, where relevant, Austria, Finland, and Sweden with consolidated schedules. The consolidated schedule of commitments and list of MFN exemptions are to come into force on completion of the ongoing negotiations pursuant to Article XXI (Modification of Schedules) of the GATS. The EC-15 has tabled its initial conditional offer in the ongoing services negotiations.[125]

(ii) Financial services

(a) Overview

94. The EC-15's financial services are dominated by banks (bank loans amounted to 109.6% of GDP in 2001), followed by insurance and securities. Financial institutions are less and less specialized, with banks providing certain insurance services and vice-versa. Nonetheless, the price of certain services depends on the way they are supplied: estimates show that a 10% drop in bank-based financing in favour of capital market financing would reduce financing cost by the equivalent of 0.3% of the EC's GDP.[126]

95. The FSAP, launched in 1999 and to be fully implemented by 2005, has the aim of ensuring a single market for wholesale financial services and state-of-the-art prudential rules and supervision, and opening and securing retail markets. It represents a major drive to integrate the different EC

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[121] Many regulatory bottlenecks remain, e.g. in the areas of clearing and settlement, which constitute the arteries of the financial system (European Commission, 2002c).

[122] European Commission (2003j).

[123] Most of these limitations reflected delays in the implementation process in some member States and have expired since (WTO document GATS/SC/31/Suppl.3 adopted by Council Decision 97/838/EC). The content of the EC's commitments under the GATS' Fourth Protocol is covered in WTO (1997), p. 112.

[124] Third-country financial services providers enjoy the new access opportunities created by progress on the FSAP, but will also assume the new obligations on financial service providers established in the EC (WTO document GATS/SC/31/Suppl.4/Rev.1, as implemented by Council Decision 1999/61/EC). Details of the EC's commitments under the GATS' Fifth Protocol are covered in WTO (2000b), Annex IV.2.

[125] WTO document TN/S/O/EEC, 10 June 2003.

[126] European Commission (2003d).

financial markets and regulations, by allowing all financial institutions to operate on an EC-wide basis.[127] The FSAP is a central plank of the Community's strategy for promoting economic growth, since more integrated financial markets could reduce trading costs and thereby boost GDP growth and employment.[128] It consists of legislative and non-legislative measures to achieve these objectives, with a schedule for adoption and implementation; progress is monitored periodically by the Internal Market Directorate-General. Enlargement of the single market is also expected to amplify the economic benefits to the Community and third countries, particularly during the high-growth catch-up phase, when the C-10 have high financing needs to fund investments.

96. Up to April 2004, 36 of the 42 original legislative measures for the completion of the FSAP had been adopted. Since the last TPR of the EC, some of the key measures taken are through: the Directive on distance contracts for financial services, aimed at establishing a harmonized and appropriate legal framework for contracts negotiated at a distance (e.g. telephone, fax or over the internet), while protecting the consumer[129]; the Directive on Securities Market Abuse, aimed at tackling cross-border fraud, and market manipulation[130]; the Directive on Pension Funds, which gives managers greater freedom to invest on a pan-European basis by, *inter alia*, allowing for mutual recognition of member States' supervisory regimes[131]; the Prospectuses Directive, which introduces a new "single passport for issuers", making securities available to all EC investors (once approved by the relevant authority in one member state, a prospectus has to be accepted everywhere else in the EC)[132]; and a Regulation endorsing most of the existing International Accounting Standards (IAS), including the related interpretations (SICs), to contribute to the consistent application of IAS for listed companies across the EC as from 2005.

97. On 16 March 2004, the Commission presented a proposal on Statutory Audit in the EC to accompany the original FSAP measures. This proposal is important to avoid future scandals such as that of Parmalat in Italy. Group auditors will be required to take full responsibility for the audit of the consolidated accounts of the whole group of companies; the proposal will reinforce oversight of auditors and foresee the use of international auditing standards.

98. In addition, on 6 November 2003, the Commission launched a package of seven measures with the objective of improving the regulation and supervision of banking, insurance, and investment funds, by extending the framework already used in the securities subsector since 2002 through the

[127] For a description of the regulatory framework for financial services, see WTO (2002).

[128] According to some studies, pooling the present regional bond and equity markets would move the EC to a new equilibrium characterized by higher growth rates of GDP (1.1%), employment (0.5%), and investment (6%) (European Commission, 2003v).

[129] Directive 2002/65/EC, 9 October 2002.

[130] Directive 2003/6/EC, 28 January 2003. This Directive also requires a single regulatory and supervisory authority to be designated in each member State to deal with market abuse, and to ensure a uniform approach. The proposal does not mandate the harmonization of penalties against market abuse, because this was considered to fall under the competence of member States, but it does encourage members to set penalties to promote compliance with the requirements of the proposed ISD.

[131] Directive 2003/86/EC of 13 May 2003. The institutions involved, such as pension funds and superannuation schemes, cover about 25% of the EC-15 labour force and manage assets worth € 2,500 billion (29% of EC-15 GDP).

[132] A prospectus is a disclosure document, containing key financial and non-financial information, that a company makes available to potential investors when it is issuing securities (e.g. shares, bonds, derivative securities) to raise capital and/or when it wants its securities admitted for trading on exchanges. The Directive concerns only disclosure requirements. Conditions for admission to listing remain subject to existing European and national requirements (European Commission Press Release IP/03/1018, 15 July 2003).

European Securities Committee (ESC).[133] The package will restructure the organization of financial services by establishing four new committees. Two of them, the European Banking Committee (EBC) and the European Insurance and Occupational Pensions Committee (EIOPC), will replace the existing Banking Advisory Committee (BAC) and the Insurance Committee (IC), respectively, and will assist the Commission in adopting implementing measures for EC Directives. The other two, the Committee of European Banking Supervisors (CEBS) and the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS), with effect from 1 January 2004 and 24 November 2003, respectively, will bring together national supervisors. Moreover, responsibility for overseeing the implementation of EC law on collective investment funds (UCITS) will be transferred from the UCITS Contact Committee to the existing ESC, and the necessary coordination of supervisory practices in the UCITS field will be added to the tables of the Committee of European Securities Regulators (CESR).[134]

99. In the Brussels European Council meeting of 21-22 March 2003, Heads of States and Governments called on the European Parliament to ensure the adoption of two particularly important proposals before the European Parliament's electoral recess: the Transparency Directive, aimed at increasing the frequency and content of interim reports by listed companies to encourage a more rational and efficient allocation of resources; and the new investment services Directive, which constitutes the core of a securities rule-book for the EC, governing the main types of investment services and the activities of exchanges. Other outstanding proposals of the FSAP concern: a revised capital framework for banks and investment firms by 2006-07 to enable them to base their supervisory capital requirements more on their internal risk models; the Company Law Directive on Cross-border Mergers (presented in November 2003); and the Company Law Directive on Cross-border Transfer of Seat (proposal foreseen by September 2004). Accompanying the original FSAP measures, and the outstanding proposals are the so-called Insurance Solvency II work to create a consistent risk-based insurance solvency system, compatible with international developments in supervision and financial reporting; a Directive on reinsurance supervision to harmonize methods for reinsurance supervision in the EC and to abolish some remaining trade barriers for cross-border reinsurance activities; and a third Money Laundering Directive to further combat money laundering and terrorist financing.

100. The Commission also adopted, a separate Action Plan on Company Law and Corporate Governance, in May 2003, aimed at restoring public confidence in international financial markets after the corporate scandals in world financial markets caused by improper corporate behaviour, lack of transparency, accounting manipulation and fraud. Some of these initiatives are an extension of the original FSAP.[135]

(b) Banking

101. According to the latest available data, between 1999 and 2000, the number of credit institutions in the EC-15 declined from 8,330 to 7,620, mainly as a result of concentration; the number of persons employed in banking remained relatively stable at about 2.7 million. Germany and France have about half of the total number of the EC-15 banks, but this proportion is decreasing due to the drop in the number of cooperative enterprises. In terms of density, Spain has the highest number of local units per one million inhabitants (997), and Sweden the lowest (232). The balance sheet of the EC-15 credit institutions increased by 13.1% from 1999 to 2000, to reach € 23,293 billion, i.e. 277% of the GDP of the EC-15; the balance sheet ranges from 124% of GDP in Greece to more than

[133] The package is made up of a proposed Directive and six Commission Decisions (European Commission Press Release Memo/03/220, 6 November 2003).

[134] European Commission Press Release IP/03/1507, 6 November 2003.

[135] European Commission (2003i).

3,000% in Luxembourg. The return on equity (an indicator of the profitability of the capital invested) of the EC-15 banks reached 10.9% in 2000, up from 9.5% in 1999.[136]

102. The regulation of the banking system in the EC is based on the single European passport principle and prudential supervision of banks according to the home country control principle.[137] Foreign banks can operate in the EC if they establish branches or through cross-border bank mergers (shareholding in subsidiaries). Member States must not apply more favourable Community provisions to foreign bank branches than those applied to branches of credit institutions having their head office within the EC. The Community, however, may agree to apply identical provisions to branches having their head office within or outside the EC when the principle of reciprocity is observed by the country in which the head office of the foreign bank branch is based.[138] In addition, banks are subject to Community rules on competition and state aid (Chapter III(4)(ii)).

103. In December 2001, the EC-15 adopted the regulation on cross-border payments in euros with a view to achieving a single payments area. The regulation provides for the principle of non-discrimination on bank charges for national and cross-border payments in euros, implemented since 1 July 2002 for card payments and withdrawals at cash dispensers, and since 1 July 2003 for cheques and credit transfers. According to the regulation, equal charges should apply to national and cross-border payments in euros up to € 12,500 throughout the Community, irrespective of distance.

(c) Insurance

104. According to the latest available data, the insurance subsector has continued to consolidate. In 2001, there were 4,608 insurance companies in the EC-15 (down by 2.1% from 2000) handling: non-life insurance (56.3%), life insurance (25%), specialist reinsurance (13%), and composite insurance (5.7%). The United Kingdom has the highest number of insurance enterprises (808), followed by Germany (694), and France (504). Total investments of insurance companies increased from € 4,595 billion in 2000 to € 4,670 billion in 2001. These enterprises wrote € 764 billion of gross premiums in 2001 (excluding reinsurance), up from € 759 billion in 2000, making the EC-15 insurance market the third largest in the world, behind the United States and Japan. Life insurance represented 63% of total direct gross premiums in 2001; its growth decreased slightly in 2001, for the first time since 1994. On a per capita basis, average spending on life insurance is highest in the United Kingdom and in Finland, and lowest in Greece and Austria; average spending is more homogeneous in the non-life area.[139]

105. Insurance undertakings have also benefited from the single passport since 1994. The Community has two objectives in the subsector: to provide all EC citizens with access to the widest possible range of insurance products on offer in the Community, while guaranteeing them the legal and financial protection required; and to guarantee that an insurance company authorized to operate in any of the member States, can pursue its activities throughout the Community in terms of the rights to establish and to supply services. In order to achieve such objectives, the Community has dealt with life insurance and non-life insurance separately to take account of their specific characteristics. In addition, the Community has separate legislation on specific areas: motor vehicle liability insurance,

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[136] Eurostat (2002).

[137] Due to a certain degree of harmonization on capital adequacy requirements, deposit-guarantee schemes, and regulatory supervision, since 1993, EC banks benefit from the "single European passport". The single passport is a single licence allowing banks and other credit institutions to set up branches and offer services throughout the Community; it contains a list of banking services that can be provided in all the member States on the basis of such a licence.

[138] Directive 2000/12/EC.

[139] Spending in Luxembourg is inflated by the premiums written for non-residents.

annual accounts and consolidated accounts of insurance undertakings, and legal protection insurance, and credit and suretyship insurance.

106. Since the last TPR of the EC, three main legislative developments have taken place in the subsector. On 5 November 2002, a Directive on life insurance replaced all the life Directives adopted since 1979, by recasting them into a single text.[140] It includes rules concerning supervision, solvency margin requirements; and the freedom to provide life insurance services throughout the EC.[141] A Directive on non-life solvency requirements adopted on 5 March 2002, increased the solvency requirements in certain business lines such as maritime, aviation, and general liability business.[142] On 27 November 2003, a fifth Motor Insurance Directive was agreed by the Council of Ministers responsible for competitiveness.[143] It is aimed at making it easier for drivers to obtain and claim upon insurance, especially when buying or using vehicles within the Community but outside their permanent residence (an EC country), and at upgrading the protection of victims.[144]

(d) Securities

107. In 2003, the stock exchanges of five member states – London, Euronext Paris, Deutsche Borse, Italy, and Euronext Amsterdam – were among the world's ten largest in terms of market capitalization of domestic companies, but in each case, well below that of the New York Stock Exchange, the world leader.[145] European equity markets experienced a sharp decrease in the value of market capitalization during 2000-02 as a result of, *inter alia*, the downward revisions of the value of technology, media, and telecommunication companies, and sluggish world economic growth. In 2003, however, market sentiment improved, although a high degree of uncertainty over the course of future economic developments remains apparent.

108. The EC's single securities market was to be completed by the end of 2003.[146] To fulfil this objective, several aspects of securities transactions have been modified since the last TPR of the EC, particularly through the adoption of a Directive on market abuse, and a Directive on prospectus. Other legislative measures are under consideration, e.g. the review of the 1993 Investment Services Directive (ISD) (see section (a) above). Investment firms have benefited from the single passport under the ISD since 1996. Stock exchanges that provide listing and trading services are "regulated markets" under the ISD; the ISD also contains provisions on remote access to clearing and settlement. However, the Commission identified several gaps in this regime, and has submitted a proposal to upgrade the ISD and to make the single passport work more effectively. With the aim of imposing

[140] Directive 2002/83/EC, 25 September 2002.

[141] The Directive deals, for example, with the taking-up of life insurance business and conditions for offering life insurance services, and outlines applicable solvency requirements for life insurance. The recast directive includes the changes made to the solvency requirements introduced by Directive 2002/12/EC (the so-called Life "Solvency I" Directive).

[142] Directive 2002/13/EC, 5 March 2002 (Non-Life "Solvency I" Directive).

[143] The proposed Directive is due to be implemented two years after its definitive adoption (European Commission Press Release IP/03/1615, 28 November 2003).

[144] It sets a new minimum insurance amount for personal injuries of € 1 million per victim, plus an option for member States to apply a minimum of € 5 million per accident (as requested by the European Parliament). For damage to property, it sets a minimum of € 1 million per accident (European Commission Press Release IP/03/1615, 28 November 2003).

[145] Comparisons cannot be made directly because different systems, are used to complie turnover statistics.

[146] This deadline was agreed during the Stockholm European Council meeting of March 2001, following the presentation, on 15 February 2001, of the final report of the Committee of Wise Men chaired by Alexandre Lamfalussy. The report criticized current legislation for being complex and ill-adapted to requirements, owing to the lack of harmonization (WTO, 2002).

conduct-of-business rules on investment firms (under Article 11 of the ISD), the proposal clarifies the distinction between "professional investors" (aware of risks) and other investors (more in need of protection).

109. Mutual funds (known as undertakings for collective investment in transferable securities (UCITS)) are also subject to the single passport regime. Since 1986, mutual funds licensed by their home countries have been able to offer units for sale throughout the EC. The Commission has proposed to extend the licensing regime to collective investment vehicles other than those investing just in transferable stocks and bonds (e.g., deposits, money market instruments, derivatives), and to apply the single passport regime to enterprises providing fund management services.

(iii) Telecommunications and postal services

110. The EC-15 telecommunications services market was valued at € 251 billion in 2003 (up from € 242 billion in 2002), roughly on a par with the United States market. In 2003, revenue from the subsector increased by around 4%, due largely to mobile telephony and broadband access: the average mobile penetration rate in the EC-15 was 81% (up from 75% in 2002). Since liberalization in the subsector began, in 1998[147], tariffs for national calls have been reduced by around 53% on average, and those for international calls by around 42%; however, prices remain higher than in the United States. Furthermore, the market is somewhat fragile following the bursting of the "dotcom" bubble, the global economic slowdown and over-investment in backbone capacity, combined with high levels of debt resulting from expensive acquisition strategies and the cost of the transition to third generation mobile systems (i.e. wireless mobile technology combined with high data transmission capacities).[148] However, according to the Commission, the EC market for electronic communications networks and services started to recover in 2003, owing to the increase in mobile subscribers and the higher revenue per user, and the mounting number of broadband connections. Many operators managed to reduce their debt levels while returning to profits in the fixed telephony segment due to the revenues generated by broadband connections.

111. The telecommunication services market in the C-10 was valued at € 19.3 billion (about 8.2% of the EC-15 market) in 2002, with Poland and Hungary accounting for almost 65% of the total. The fixed telecommunication market was liberalized by 1 January 2002 in all the C-10. However, in the majority of the C-10 the State still holds a controlling stake in the supplies of fixed services; competition is gradually increasing. The prices of national fixed calls are relatively low and comparable to the EC-15 tariffs, while prices of international calls vary greatly but are, on average, higher than the EC-15 prices. Mobile and internet penetration in the C-10 is below the EC average, with the exception of the Czech Republic and Slovenia where levels are similar to those in the EC-15.[149] Selected telecommunication indicators for the EC-15 and the C-10 are shown in Table IV.10.

[147] Sweden and the United Kingdom had liberalized basic public telecommunication services earlier.
[148] European Commission (2002e).
[149] IBM (2003).

Table IV.10
Selected telecommunications indicators, 2002

	Main telephone lines ('000)	Main lines per 100 inhabitants	Cellular mobile subscribers ('000)	Cellular subscribers per 100 inhabitants	Internet users ('000)	Internet hosts per 10,000 inhabitants	PC's ('000)	PC's per 100 inhabitants
Austria	3,988	48.9	6,600	80.9	3,340	451.0	3,013	36.9
Belgium	5,132	49.6	8,135	78.6	3,400	325.4	2,500	24.1
Denmark	3,739	69.6	4,478	83.3	2,500	1,556.8	3,100	57.7
Finland	2,850	54.7	4,400	84.5	2,650	2,343.0	2,300	44.1
France	33,994	57.0	38,585	64.7	18,716	232.9	20,700	34.7
Germany	53,720	65.0	60,043	72.8	35,000	314.3	35,600	43.1
Greece	5,608	52.9	9,239	83.9	1,705	146.0	900	8.2
Ireland	1,975	50.2	2,969	75.6	1,065	347.2	1,654	42.1
Italy	27,452	48.6	52,316	92.7	17,000	119.1	13,025	23.0
Luxembourg	347	77.9	473	105.4	165	384.4	265	59.0
Netherlands	10,000	61.7	12,100	74.7	8,590	1,937	7,557	46.7
Portugal	4,361	41.9	8,529	81.9	3,700	158.2	1,394	13.4
Spain	18,706	45.9	33,475	83.5	7,856	145.0	7,972	19.6
Sweden	6,579	73.5	7,949	88.9	5,125	949.6	5,556	62.1
UK	35,145	59.5	49,921	84.5	24,000	485.0	23,972	40.6
EC-15	**20,240**	**57.1**	**19,947**	**82.4**	**8,988**	**659.7**	**8,634**	**37.0**
Cyprus	427	61.1	418	59.7	210	38.5	193	27.6
Czech Rep.	3,675	36.2	8,610	84.9	2,500	223.2	1,800	17.7
Estonia	475	35.0	881	65.0	560	467.6	285	21.0
Hungary	3,666	36.1	6,562	64.7	1,600	191.6	1,100	10.8
Latvia	701	30.1	917	39.4	310	152.4	400	17.2
Lithuania	936	27.0	1,632	47.1	500	157.8	380	11.0
Malta	207	52.3	277	69.9	99	185.7	101	25.5
Poland	11,400	29.5	14,000	36.3	3,800	170.3	4,079	10.6
Slovak Rep.	1,403	26.0	2,923	54.4	862.8	159.9	970	18.0
Slovenia	811.0	40.7	1,667	83.6	800	179.3	600	30.0
The C-10	**2,370**	**37.4**	**3,789**	**60.5**	**1,124**	**192.6**	**991**	**18.9**

Source: ITU (2003), *Telecommunications Indicators*, Geneva.

112. The deadline for implementing the main elements of the new EC-15 regulatory framework for telecommunications was 25 July 2003.[150] However, by February 2004, only nine member States had taken action to incorporate the new regulatory frameworddk into national law.[151] The new framework is aimed at, *inter alia*, establishing a harmonized regime across member States, promoting more competitive markets and technology-neutral regulation, and guaranteeing basic consumer interests. It consists of five Directives[152]: (i) a Framework Directive setting out the main principles, objectives, and procedures; (ii) an Authorization Directive introducing a system of general authorization for all

[150] In 1999, the Commission launched a major review of the subsector. The review resulted in the adoption of a new regulatory framework in March 2002; the new framework entered into force on 25 uly 2003. Previously, on 1 January 1998, all EC-15 telecoms infrastrucutre and service segments were opened to competition, with transitional periods for some member States, these have all been completed. As a result of the EC's commitments under the 1997 Fourth Protocol to the GATS, the framework regulating EC nationals was extended to all foreign operators, with minor limitations on market access and national treatment (WTO, 1997).

[151] These are Denmark, Finland, Ireland, Sweden, the United Kingdom, Spain, Italy, Austria and Portugal. The Commission was to start proceedings against latecomers.

[152] These are: 2002/21/EC (Framework Directive); 2002/20/EC (Authorization Directive); 2002/19/EC (Access and Interconnection Directive); 2002/22/EC (Universal Service Directive); and 2002/58/EC (Privacy and Electronic Communications Directive).

types of electronic communication services and networks (e.g. fixed and mobile networks, data and voice services, broadcasting), instead of individual or class licences, to facilitate entry in the market and reduce administrative burdens on operators; (iii) an Access and Interconnection Directive stipulating procedures and principles for imposing pro-competitive obligations (regarding access to, and interconnection of, networks) on operators with significant market power (SMP)[153]; (iv) a Universal Service Directive requiring a minimum level of availability and affordability of basic electronic communication services and guaranteeing a set of basic rights for users and consumers of electronic communication services; and (v) a Privacy and Electronic Communications Directive setting out rules for the protection of privacy and of personal data processed in relation to communications over public communication networks.[154]

113. Other legislative instruments of the new regime include: the Radio Spectrum Decision[155], which establishes principles and procedures for the development and implementation of an internal and external EC radio spectrum policy (it does not require transposition by member States); the Commission Competition Directive, which consolidates the legal measures that have liberalized the telecommunications subsector over the years; the Commission guidelines on market analysis and the assessment of SMP, which set out a common methodology and principles for the national regulatory authorities (NRAs) charged with these tasks; and the Commission recommendation on relevant markets, which defines a list of 18 relevant electronic communications markets to be examined. Under the new framework, NRAs are to conduct a proper market analysis (in accordance with competition law principles) before imposing regulatory obligations on undertakings with SMP. NRAs are expected to focus their market analysis on those 18 markets.[156]

114. Four institutions are in charge of the management, implementation, and further development of the new regulatory framework: (i) the Communications Committee, with the Commission as Chair and secretariat, and members from national ministries and regulatory authorities, has regulatory and advisory functions on implementation issues arising from the five Directives; (ii) the Radio Spectrum Committee, with the Commission as Chair and secretariat, and members from national ministries and regulatory authorities, it deals with technical implementing measures aimed at harmonization of frequency allocation and development of common external radio spectrum policy objectives; (iii) European Regulators Group, with a Chair elected from and by members (heads of the independent NRAs), and the Commission as secretariat, contributes to a consistent application of the new framework in all member states; and (iv) the Radio Spectrum Policy Group, with a Chair elected from and by members (high-level governmental experts from member States and high-level Commission representatives), provides a platform for all stakeholders to coordinate the use of radio spectrum.[157]

[153] According to the Framework Directive, an undertaking is deemed to have SMP if, either individually or jointly, it enjoys a position equivalent to dominance. As a proxy of market power, the Guidelines on market analysis suggest computed market shares, typically based on sales volume or sales value. SMP is normally viewed as being a factor where the market share exceeds 40%; where the market share exceeds 50%, SMP is assumed to be present. Under the previous regulatory framework, an undertaking was subject to *ex ante* regulation if it had a 25% market share (Scott-Marcus, 2002).

[154] The privacy and electronic communications Directive had to be transposed into national law by 31 October 2003, while the other four Directives by 25 July 2003 (European Commission, 2003n).

[155] Decision 676/2002/EC.

[156] If an NRA decides to regulate a market not listed in the recommendation, it will have to seek the Commission's prior approval and follow the procedure set out in Article 7 of the Framework Directive. NRAs are also expected to collaborate with national competition authorities (NCAs) (DG Competition, 2003a).

[157] Meetings of these bodies may also be attended by experts from the European Economic Area (EEA) and by accession candidates. Other experts and representatives from stakeholder associations may be invited to attend non-restricted parts of meetings (European Commission, 2003n).

115. The general authorization introduced by the new regime must guarantee at least the following basic rights: the right to provide electronic communication networks and services, whether public or private; the right to apply for rights to install facilities and to have such applications treated by the relevant NRA in an objective and non-discriminatory way; the right to negotiate access and interconnection with other providers and to obtain support from the NRA when such negotiations with operators with SMP fail (this right is only guaranteed for providers of public services and networks); and the right to be considered for designation as universal service provider or to provide elements of the universal service (this right is only guaranteed for providers of public services and networks). In return for those rights, member States may impose up to 18 categories of conditions that apply to all or certain types of network or service providers.[158] Some other conditions may be imposed in connection with the grant of rights of use of frequencies and numbers. Operations with SMP can be required to offer cost-oriented interconnection, publish a reference offer, unbundle interconnection charges, and to maintain accounting separation between their interconnection and other activities.[159] The NRA has powers of intervention, if necessary, including in dispute resolution.

116. The scope of universal service obligations and provisions on their financing are maintained in the new regulatory framework, subject to periodic review. The basic requirement is still connection to a public telephone network at a fixed location and at an affordable price, as well as directory services and public payphones. Financing universal service continues to be assumed primarily by the network operators, although there is provision for supporting the service from taxpayer funds or by a levy on other market participants. The new framework also introduced number portability for mobile phone subscribers to ensure that switching service providers is less costly, just as was mandated for wire-based operators with SMP, who are also still required to offer carrier selection and carrier pre-selection.[160]

117. In establishing a common regulatory framework, it was necessary to balance the prerogatives of NRAs against the needs of the single market and the prerogatives of the European Commission in maintaining that single market. The new regime preserves the ability, in general, of NRAs to operate unilaterally, but are obliged to notice to the Commission and to other NRAs. The Commission retains the power to require market definition or a designation of SMP to be withdrawn where it would create a barrier to the single EC marketplace, or would be incompatible with EC policy objectives.[161] Full independence of NRAs, both from suppliers and from governments, has been strengthened in the new Framework Directive. In particular, "member states that retain ownership or control of undertakings

[158] Part A of the Authorization Directive lists 18 categories of conditions, including: contributions to the funding of universal service, administrative charges, interoperability of services and interconnection of networks, accessibility of numbers, consumer protection, technical standards, network integrity and security, and restrictions on the transmission of illegal content. Except where it is necessary to guarantee national security, member States cannot impose conditions (under a general authorization) that are not in Part A of the Annex. While undertakings must comply with the conditions of the general authorization, non-compliance with one or more conditions can, generally, not be used by the NRA to stop an undertaking from providing a service or network (European Commission, 2003n).

[159] As of 2002, the Commission discontinued the "best-practice" guidelines for interconnection pricing, put in place in 1998, because operators were providing NRAs with appropriate cost-accounting information to ensure that interconnection charges were cost-oriented. The Interconnection Directive applies both to wire-based and wireless communications, but mobile operators with SMP on the national market for interconnection are required only to offer cost-oriented interconnection. In practice, because the national market for interconnection covers fixed-fixed, fixed-mobile, and mobile-mobile interconnection, most mobile operators' charges for terminating traffic from the fixed network are not subject to cost orientation (European Commission, 2003n).

[160] Number portability allows users to retain their numbers independently of the enterprise providing the service. Carrier selection and pre-selection allow users to use the services of competing operators to make calls by using a short prefix or as a default option.

[161] Scott-Marcus (2002).

providing electronic communications networks and or services shall ensure effective structural separation of the regulatory function from activities associated with ownership or control." This is significant because, despite privatization in the past decade, state involvement is over 50% in Austria, Belgium, Finland, France, Greece, and Germany, and continues to be minor but symbolically important in Ireland, Italy, Portugal, and Spain; it is absent only in Denmark and the United Kingdom.

118. On 10 June 2002, the EC adopted a new Directive on postal services.[162] The Community policy for postal services is aimed at improving the quality of service, maintaining the universal postal service for EC citizens and completing the internal market for postal services. Accordingly, the main changes introduced by the new Directive are: the possibility of completing the internal market in 2009[163]; further opening of the market, including progressive reduction of the reserved area by 1 January 2003 and 1 January 2006[164], and the liberalization of outgoing cross-border mail, except for member States with exceptional circumstances; the prohibition of cross-subsidization of universal services (outside the reserved area) with revenues from services in the reserved area, unless this is strictly necessary to fulfil specific universal service obligations; and the application of the principles of transparency and non-discrimination whenever universal service providers apply special tariffs.

(iv) Transport

(a) Overview

119. Transport accounts for 7% of both GDP and total employment, around 40% of member States' investment, and about 30% of the EC-15's energy consumption. Transport demand, particularly for intra-EC traffic, has grown more or less constantly over the last two decades, by 2.3% a year for goods and 3.1% for passengers. However, there is unequal growth in the different modes of the EC-15 transport. Road transport accounts for 44% of the goods transport market followed by 41% for short sea shipping routes, 8% for rail, and 4% for inland waterways; on the passenger transport market, road accounts for 79%, rail for 6%, and air for 5%. Problems faced by the subsector include congestion on the main road and rail routes, in cities and at certain airports[165]; environmental and public health concerns[166]; poor road safety; and, in general, difficulties in implementing the common transport policy provided for by the Treaty of Rome, including developing the Trans-European Transport Network (TEN-T).[167] Continued economic development, combined with enlargement, could exacerbate these problems.

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[162] Directive 2002/39/EC.

[163] In 2006, the Commission will complete a study evaluating, for each member State, the impact on universal services of the completion of the internal market in 2009. On the basis of the study, the Commission will make a proposal to be approved by the European Parliament and the Council (DG Competition, 2003a).

[164] According to the Commission, as of 2003, the reserved area is limited to the distribution of items of correspondence weighing less than 100 g and whose price is less than 3 times the basic tariff. As of 2006, these thresholds will be respectively lowered to 50 g and 2.5 times the basic tariff.

[165] According to the Commission, daily traffic jams affect 10% (7,500 km), of the EC-15 motorways, while 20% of the rail network are classified as bottlenecks. At 16 of the EC-15 main airports, 30% of flights are delayed for more than 15 minutes. Congestion on roads and airports increases pollution, adding an estimated 6% to the EC-15 fuel consumption (European Commission, 2003w), *Introduction*.

[166] Transport is responsible for about 28% of all EC-15 emissions of CO, the main greenhouse gas (Eurostat, 2003c).

[167] In December 1992, the Commission presented a White Paper on the subsector, in which it undertook to turn the 15 national networks into a single European network by developing all modes of transport. It is a key element for the creation of the EC internal market, and is to be completed by 2010. However, there have been delays, and there is a serious likelihood that the network, in particular the railway (despite taking at least 55% of the TEN-T funds) and inland waterways components, will not be fully completed by then. Current investments

120. Transport in the C-10 had been characterized, in the past, by extensive intervention of the state through subsidization and provision of public transportation, obsolete infrastructure, inefficient use of freight capacity, and limited private mobility. The economic reforms of the 1990s led to a big increase in private car ownership, accompanied by a decline in public transport. At the same time, freight transport underwent a significant restructuring process, with trucks overtaking rail in importance. Apart from the need to develop and upgrade transport networks in the C-10 (upon accession, the C-10 form part of the enlarged TEN-T), issues that still require some attention in terms of harmonization towards the transport *acquis* include: infrastructure organization, technology, safety and environment legislation, market access, fiscal matters, social legislation, and fleet capacity.[168]

121. The White Paper, published in September 2001[169], proposes an Action Plan aimed at bringing about substantial improvements in the subsector by developing a modern, sustainable transport system for 2010. It suggests about 60 measures to make overall transport efficient, of high-quality, and safe; and, at the same time, to shift the balance between modes of transport by revitalizing the railways, promoting sea and inland waterway transport, controlling the growth in air transport, and developing intermodality by combining road-rail, sea-rail or rail-air transport.[170]

122. The Marco Polo and Galileo programmes are two of the key measures that resulted from the White Paper. Some of the main objectives of Marco Polo, adopted on 22 July 2003, are to reduce road congestion, to improve the environmental performance of the freight transport system, and to enhance intermodality. To achieve this, Marco Polo supports actions in all segments of freight transport, logistics, and other relevant markets. It runs from 2003 to 2010, with a budget of € 75 million for the EC-15 during 2003-06; each acceding country will add to the budget.[171] Galileo is a joint initiative by the EC (represented by the Commission), and the European Space Agency (ESA).[172] It is to be fully operational from 2008, and is the first global satellite navigation system designed, *inter alia*, to resolve mobility and transport problems by providing positioning services.

123. All modes of transport in the Community have been liberalized since 1993.[173] However, a few restrictions remain; for example, there is not yet cabotage in rail freight transport, nor is there market opening in rail passenger transport. Liberalization of cabotage in the other modes of transport in the

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amount to € 15-20 billion a year, and it is estimated that the total cost of the TEN-T through to 2010 will be € 400 billion plus additional sums for enlargement. For this reason, on 23 April 2003, the Commission proposed to the Parliament and the Council greater involvement of public-private partnerships (PPP), and new management and financing mechanisms (European Commission, Press Release IP/03/560, 23 April 2003).

[168] European Commission (2003f).

[169] "European transport policy for 2010: time to decide".

[170] Congestion charging, where users pay for the scarce infrastructure they occupy on roads, airports or elsewhere, is also being introduced. One example is the system put in place in London in 2003, which charges motorists for driving into the city's central district, and which may be copied in other European capitals (European Union, 2003w).

[171] Marco Polo should contribute to regain the 1998 freight levels between the various transport modes, by shifting the expected aggregate increase in international road freight traffic of 12 billion tonnes per km annually to short sea shipping, rail, and inland waterways, or to a combination of modes of transport in which road journeys are as short as possible (European Commission, 2003k).

[172] The European Commission is responsible for the political dimension of Galileo and for setting objectives; ESA is responsible for the technical definition, development, and validation of Galileo. The Galileo Joint Undertaking will be responsible for the development of the Galileo programme and the selection of a commercial operator, who will make a significant contribution to the funding of the establishment of Galileo from 2006, and will provide the Galileo services from 2008. Galileo will comprise 30 satellites orbiting at an altitude of nearly 24,000 km. Ground stations will be responsible for management and control (European Communities, 2003b).

[173] See WTO (2002).

EC-15 occurred in stages: 1 January 1993 for inland waterway transport; 1 April 1997 for air cabotage, 1 July 1998 for road transport; and 1 January 1999 for maritime cabotage.[174]

124. The European Regional Development Fund (ERDF) and the Cohesion Fund contribute to the financing of transport infrastructure in the Community, notably in Objective 1 regions. Moreover, half of the Cohesion Fund's resources are allocated to transport infrastructure, particularly the TEN-T. The European Investment Bank (EIB), whose activity is geared towards regional development, also funds transport infrastructure.

(b) Road transport

125. Road transport dominates the carriage of goods and passengers in the Community, and freight transport is estimated to increase by 50% by 2010.[175] In 2001, the EC-15 had 52,748 km of motorways (up from 51,559 km in 2000), with Germany, France and Spain accounting for almost 60% of the total; the C-10 had almost 3,000 km of motorways. In 2000, the number of passenger cars in the EC-15 reached 177.4 million, i.e. 469 cars per 1,000 inhabitants on average; while in the C-10 there were 20.6 million cars, representing 323 cars per 1,000 inhabitants (Malta ranked first with 483).

126. In order to further improve the functioning of road transport, the Commission made proposals in 2003, on, *inter alia*, the initial and periodic training of professional drivers; harmonized rules for national driving bans on lorries; and charging of heavy goods vehicles for the use of certain infrastructures. In addition, new rules on working times for professional drivers were introduced, as well as a "driver's certificate" to make it possible to check that the driver is lawfully employed.

(c) Rail transport

127. The share of goods carried by rail in the Community has decreased steadily over the years, from 21% in 1970 to about 8% currently, compared with 40% in the United States.[176] Passenger traffic by rail is around 300 billion passengers/km (up from 217 billion passengers/km in 1970).[177] New high-speed rail services have resulted in a significant increase in long-distance passenger transport. The total length of railway lines in the EC-15 decreased from 159,784 km in 1998 to 156,353 in 2000; while in the C-10 it remained relatively stable at around 50,000 km., with Poland accounting for almost half of the total.[178] Rail transport is key for achieving a balanced intermodal transport system in the Community.

128. The Commission has identified a number of structural defects in rail transport, such as: lack of EC market integration for rail services due to national regulatory, operational, and technical barriers; lack of proper separation between managers of railway infrastructure and operators of train services; and insufficient quality of rail services due to a lack of competition.[179] To revitalize the railway system and to encourage a shift of goods transport from road to rail, the Council and the

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[174] European Commission (2003w), *Introduction*.

[175] Road transport accounts for 84% of CO2 emissions attributable to the transport subsector (Eurostat, 2003c).

[176] A freight train in the EC travels at an average speed of 18 km per hour. Rail must improve speed and service levels if it is to attract freight traffic from roads (European Commission Press Release IP/03/378, 14 March 2003).

[177] European Commission (2001d).

[178] Eurostat (2003c).

[179] Communication from the Commission to the Council and the European Parliament, "Towards an integrated European railway area", 2002; and DG Competition (2003a).

European Parliament adopted a rail infrastructure package, in early 2001[180], which should have been transposed into national law throughout the EC as from 15 March 2003. However, by March 2004, only France, Belgium, Finland, Portugal, Spain, and Denmark had fully transposed the package into national law.[181] The package requires member States to, *inter alia*, guarantee access rights to the Trans-European rail freight network for international freight services[182]; set charges for the use of infrastructure according to common principles; define transparent and fair rules and procedures for the allocation of train paths; and set up an independent regulatory body in each country to ensure fair and non-discriminatory access conditions for all railways undertakings.

129. In January 2002, the Commission presented a second railway package on which the European Parliament and the Council reached an agreement in principle on 16 March 2004. The reforms aim at establishing an integrated European railway area by, *inter alia*, completing the regulatory framework with European rules on safety and interoperability; establishing an European Railway Agency to coordinate groups of technical experts seeking common solutions on safety and interoperability; further market opening for domestic rail freight and cabotage services; and joining the Intergovernmental Organization for International Carriage by Rail (OTIF).[183] A third railway package proposed by the Commission on 3 March 2004 will complete the regulatory framework for rail in the EC. This latter set of measures includes liberalizing cross-border passenger rail services by 2010; introducing a EC licence for train drivers; clear rules on passenger rights for international rail services, as well as a legal framework for compensations for rail freight services. In addition, the Commission is considering tabling other proposals included in the 2001 transport White Paper, such as deploying the European Rail Traffic Management System (ERTMS) for signalling and telecommunications, giving the regulators stronger powers, simplifying customs procedures, and gradually setting up a priority rail freight network.[184]

(d) Maritime transport

130. The Community is very dependent on maritime transport (including inland waterway transport[185]), which accounts for over 90% and 40% of its external and internal trade, respectively. In 2001, the transport of goods through EC ports reached 3 billion tonnes. The subsector, including shipbuilding, ports, fishing and related industries and services, employs 2.5 million people in the EC. Maritime companies of EC nationals control one third of the world fleet.[186] However, since the mid-1980s there has been a steady drift of the EC fleet towards "flags of convenience" (i.e. countries which are more attractive to ship owners in terms of taxation, social legislation and safety or environmental standards): over 1985-95, the number of EC seafarers employed on EC-flagged ships fell by 37%, while the number of seafarers from non-EC countries on EC-flagged ships rose by 14%.

[180] Directives 2001/12/EC, 2001/13/EC and 2001/14/EC. Member States had two years to transpose the infrastructure package into their national legislation.

[181] Italy transposed the package into national law weeks later. On 16 October 2003, the Commission referred the other nine member States to the Court of Justice (European Commission Press Release IP/03/1400, 16 October 2003).

[182] At the latest from March 2008 onward, the access rights must be extended to the whole European rail network (European Commission Press Release IP/03/378, 14 March 2003).

[183] The OTIF drafts regulations on, for example, the carriage of dangerous goods by rail.

[184] European Commission Press Release IP/04/291, 3 March 2004.

[185] Although there are only six Community countries with interconnected river systems (Austria, Belgium, France, Germany, Luxembourg, and the Netherlands), inland waterway transport accounts for more than one third of intra-EC transport operations. In 1998, inland waterways carried 121,000 tonnes/km of merchandise, a rise by 14% since 1970. This mode of transport also plays a key role in imports and exports passing through north-west Europe and constitutes a major part of the hinterland for the EC's largest seaports (European Commission, 2003u).

[186] Eurostat (2003c).

About half of job losses are thought to be due to flagging out; just 13% of the world's shipping now sails under an EC member state flag, compared with 32% in 1970. According to the Commission, the trend to reflag to EC member States flags has begun thanks to state aid measures (tonnage tax systems) taken recently in several member States. Nevertheless, maritime transport capacity in the EC remains largely underused.[187]

131. On 29 October 2003, the Commission adopted new Guidelines on State Aid to maritime transport, aimed at further ensuring a favourable tax environment for ship owners to counter international competition by open registers and flags of convenience. The Guidelines follow the same approach as the previous 1997 version, but include, *inter alia*, clearer provisions on seafarers tax exemptions[188]; a modified flag-link principle for tax arrangements[189]; and new specific rules for short sea shipping.[190]

132. On the basis of the White Paper, the Commission proposed a legislative framework for ports. The proposal suggested laying down new, clearer rules on, *inter alia*, pilotage, cargo-handling, and stevedoring; simplify the rules governing the operation of ports to bring together all stakeholders (e.g. consignors, ship owners, and carriers) in a one-stop shop; and to integrate social legislation in order to build "motorways of the sea". However, the proposal could not be adopted and is now being reassessed. On inland waterways, the Commission aims to eliminate bottlenecks; standardize technical specifications; harmonize pilots' certificates and the rules on rest times; and develop navigational systems.[191]

133. The Commission is also reviewing the liner conference block exemption[192], which has not been reviewed since it entered into force in 1986. It is based on the assumption that collective rate setting by members of a liner conference is an indispensable prerequisite for reliable liner shipping services. According to an OECD report, such an anti-trust immunity is unjustified because it results in a price-fixing cartel that affects all EC imports and exports carried by sea.[193] The European Liner Affairs Association argues that the agreements have provided a stable structure, and that the prices agreed are benchmarks only.[194]

134. The sinking of the oil tankers "Erika" in December 1999 and "Prestige" in November 2002, prompted new measures to improve maritime safety, aimed, in particular, at avoiding environmental disasters caused by oil tankers. These measures include: more rigorous inspections in ports; ban on

[187] Maritime transport also plays a key part in intermodality, since it allows a way round bottlenecks such as in the Pyrenees between France and Spain or in the Alps between Italy and the rest of Europe (European Commission, 2003m).

[188] Tax exemptions are granted to all seafarers, irrespective of their nationality or residence. However, for seafarers serving on board ships that provide regular passenger services between ports of the EC, such schemes only apply to EC/EEA citizens (European Commission Press Release IP/03/1484, 30 October 2003).

[189] The flag-link principle is the requirement that ships fly the flag of a member State to qualify for state aid. For this purpose, shipping companies operating less than 60% of their tonnage under an EC flag will have to maintain at least the same tonnage under the flag when the new Guidelines enter into force (European Commission Press Release IP/03/1484, 30 October 2003).

[190] Aid may be granted for the launching phase of new services, and must permit transport (of cargo essentially) by road to be carried out wholly or partly by sea. Aid is for a maximum of three years (European Commission Press Release IP/03/1484, 30 October 2003).

[191] European Commission (2003m).

[192] Agreements between shipping lines are known as liner conferences. They are contained in Article 3 of Regulation 4056/86.

[193] OECD (2002a).

[194] *Financial Times*, 4 December 2003.

single hull tankers from EC ports carrying heavy grades of oil (as from 21 October 2003)[195]; establishment of a Community monitoring, inspection, and information system for maritime traffic; creation of compensation fund for oil pollution damage; and the setting up, on 27 June 2002, of the European Maritime Safety Agency (EMSA).[196]

135. The EC favours the international consensus reached in the International Maritime Organization (IMO) on the need to enhance maritime and transport security, and has adopted or is proposing legal measures accordingly. According to the Commission, there is consensus that these measures should be: internationally uniform and developed with international cooperation; based on risk-assessment; and proportionate and balanced. Moreover, security measures should disrupt legitimate trade as little as possible, and should not serve as a pretext for protectionism or create unnecessary barriers to trade.

(e) Air transport

136. Air travel has shown impressive growth in the Community over the last two decades. In terms of passenger km, air traffic increased by an average of 7.4% a year between 1980 and 2001, while traffic at the EC-15 airports has increased five-fold since 1970. In 2001, air transport of passengers reached 769 million in the EC-15 (Germany and the United Kingdom accounting for 20% each of the total, followed by France with 16%), and 30 million in the C-10 (Cyprus was first with almost 10%, followed by the Czech Republic and Poland with 9% each). Despite an important decline after 11 September 2001, air traffic over Europe is expected to grow by 4% a year over the next 15 years. The restructuring process of airlines has continued, including through mergers and alliances.[197]

137. The creation of a "single European sky" by 31 December 2004 is the main Community policy aim in the subsector. The following measures are envisaged: reduction of fragmentation in the sky through the creation of airspace blocks that extend beyond national frontiers; establishment of a strong Community regulator; gradual integration of civil/military management; introduction of interoperability standards; and better coordination of human resources policy on air traffic control activities.[198] The Commission has also proposed harmonizing the qualifications for air traffic controllers by introducing a Community licence.[199]

138. Alongside the creation of a single sky, a new regulatory framework is envisaged to make more efficient use of airport capacity. Proposals for new rules on slot allocation (i.e. the right to take off or land at a specific time at an airport) are due for further consideration during 2004-05. It is envisaged that airport charges be adjusted to encourage the redistribution of flights throughout the day, and intermodality with rail is being promoted to make the two modes complementary. In the aftermath of the 11 September 2001 terrorist attacks, the Commission has been given the task of

[195] European Commission Press Release IP/03/1421, 21 October 2003.

[196] The EMSA began activities at the end of 2002, and, in general, provides technical and scientific advice to the Commission on maritime safety and prevention of pollution by ships.

[197] On 11 February 2004, the Commission cleared the alliance between Air France and KLM. On 10 December 2003, the Commission approved an alliance between British Airways (BA), Iberia, and GB Airways, a franchisee of BA. The Commission is also looking into other cases, such as Lufthansa/Austrian Airlines, BA/SN Brussels Airline, and Air France/Alitalia (European Commission IP/03/1703, 10 December 2003).

[198] On 9 December 2003, an agreement covering the legislative package for the single European sky was reached between the Parliament and the Council. According to the Commission, the single European sky could save airlines between € 1.3 and 1.9 billion through a more efficient use of aircraft and national airspace. Fuel consumption and gas emissions could be cut by 5%, and the number of air traffic control centres to between 12 and 20 from 65 at present (European Commission Press Release IP/03/1702, 10 December 2003).

[199] COM(2001)564.

inspecting and monitoring implementation of new airport security regulations in all EC member States. Rules are under discussion to limit the adverse impact of air traffic on the environment, including a ban on the noisiest aircraft from airports, and reduction of greenhouse gas emissions in accordance with the International Civil Aviation Organization (ICAO). On 15 July 2002, the European Aviation Safety Authority (EASA) was established, with the aim of maintaining high safety standards. New legislation on minimum insurance requirements applicable to air carriers and aircraft operators is due for adoption by mid-2004. Passenger rights, such as the possibility of compensation when travellers are delayed or denied boarding, have been reinforced. A draft legislation amending the current rules for computerized reservation systems (CRS) is likely to be proposed during 2004.

139. On 25 June 2002, the Commission renewed, until 30 June 2005, the block exemption for passenger tariff conferences for the purpose of interlining, as well as for slot allocation and airport scheduling. The renewal is conditional on air carriers that participate in conferences collecting certain data on the extent to which tickets issued in the EEA are at International Air Transport Association (IATA) tariffs, and the relative importance of such tickets for interlining.[200]

(v) Tourism

140. The EC maintains its leading position in world tourism, both as a main source and destination of international tourist flows, accounting for 43% of arrivals and 40% of receipts in non-domestic world tourism in 2000. In 2003, six EC countries (France, Spain, Italy, the United Kingdom, Austria, and Germany) were among the ten leading tourist destinations in the world. The subsector contributes about 5% to the EC-15's real GDP, employs about 8 million people directly (5% of total employment), and accounts for 30% of the total value of external trade in services.[201] As regards tourism by EC citizens, on average, three out of four remain within the EC every year. The expenditure of EC tourists travelling in the EC (three fourths of EC tourists) amounted to € 115 billion in 2000. Over 99% of firms in the subsector are SMEs. The accommodation structure has remained relatively stable in the EC-15 in recent years; bed capacity, for example, went from 9.7 million in 2000 to 9.9 million in 2002. The number of bed places has been rapidly increasing in the C-10, particularly in Slovakia and the Czech Republic. After enlargement, the C-10 will add about 800,000 beds, i.e. around 8% of the EC-15 capacity.[202]

141. Some of the main goals of tourism policy in the EC are: improving quality, competitiveness and sustainability in the subsector, looking after tourists' interests, and ensuring the continuity of its natural and cultural assets. The Treaty of Maastricht included, for the first time, "measures in the sphere of tourism", in the list of Community activities. However, the Treaty gives no particular guidance for a Community tourism policy, and there is no specific legal base for Community measures on tourism.[203]

142. On 21 November 2003, the Commission proposed an EC-drive to enhance the economic, social, and environmental sustainability of European tourism. It emphasizes the need to ensure the

[200] Interlining occurs when a passenger travels with more than one airline or alliance on the same ticket. Most EEA airlines, including all flag carriers, are members of IATA and take part in twice-yearly conferences where they agree fares for interline journeys (DG Competition, 2003a).

[201] Tourism also has an important indirect effect on employment in transport and other related services. If these related activities are taken into account, tourism contributes close to 12% to real GDP and provides 20 million jobs. According to the Commission, travel and tourism jobs will increase by 2 million during the next decade (European Commission2004b).

[202] Eurostat (2004).

[203] This means that any act of the Council of Ministers on tourism requires unanimity among all member States.

consistency of various Community policies and measures affecting the sustainability of the subsector and its competitiveness. The Commission calls for proactive cooperation among tourism enterprises, tourist destinations, and national, regional, and local authorities to address the main challenges faced by the subsector, such as growing demand and changing preferences, while increasing revenues and preserving Europe's cultural integrity. To stimulate efforts in this regard, the Commission intends to establish a Tourism Sustainability Group, in which representatives from all stakeholders will set out guidelines for the subsector.[204]

143. Numerous tourism initiatives receive funding from EC programmes, the most important being the Structural Funds (i.e. ERDF, ESF and EAGGF). During 1994-99, ECU 7.3 billion were granted to the subsector through the Structural Funds[205]. In addition, many local tourism activities also benefit from financial support through other Community programmes, such as those aimed at improving the competitiveness of SMEs, restoration of cultural heritage, and environmental protection. With the exception of most actions under the Structural Funds, the Commission decides on projects or actions to be supported on the basis of co-financing, with resources from national, regional, and local sources, both public and private.

[204] European Commission IP/03/1585, 21 November 2003.
[205] European Commission (2004c).

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APPENDIX TABLES

Table AI.1
Destination of EC exports[a], 1998-02
(US$ billion and per cent)

Description	1998	1999	2000	2001	2002
Total exports	**822.2**	**810.1**	**870.1**	**882.5**	**938.1**
			(Per cent)		
America	31.0	32.7	33.2	32.8	31.8
United States	21.7	23.8	24.4	24.1	23.9
Canada	2.0	2.1	2.2	2.2	2.2
Other America	7.3	6.7	6.6	6.5	5.7
Brazil	2.1	1.8	1.7	1.8	1.5
Mexico	1.3	1.4	1.5	1.5	1.5
Europe	31.8	30.3	30.0	30.4	31.5
EFTA	11.3	11.4	10.3	10.3	9.8
Switzerland	7.8	8.2	7.5	7.5	7.1
Norway	3.3	3.0	2.7	2.6	2.6
Eastern Europe	15.2	14.0	14.2	15.7	16.7
Poland	3.8	3.7	3.5	3.6	3.7
Czech Republic	2.3	2.4	2.5	2.7	2.9
Hungary	2.3	2.4	2.4	2.4	2.5
Former USSR	4.8	3.5	3.7	4.7	5.1
Russian Federation	2.8	1.9	2.1	2.8	3.0
Other Europe	5.4	5.0	5.5	4.4	5.0
Turkey	2.9	2.6	3.1	2.0	2.4
Asia	24.4	24.5	25.2	25.2	24.9
Middle East	6.8	6.6	6.4	6.7	6.9
Saudi Arabia	1.6	1.3	1.3	1.3	1.5
United Arab Emirates	1.2	1.3	1.2	1.4	1.4
Israel	1.5	1.6	1.6	1.4	1.2
East Asia	15.8	16.1	16.9	16.8	16.4
Japan	4.2	4.5	4.7	4.5	4.2
China (P.R.)	2.3	2.5	2.7	3.0	3.4
Hong Kong, China	2.3	2.0	2.1	2.1	2.0
Korea, Rep. of	1.2	1.5	1.7	1.6	1.7
Singapore	1.5	1.5	1.6	1.5	1.4
South Asia	1.7	1.8	1.9	1.6	1.7
India	1.3	1.3	1.4	1.2	1.3
Oceania	2.1	2.2	2.0	2.0	2.1
Australia	1.7	1.8	1.6	1.6	1.6
Africa	7.8	7.3	6.8	6.9	6.8
Sub-Saharan Africa	2.6	2.4	2.3	2.3	2.3
Other Africa	5.2	5.0	4.6	4.6	4.5
Other	2.8	3.0	2.8	2.8	2.9

a The data are on extra-EC exports.

Source: WTO Secretariat calculations, based on Eurostat data.

Table AI.2
Origin of EC imports[a], 1998-02
(US$ billion and per cent)

Description	1998	1999	2000	2001	2002
Total imports	**796.6**	**831.1**	**954.5**	**920.7**	**933.3**
			(Per cent)		
America	28.4	27.4	26.0	25.9	24.5
United States	21.1	20.4	19.0	18.9	17.5
Canada	1.8	1.7	1.8	1.7	1.6
Other America	5.5	5.3	5.2	5.3	5.4
Brazil	1.9	1.7	1.7	1.8	1.8
Europe	26.2	26.4	26.4	28.2	30.3
EFTA	10.7	10.5	10.1	10.0	10.1
Norway	3.6	3.5	4.1	3.9	3.9
Switzerland	6.9	6.7	5.8	5.9	6.0
Eastern Europe	12.2	12.7	13.4	14.9	16.5
Poland	2.3	2.2	2.2	2.6	2.8
Czech Republic	2.1	2.1	2.1	2.4	2.8
Hungary	2.1	2.3	2.1	2.4	2.6
Former USSR	4.0	4.2	5.2	5.4	5.9
Russian Federation	2.7	2.8	3.7	3.8	4.0
Other Europe	3.3	3.2	2.9	3.2	3.6
Turkey	1.9	1.9	1.7	2.0	2.2
Asia	34.1	34.7	34.6	32.6	33.0
Middle East	3.4	4.0	5.0	4.4	4.1
Saudi Arabia	0.9	1.1	1.5	1.3	1.2
East Asia	28.5	28.6	27.6	26.2	26.9
China (P.R.)	5.9	6.3	6.8	7.3	8.3
Japan	9.2	9.2	8.4	7.4	6.9
Korea, Rep. of	2.2	2.3	2.4	2.1	2.3
Chinese Taipei	2.5	2.5	2.5	2.3	2.1
Malaysia	1.7	1.6	1.5	1.3	1.5
Singapore	1.7	1.6	1.5	1.2	1.3
Thailand	1.3	1.3	1.2	1.2	1.1
South Asia	2.2	2.0	2.0	2.0	2.1
India	1.4	1.3	1.2	1.3	1.3
Oceania	1.5	1.3	1.2	1.2	1.2
Africa	7.2	7.0	7.7	8.0	7.7
Sub-Saharan Africa	2.5	2.3	2.3	2.5	2.4
Other Africa	4.6	4.7	5.4	5.5	5.3
South Africa	1.3	1.3	1.4	1.5	1.5
Algeria	0.7	0.8	1.2	1.2	1.1
Other	2.7	3.3	4.2	4.1	3.3

a The data are on extra-EC imports.

Source: WTO Secretariat calculations, based on Eurostat data.

Table AI.3
Structure of EC exports[a], 1998-02[a]
(US$ billion and per cent)

Description	1998	1999	2000	2001	2002
Total exports	**822.2**	**810.1**	**870.1**	**882.5**	**938.1**
			(Per cent)		
Total primary products	11.0	11.0	11.8	10.9	11.1
Agriculture	7.5	7.3	6.8	6.6	6.8
Food	6.4	6.1	5.6	5.5	5.6
Agricultural raw material	1.1	1.2	1.2	1.1	1.2
Mining	3.5	3.7	5.0	4.3	4.3
Ores and other minerals	0.4	0.5	0.5	0.5	0.5
Non-ferrous metals	1.1	1.1	1.3	1.2	1.1
Fuels	1.9	2.2	3.2	2.6	2.7
3330 Crude petroleum	0.2	0.5	0.8	0.6	0.6
Manufactures	86.6	86.2	85.8	86.8	86.6
Iron and steel	2.4	2.0	2.1	2.0	2.0
Chemicals	13.1	14.0	13.8	14.5	15.4
5429 Medicaments, nes	2.0	2.3	2.2	2.6	3.1
5157 Oth.heterocycl.comp.nucl	0.9	1.2	1.5	1.6	1.6
Other semi-manufactures	9.1	9.2	9.0	8.9	9.2
6672 Diamonds.excl.industrial	1.2	1.5	1.7	1.6	1.7
Machinery and transport equipment[b]	47.1	46.3	46.6	46.8	45.5
Power generating machines	2.9	3.1	3.0	3.3	2.9
7149 Parts,jet,gasturbine eng	1.0	1.0	1.1	1.2	1.0
7144 Reaction engines	0.7	0.8	0.8	0.9	0.7
Other non-electrical machinery	13.7	12.4	11.6	12.0	12.2
7284 Mach.appl.spcl indus nes	1.1	1.1	1.0	1.1	1.0
Agricultural machinery and tractors	0.6	0.5	0.5	0.5	0.6
Office machines & telecommunication equipment	8.7	9.4	10.7	9.8	8.4
7764 Electronic microcircuits	1.4	1.5	2.1	1.8	1.5
7599 Parts,data proc. etc.mch	1.1	1.3	1.5	1.5	1.4
7643 TV,radio transmittrs etc	1.1	1.2	1.5	1.3	1.3
7649 Parts,telecommun. equipt	1.2	1.4	1.5	1.4	1.0
7641 Line telephone etc.equip	0.9	1.0	1.2	1.0	0.7
Other electrical machines	5.2	5.1	5.1	5.2	5.0
7725 Switch.apparatus,<1000v	0.7	0.8	0.8	0.7	0.7
Automotive products	9.6	9.4	9.6	9.9	10.8
7812 Pass.transport vehicles	5.3	5.3	5.5	5.7	6.4
7843 Other parts,motor vehicl	2.5	2.5	2.5	2.5	2.7
7132 Intrnl comb.engine vehcl	0.8	0.8	0.8	0.8	0.9
Other transport equipment	6.6	6.5	6.3	6.4	5.9
7924 Aircrft etc.ULW >15000kg	1.7	1.8	1.8	2.0	1.8
7932 Ships,boats,othr.vessels	0.7	0.6	0.6	0.6	0.7
Textiles	2.8	2.6	2.5	2.5	2.5
Clothing	1.9	1.8	1.7	1.8	1.8
Other consumer goods	10.2	10.3	10.1	10.3	10.3
8722 Othr.medical instruments	0.4	0.5	0.5	0.6	0.6
Other	2.4	2.7	2.4	2.3	2.3
9310 Special trans not classd	2.0	2.3	1.9	1.9	2.0
Gold	0.3	0.3	0.3	0.3	0.1

a Data are on extra-EC exports.
b The share of machinery and transport equipment is higher than the sum of the share of its components due to discrepencies in the data.

Source: WTO Secretariat calculations, based on Eurostat data (SITC Rev.3).

Table AI.4
Structure of EC imports[a], 1998-02[a]
(US$ billion and per cent)

Description	1998	1999	2000	2001	2002
Total imports	**796.6**	**831.1**	**954.5**	**920.7**	**933.3**
			(Per cent)		
Total primary products	24.2	23.8	27.1	26.8	26.5
Agriculture	10.9	9.8	8.4	8.7	9.0
Food	8.1	7.4	6.0	6.5	6.8
Agricultural raw material	2.8	2.5	2.4	2.2	2.2
Mining	13.2	14.0	18.6	18.1	17.6
Ores and other minerals	2.0	1.8	1.7	1.7	1.6
Non-ferrous metals	2.5	2.2	2.5	2.3	2.0
Fuels	8.7	10.0	14.4	14.1	13.9
3432 Natural gas, gaseous	1.2	1.0	1.3	1.7	1.6
3212 Other coal, not agglomerated	0.8	0.6	0.6	0.8	0.7
3330 Crude petroleum	5.1	6.6	10.0	8.9	8.8
Manufactures	72.6	73.3	69.6	70.0	70.3
Iron and steel	1.7	1.3	1.4	1.4	1.3
Chemicals	7.8	7.6	6.9	7.5	8.2
5429 Medicaments, nes	0.8	0.9	0.7	1.0	1.3
Other semi-manufactures	6.8	6.9	6.4	6.7	6.7
6672 Diamonds.excl.industrial	1.4	1.7	1.7	1.6	1.6
Machinery and transport equipment	37.6	39.2	38.2	37.0	36.1
Power generating machines	2.3	2.5	2.4	2.4	2.3
7149 Parts,jet,gasturbine eng	1.0	1.1	1.0	1.1	1.0
Other non-electrical machinery	5.6	5.5	5.2	5.2	5.0
Agricultural machinery and tractors	0.2	0.2	0.2	0.2	0.2
Office machines & telecommunication equipment	14.2	14.7	15.6	14.3	13.2
7599 Parts,data proc. etc. mch	3.1	3.2	2.8	2.5	2.2
7526 Input or output units	1.3	1.3	1.2	1.1	1.1
7527 Storage units,data proc.	1.6	1.5	1.2	1.1	1.0
7649 Parts,telecommun. equipt	0.9	1.1	1.2	1.1	1.0
7638 Sound,video recordng etc	0.3	0.4	0.4	0.4	0.8
7643 TV,radio transmitters etc	0.3	0.4	0.7	0.7	0.8
7764 Electronic microcircuits	2.2	2.3	3.2	2.6	2.1
Other electrical machines	4.7	4.8	5.0	4.6	4.5
7731 Insultd wire,etc.condctr	0.6	0.6	0.6	0.7	0.7
Automotive products	5.1	5.5	4.7	4.9	5.5
7812 Pass.transport vehicles	3.0	3.3	2.5	2.5	2.8
7843 Other parts,motor vehicl	1.1	1.2	1.1	1.2	1.4
7132 Intrnl comb.engine vehcl	1.0	1.0	1.0	1.2	1.3
Other transport equipment	5.7	6.1	5.4	5.5	5.7
7924 Aircrft etc.ULW >15000kg	1.3	1.6	1.3	1.2	1.3
Textiles	2.3	2.1	1.8	1.9	1.9
Clothing	5.8	5.6	5.0	5.2	5.5
Other consumer goods	10.6	10.6	9.9	10.3	10.6
Other	3.2	2.9	3.3	3.2	3.2
9310 Special trans not classd	1.8	1.9	2.4	2.2	2.0
Gold	1.4	0.9	0.8	0.9	1.1
9710 Gold,nonmontry excl ores	1.4	0.9	0.8	0.9	1.1

a Data are on extra-EC imports.

Source: WTO Secretariat calculations, based on Eurostat data (SITC Rev.3).

Table AII.1
The EC's regional trade agreements notified to the WTO, as of May 2004

Agreement	Date of entry into force	GATT/WTO notification			
		Date	Related provisions	Type of agreement	Document series
EC – Chile	1-Feb-03	18-Feb-04	Article XXIV	Free trade agreement	WT/REG164
EC – Lebanon	1-Mar-03	4-Jun-03	Article XXIV	Free trade agreement	WT/REG153
EC – Croatia	1-Mar-02	20-Dec-02	Article XXIV	Free trade agreement (interim Agreement)	WT/REG142
EC – Jordan	1-May-02	20-Dec-02	Article XXIV	Free trade agreement	WT/REG141
EC – Mexico	1-Mar-01	21-Jun-02	GATS Art. V	Services agreement	WT/REG109 S/C/N192
EC – FYROM	1-Jun-01	21-Nov-01	Article XXIV	Free trade agreement (interim Agreement)	WT/REG129
EC – South Africa	1-Jan-00	14-Nov-00	Article XXIV	Free trade agreement	WT/REG113
EC – Morocco	1-Mar-00	8-Nov-00	Article XXIV	Free trade agreement	WT/REG112
EC – Israel	1-Jun-00	7-Nov-00	Article XXIV	Free trade agreement	WT/REG110
EC – Mexico	1-Jul-00	1-Aug-00	Article XXIV	Free trade agreement	WT/REG109
EC – Tunisia	1-Mar-98	23-Mar-99	Article XXIV	Free trade agreement	WT/REG69
EC – Andorra	1-Jul-91	25-Feb-98	Article XXIV	Customs union	WT/REG53
EC – Palestinian Authority	1-Jul-97	30-Jun-97	Article XXIV	Free trade agreement	WT/REG43
EC – Bulgaria	1-Feb-95	25-Apr-97	GATS Art. V	Services agreement	WT/REG1 S/C/N/55
EC – Faroe Islands	1-Jan-97	19-Feb-97	Article XXIV	Free trade agreement	WT/REG21
EC – Turkey	1-Jan-96	22-Dec-95	Article XXIV	Customs union	WT/REG22
EC (Treaty of Rome)	1-Jan-58	10-Nov-95	GATS Art. V	Services agreement	WT/REG39 S/C/N/6
EC accession of Austria, Finland and Sweden	1-Jan-95	20-Jan-95	Article XXIV	Accession to customs union	WT/REG3 L/7614/Add.1
EC accession of Austria, Finland and Sweden	1-Jan-95	20-Jan-95	GATS Art. V	Accession to services agreement	WT/REG3 S/C/N/6
EC – Bulgaria	31-Dec-93	23-Dec-94	Article XXIV	Free trade agreement	WT/REG1
EC – Romania	1-May-93	23-Dec-94	Article XXIV	Free trade agreement	WT/REG2
EC accession of Portugal and Spain	1-Jan-86	11-Dec-85	Article XXIV	Accession to customs union	L/5936
EC accession of Greece	1-Jan-81	24-Oct-79	GATT Art. XXIV	Accession to customs union	L/4845

Table AII.1 (cont'd)

Agreement	Date of entry into force	GATT/WTO notification			
		Date	Related provisions	Type of agreement	Document series
EC – Egypt	1-Jul-77	15-Jul-77	Article XXIV	Free trade agreement	WT/REG98
EC – Syria	1-Jul-77	15-Jul-77	Article XXIV	Free trade agreement	WT/REG104
EC – Algeria	1-Jul-76	28-Jul-76	Article XXIV	Free trade agreement	WT/REG105
EC – Norway	1-Jul-73	13-Jul-73	Article XXIV	Free trade agreement	WT/REG137
EC – Iceland	1-Apr-73	24-Nov-72	Article XXIV	Free trade agreement	WT/REG95
EC – Switzerland and Liechtenstein	1-Jan-73	27-Oct-72	Article XXIV	Free trade agreement	WT/REG94
EC accession of Denmark, Ireland and United Kingdom	1-Jan-73	7-Mar-72	Article XXIV	Accession to customs union	L/3677
EC – OCTs	1-Jan-71	14-Dec-70	Article XXIV	Free trade agreement	WT/REG106
EC (Treaty of Rome)	1-Jan-58	24-Apr-57	Article XXIV	Customs union	L/626

Source: WTO Secretariat.

Table AIII.1
Applied MFN tariff averages by HS2, 2004

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
	Total/Average	**10,174**	**10,045**	**6.5**	**0-209.9**	**11.5**	**813,399.9**
01	Live animals	55	52	20.6	0-107.8	30.2	741.2
02	Meat and edible meat offal	232	205	28.9	0-192.2	31.1	3,084.2
03	Fish and crustaceans, molluscs and other aquatic invertebrates	322	322	12.2	0-23	5.7	9,284
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	175	123	38.4	0-209.9	36.8	1,102.8
05	Products of animal origin, not elsewhere specified or included	21	21	0.2	0-5.1	1.1	772.2
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	42	42	6.0	0-10.9	3.4	1,126.5
07	Edible vegetables and certain roots and tubers	107	107	13.2	0-150.1	21.4	2,592.5
08	Edible fruit and nuts; peel of citrus fruit or melons	128	128	10.4	0-118.1	12.2	8,202.5
09	Coffee, tea, maté and spices	42	42	3.1	0-12.5	4.3	3,314.5
10	Cereals	55	55	39.6	0-101.1	27.7	2,745.7
11	Products of the milling industry; malt; starches; insulin; wheat gluten	83	72	22.2	1.2-84.5	16.8	62.2
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	77	76	2.0	0-52.3	6.3	5,655.6
13	Lac; gums, resins and other vegetable saps and extracts	18	18	2.2	0-19.2	5.1	404.9
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	8	8	0.0	0-0	0.0	110.9
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	125	122	8.9	0-75.8	13.4	2,151.5
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	92	90	18.5	0-97.2	11.5	2,758.5
17	Sugars and sugar confectionery	47	36	23.6	2.1-114.4	23.2	1,517.3
18	Cocoa and cocoa preparations	27	27	17.9	0-68.9	12.3	2,653.1
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	51	51	20.3	7.6-49.6	9.6	568.6
20	Preparations of vegetables, fruit, nuts or other parts of plants	311	311	20.9	0-146.9	13.5	2,837.6
21	Miscellaneous edible preparations	42	40	9.6	0-21.1	5.1	1,132.2
22	Beverages, spirits and vinegar	177	167	5.7	0-58.6	10.2	3,433.3
23	Residues and waste from the food industries; prepared animal fodder	66	59	7.0	0-76	13.7	5,708.0
24	Tobacco and manufactured tobacco substitutes	30	30	18.3	2.2-74.9	21.2	1,232.9
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	90	90	0.4	0-5.9	1.0	3,246.8
26	Ores, slag and ash	47	47	0.0	0-0	0.0	7,390.1
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	111	111	1.9	0-8	1.9	117,827.7
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	266	266	4.4	0-6	1.9	4,302.1
29	Organic chemicals	528	528	4.3	0-39.8	3.9	22,494.9
30	Pharmaceutical products	59	59	0.1	0-6.5	0.8	17,986.3

Table AIII.1 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
31	Fertilizers	37	37	4.2	0-6.5	2.9	1,708.5
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	65	65	5.4	0-6.5	2.1	3,095.9
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	59	59	2.9	0-17.3	3.6	3,114.1
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis	35	35	2.0	0-6.5	2.3	1,278.3
35	Albuminoidal substances; modified starches; glues; enzymes	32	32	7.1	0-23.2	5.9	825.8
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10	10	6.3	5.7-6.5	0.3	293.7
37	Photographic or cinematographic goods	58	58	5.6	0-23.3	3.3	1,576.0
38	Miscellaneous chemical products	135	135	5.6	0-22.2	3.1	5,848.9
39	Plastics and articles thereof	257	257	5.4	0-6.5	2.4	16,075.9
40	Rubber and articles thereof	111	111	2.4	0-6.5	2.2	7,938.7
41	Raw hides and skins (other than furskins) and leather	79	79	2.6	0-6.5	2.7	3,540.9
42	Articles of animal gut (other than silk-worm gut)	38	38	5.0	1.7-9.7	2.7	5,646.8
43	Furskins and artificial fur; manufactures thereof	38	38	1.4	0-3.7	1.3	422.8
44	Wood and articles of wood; wood charcoal	164	164	2.6	0-10	3.1	12,309.8
45	Cork and articles of cork	13	13	3.3	0-4.7	2.3	65.5
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	12	12	2.9	0-4.7	1.4	381.1
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	23	23	0.0	0-0	0.0	4,142.2
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	177	177	0.0	0-0	0.0	7,455.0
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	25	25	0.0	0-0	0.0	2,894.4
50	Silk	26	26	5.0	0-7.5	2.7	286.7
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	70	70	4.0	0-8	3.1	1,786.5
52	Cotton	162	162	6.4	0-8	2.2	3,470.1
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	43	43	2.9	0-8	3.0	392.6
54	Man-made filaments	86	86	6.0	3.8-8	2.0	2,872.3
55	Man-made staple fibres	167	167	6.4	4-8	1.9	1,991.7
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	66	66	6.1	3.2-12	2.1	827.0
57	Carpets and other textile floor coverings	39	39	7.4	3-8	1.4	1,124.6

Table AIII.1 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	56	56	7.3	5-8	0.9	611.0
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	42	42	6.3	4-8	1.3	748.0
60	Knitted or crocheted fabrics	65	65	8.0	6.5-8	0.3	684.3
61	Articles of apparel and clothing accessories, knitted or crocheted	171	171	11.7	8-12	1.0	18,912.9
62	Articles of apparel and clothing accessories, not knitted or crocheted	204	204	11.6	6.3-12	1.4	24,306.8
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	91	91	10.0	0-12	3.3	4,379.2
64	Footwear, gaiters and the like; parts of such articles	79	79	9.9	3-17	5.3	9,320.1
65	Headgear and parts thereof	15	15	2.5	0-5.7	1.3	651.6
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	9	9	4.3	2.7-5.2	0.9	312.9
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	8	8	2.8	1.7-4.7	1.2	440.0
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	73	73	1.2	0-3.7	1.1	1,756.0
69	Ceramic products	51	51	4.8	0-12	2.4	2,140.4
70	Glass and glassware	131	131	4.8	0-11	3.0	3,404.5
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	63	63	0.7	0-4	1.4	28,321.8
72	Iron and steel	335	335	0.2	0-7	1.0	10,9989
73	Articles of iron or steel	274	274	1.6	0-3.7	1.6	10,501.7
74	Copper and articles thereof	69	69	3.3	0-5.2	2.1	4,911.8
75	Nickel and articles thereof	18	18	0.6	0-3.3	1.2	2,104.1
76	Aluminium and articles thereof	64	64	6.3	0-10	2.0	9,082.8
78	Lead and articles thereof	13	13	2.7	0-5	2.2	305
79	Zinc and articles thereof	12	12	3.1	0-5	1.6	427.1
80	Tin and articles thereof	8	8	0.0	0-0	0.0	276.4
81	Other base metals; cermets; articles thereof	72	72	3.2	0-9	2.8	1,167.8
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	105	105	3.1	1.7-8.5	1.8	3,930.3
83	Miscellaneous articles of base metal	50	50	2.1	0-3.7	1.1	2,555.2
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,025	1,025	1.7	0-9.7	1.4	113,314.7
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	654	654	2.8	0-14	3.4	103,496.5
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	40	40	1.8	0-3.7	0.6	1,201.4
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	180	180	6.4	0-22	5.4	42,639.2

Table AIII.1 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
88	Aircraft, spacecraft, and parts thereof	34	34	2.1	0-7.7	2.0	11,140.8
89	Ships, boats and floating structures	38	38	1.1	0-2.7	1.0	5,312.7
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	300	300	1.8	0-6.7	1.8	31,435.0
91	Clocks and watches and parts thereof	61	61	3.8	0-11.2	1.9	3,879.9
92	Musical instruments; parts and accessories of such articles	31	31	3.2	1.7-4	0.5	735.5
93	Arms and ammunition; parts and accessories thereof	28	28	2.2	0-3.2	1.1	288.2
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates	87	87	2.2	0-5.7	1.9	14,315.4
95	Toys, games and sports requisites; parts and accessories thereof	79	79	1.9	0-4.7	1.8	10,746.6
96	Miscellaneous manufactured articles	71	71	3.3	0-7.7	1.5	2,051.1
97	Works of art, collectors' pieces and antiques	7	7	0.0	0-0	0.0	2,785.7

Source: WTO Secretariat estimates, based on data provided by the EC authorities.

Table AIII.2
Some recent TBT-related EC Directives and Decisions

Reference	Subject	Date
Commission Directive 2002/41/EC	Adapting to technical progress Directive 95/1/EC of the European Parliament and of the Council on the maximum design speed, maximum torque and maximum net engine power of two- or three-wheel motor vehicles.	17 May 2002
EP and Council Directive 2002/45/EC	Amending for the twentieth time Council Directive 76/769/EEC relating to restrictions on the marketing and use of certain dangerous substances and preparations (short-chain chlorinated paraffins).	25 June 2002
Commission Directive 2002/62/EC	Adapting to technical progress for the ninth time Annex I to Council Directive 76/769/EEC on the approximation of the laws, regulations and administrative provisions of the Member States relating to restrictions on the marketing and use of certain dangerous substances and preparations (organostannic compounds).	9 July 2002
EP and Council Directive 2002/51/EC	On the reduction of the level of pollutant emissions from two-and three-wheel motor vehicles and amending Directive 97/24/EC.	19 July 2002
EP and Council Directive 2002/61/EC	Amending for the nineteenth time Council Directive 76/769/EEC relating to restrictions on the marketing and use of certain dangerous substances and preparations (azocolourants).	19 July 2002
Commission Directive 2002/78/EC	Adapting to technical progress Council Directive 71/320/EEC on the approximation of the laws of the Member States relating to the braking devices of certain categories of motor vehicles and their trailers.	1 October 2002
Commission Directive 2002/80/EC	Adapting to technical progress Council Directive 70/220/EEC relating to measures to be taken against air pollution by emissions from motor vehicles.	3 October 2002
EP and Council Decision No. 2045/2002/EC	Amending Decision No. 1720/1999/EC adopting a series of actions and measures in order to ensure interoperability of and access to trans-European networks for the electronic interchange of data between administrations (IDA).	21 October 2002
EP and Council Decision No. 2046/2002/EC	Amending Decision No. 1719/1999/EC on a series of guidelines, including the identification of projects of common interest, for trans-European networks for the electronic interchange of data between administrations (IDA).	21 October 2002
Commission Directive 2003/1/EC	Adapting to technical progress Annex II to Council Directive 76/768/EEC on the approximation of the laws of the Member States relating to cosmetic products.	6 January 2003
Commission Directive 2003/2/EC	Restrictions on the marketing and use of arsenic (tenth adaptation to technical progress to Council Directive 76/769/EEC).	6 January 2003
Commission Directive 2003/3/EC	Restrictions on the marketing and use of "blue colourant" (twelfth adaptation to technical progress of Council Directive 76/769/EEC).	6 January 2003
Commission Decision	Establishing the classes of reaction-to-fire performance for certain construction products.	17 January 2003
Commission Directive 2003/12/EC	Reclassification of breast implants in the framework of Directive 93/42/EEC concerning medical devices.	3 February 2003
EP and Council Directive 2003/11/EC	Amending for the 24th time Council Directive 76/769/EEC relating to restrictions on the marketing and use of certain dangerous substances and preparations (pentabromodiphenyl ether, octabromodiphenyl ether).	6 February 2003
Commission Directive 2003/16/EC	Adapting to technical progress Annex III to Council Directive 76/768/EEC on the approximation of the laws of the Member States relating to cosmetic products.	19 February 2003
EP and Council Directive 2003/15/EC	Amending Council Directive 76/768/EEC on the approximation of the laws of the Member States relating to cosmetic products.	27 February 2003
Commission Directive 2003/19/EC	Amending for the purposes of adapting to technical progress, Directive 97/27/EC of the European Parliament and of the Council relating to the masses and dimensions of certain categories of motor vehicles and their trailers.	21 March 2003
Commission Decision Document C (2003) 831	On the publication of the reference of standard EN 1495:1997 "Lifting platforms – mast climbing work platforms" in accordance with Directive 98/37/EC of the European Parliament and of the Council.	21 March 2003

Table AIII.2 (cont'd)

Reference	Subject	Date
Commission Decision Document C (2003) 808	On the application of Article 3(3)(e) of Directive 1999/5/EC of the European Parliament and of the Council to radio equipment intended to be used on non-SOLAS vessels and which is intended to participate in the Automatic Identification System (AIS).	25 March 2003
Commission Decision Document C (2003) 1161	On the publication of the reference of standards relating to thermal insulation products, geotextiles, fixed fire-fighting equipment and gypsum blocks in accordance with Council Directive 89/106/EEC.	9 April 2003
Commission Directive 2003/32/EC	Introducing detailed specification as regards the requirements laid down in Council Directive 93/42/EEC with respect to medical devices manufactured utilizing tissues of animal origin.	23 April 2003
EP and Council Directive 2003/34/EC	Amending for the 23rd time Council Directive 76/769/EEC relating to restrictions on the marketing and use of certain dangerous substances and preparations (substances classified as carcinogens, mutagens or substances toxic to reproduction – c/m/r).	26 May 2003
EP and Council Directive 2003/36/EC	Amending, for the 25th time, Council Directive 76/769/EEC on the approximation of the laws, regulations and administrative provisions of the Member States relating to restrictions on the marketing and use of certain dangerous substances and preparations (substances classified as carcinogens, mutagens or substances toxic to reproduction – c/m/r).	26 May 2003
EP and Council Directive 2003/37/EC	On type-approval of agricultural or forestry tractors, their trailers and interchangeable towed machinery, together with their systems, components and separate technical units and repealing Directive 74/150/EEC.	26 May 2003
Commission Decision Document C (2003) 1673	Amending Decision 96/603/EC establishing the list of products belonging to Classes A "No contribution to fire" provided for in Decision 94/611/EC implementing Article 20 of Council Directive 89/106/EEC on construction products.	6 June 2003
EP and Council Directive 2003/44/EC	Amending Directive 94/25/EC on the approximation of the laws, regulations and administrative provisions of the Member States relating to recreational craft.	16 June 2003
EP and Council Directive 2003/53/EC	Amending for the 26th time Council Directive 76/769/EEC relating to restrictions on the marketing and use of certain dangerous substances and preparations (nonylphenol, nonylphenol ethoxylate and cement).	18 June 2003
Commission Directive 2003/63/EC	Amending Directive 2001/83/EC of the European Parliament and of the Council on the Community code relating to medicinal products for human use.	25 June 2003

Source: WTO Secretariat, based on information available online at: http://europa.eu.int/.

Table AI.Estonia 1
Main economic indicators, 1998-02

	1998	1999	2000	2001	2002
Miscellaneous					
GDP (kroons, million)	73,538	76,327	87,379	97,895	108,024
GDP (US$ million)	5,225	5,200	5,149	5,574	6,503
Real GDP (annual percentage change)	4.6	-0.6	7.3	6.5	6.0
Unemployment rate (ILO; per cent)	9.9	12.3	13.7	12.5	10.1
Average consumer price index (end of period; percentage change)	8.2	3.3	4.0	5.8	3.6
Real effective exchange rate index (1995=100)[a]	123.8	137.6	131.1	132.0	134.0
Exchange rate (kroons per US$; period average)	14.1	14.7	17.0	17.6	16.6
Money market interest rate (per cent)	11.66	5.39	5.68	5.31	3.88
Monetary sector	(percentage change, end of year)				
Broad money	4.2	23.7	25.7	23.0	11.2
Share of real GDP	(per cent)				
Agriculture, hunting, forestry and fishing	6.4	6.1	5.5	5.0	4.7
Industry (including mining and construction)	36.5	34.0	36.0	36.2	37.1
Services	57.1	59.9	58.5	58.8	58.2
Government finance	(percentage of GDP)				
Fiscal balance	-0.3	-4.6	-0.7	0.4	1.2
National accounts	(percentage of GDP)				
Private consumption	58.9	58.2	56.3	55.6	57.3
Public consumption	22.6	23.4	21.0	20.0	19.7
Gross fixed capital formation	29.6	24.9	25.4	26.5	28.5
Exports of goods and non-factor services	79.7	77.2	93.7	89.4	84.2
Imports of goods and non-factor services	90.1	82.2	97.7	93.1	93.6
Memorandum					
Current account balance (percentage of GDP)	-9.2	-4.7	-5.8	-6.0	-12.3
Gross external debt (percentage of GDP)	53.3	58.7	58.1	59.4	65.1
Gross international reserves (US$ million)	810.6	853.5	920.6	820.4	1,000.4
Gross international reserves (months of total imports)	2.4	3.3	2.7	2.4	2.4
Import cover (goods; ratio of exports to imports)	70.7	73.7	81.2	81.0	76.1
Trade in goods and non-factor services (percentage of GDP)	169.8	159.4	191.4	182.5	177.8

a The real effective exchange rate index is based on Estonia's 15 major trading partners. An increase in the index indicates real appreciation of the kroon.

Source: IMF, *International Financial Statistics*, various issues, Washington, D.C.

Table AI.Estonia 2
Balance-of-payments, 1998-02
(US$ million)

	1998	1999	2000	2001	2002
Current account	**-478.43**	**-294.64**	**-294.02**	**-338.82**	**-800.10**
Trade balance	**-1,115.24**	**-877.50**	**-768.08**	**-788.67**	**-1,103.54**
Goods exports	2,690.13	2,453.06	3,311.42	3,359.73	3,517.47
Goods imports	-3,805.37	-3,330.56	-4,079.50	-4,148.40	-4,621.01
Services balance	**569.49**	**572.07**	**562.67**	**580.11**	**490.10**
Credit	1,479.63	1,489.68	1,498.99	1,649.28	1,712.74
Debit	-910.14	-917.61	-936.32	-1,069.17	-1,222.64
Income (net)	**-80.99**	**-101.70**	**-204.18**	**-282.25**	**-330.83**
Credit	133.55	133.84	117.56	171.29	199.34
Debit	-214.53	-235.53	-321.74	-453.54	-530.17
Current transfers (net)	**148.30**	**112.48**	**115.58**	**151.99**	**144.17**
Credit	172.94	153.73	144.70	181.40	205.50
Debit	-24.64	-41.25	-29.12	-29.41	-61.33
Capital account	**1.77**	**1.23**	**16.55**	**5.11**	**19.04**
Credit	2.11	1.43	16.78	5.55	20.08
Debit	-0.34	-0.20	-0.23	-0.43	-1.04
Financial account	**508.08**	**418.16**	**392.87**	**269.44**	**805.02**
Direct investment (net)	**574.23**	**222.27**	**323.88**	**342.43**	**152.58**
Direct investment (inflows)	-6.29	-82.91	-63.43	-200.06	-131.95
Direct investment (outflows)	580.52	305.18	387.31	542.49	284.52
Portfolio investment (net)	**-9.76**	**21.01**	**91.16**	**-34.18**	**205.06**
Portfolio investment assets	-10.86	-132.26	15.55	-118.83	-139.87
Portfolio investment liabilities	1.09	153.27	75.61	84.66	344.92
Other investment (net)	**-56.39**	**174.88**	**-22.84**	**-36.66**	**451.38**
Other investment assets	-168.47	-110.32	-166.66	-220.27	51.93
Other investment liabilities	112.08	285.20	143.82	183.61	399.45
Net errors and omissions	**5.89**	**-5.45**	**12.18**	**22.33**	**45.30**
Overall balance	**37.30**	**119.30**	**127.59**	**-41.95**	**69.26**

Source: IMF, *International Financial Statistics*, various issues, Washington, D.C.

Table AI.Estonia 3
Structure of exports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total exports (US$ million)	**1,840.4**	**3,244.8**	**3,017.2**	**3,830.0**	**4,014.6**	**4,336.4**
			(Per cent)			
Total primary products	35.9	32.5	32.7	27.6	25.3	27.9
Agriculture	25.7	25.5	23.2	17.6	18.6	20.5
Food	16.1	15.6	11.0	8.0	10.1	11.8
0721 Cocoa beans	0.2	3.2	2.4	1.6	1.8	2.8
0371 Fish,prepard,presrvd,nes	3.5	1.2	0.9	0.5	1.5	1.3
0222 Milk concentd.,sweetened	2.3	0.7	0.7	0.8	0.9	0.9
Agricultural raw material	9.6	9.9	12.2	9.6	8.5	8.7
2482 Wood,conifer, sawn	2.4	3.2	4.8	3.3	3.0	3.5
2474 Wood,conif,rough,untrted	2.1	2.3	3.1	2.3	1.6	1.3
2475 Wood,non-conif,rough,unt	2.3	1.8	1.7	1.2	1.1	1.0
Mining	10.2	7.0	9.5	10.1	6.7	7.4
Ores and other minerals	2.3	3.0	3.0	3.0	2.3	1.6
Non-ferrous metals	0.8	0.3	2.0	2.5	0.5	0.6
Fuels	7.1	3.7	4.5	4.5	3.9	5.3
Manufactures	64.1	67.5	67.3	72.3	74.7	72.1
Iron and steel	1.2	2.3	1.9	1.0	1.1	1.4
Chemicals	8.3	7.9	6.9	5.6	5.6	5.6
5334 Paints,varnishes etc.	1.0	0.8	0.5	0.6	0.8	0.9
Other semi-manufactures	11.0	11.3	11.9	10.1	12.6	15.1
6911 Metal structures,parts	0.8	2.0	1.9	1.6	2.0	2.2
6912 Aluminium structure,prts	0.0	0.0	0.1	0.5	1.0	1.7
6353 Buildrs.joinery,wood etc	0.5	0.7	0.8	0.7	1.0	1.4
6414 Kraft paper,brd,uncoated	0.0	0.7	0.8	0.7	0.6	0.8
Machinery and transport equipment	19.9	24.5	24.3	36.0	34.2	27.6
Power generating machines	0.5	0.5	0.6	0.6	0.7	1.0
Other non-electrical machinery	2.8	2.9	2.8	2.6	3.4	3.7
Agricultural machinery and tractors	0.3	0.3	0.2	0.2	0.2	0.2
Office machines & telecommunication equipment	7.5	13.2	13.5	25.1	21.4	13.3
7649 Parts,telecommun. equipt	2.0	7.2	7.5	6.6	8.8	6.6
7643 TV,radio transmittrs etc	0.1	4.6	5.1	17.5	11.6	5.7
Other electrical machines	2.0	3.1	3.5	3.4	3.6	4.1
7731 Insultd wire,etc.condctr	0.7	1.4	1.8	1.9	1.7	2.2
Automotive products	5.9	3.8	2.9	3.4	4.2	4.5
7812 Pass.transport vehicles	3.2	2.1	1.3	1.8	2.2	2.0
7843 Other parts,motor vehicl	2.0	1.3	1.4	1.0	1.3	1.8
Other transport equipment	1.1	1.0	0.9	0.8	0.9	1.0
Textiles	5.7	5.2	4.6	4.3	4.5	4.3
Clothing	7.9	6.5	6.9	5.3	5.4	5.7
Other consumer goods	10.1	9.7	10.9	10.0	11.3	12.5
8215 Furniture,nes,of wood	2.1	1.9	2.1	1.7	2.0	1.9
8212 Mattresses, etc.	0.3	0.5	0.9	0.8	1.1	1.6
8211 Convertible seats,parts	0.7	0.8	0.8	0.6	0.9	1.2
8110 Prefabricated buildings	0.6	0.8	1.1	0.9	1.1	1.1

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Estonia 4
Structure of imports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total imports (US$ million)	**2,546.3**	**4,786.8**	**4,109.5**	**5,052.3**	**5,230.0**	**5,863.3**
			(Per cent)			
Total primary products	29.1	26.8	26.2	23.9	22.2	23.5
Agriculture	16.7	19.0	15.8	13.1	13.6	14.4
Food	13.8	16.5	12.9	9.9	10.6	11.5
0721 Cocoa beans	0.1	2.2	1.6	1.2	1.3	1.6
Agricultural raw material	2.9	2.5	2.9	3.3	3.1	2.9
Mining	12.3	7.8	10.4	10.8	8.5	9.1
Ores and other minerals	0.7	1.6	1.7	1.5	0.9	0.9
Non-ferrous metals	0.6	0.6	1.8	2.0	1.0	1.0
Fuels	10.9	5.7	6.9	7.2	6.7	7.2
3432 Natural gas, gaseous	1.9	1.1	1.0	0.9	0.9	0.8
Manufactures	70.8	73.1	73.6	76.0	77.7	76.4
Iron and steel	3.0	4.5	3.3	3.1	3.3	3.4
Chemicals	9.6	9.7	11.1	9.2	9.8	9.9
5429 Medicaments, nes	1.4	1.1	1.3	1.2	1.3	1.3
5532 Cosmetics,make-up etc.	0.3	0.4	0.3	0.3	0.6	0.7
5334 Paints,varnishes etc.	0.8	0.8	0.8	0.7	0.6	0.7
Other semi-manufactures	10.4	9.7	9.6	9.3	10.3	11.2
6912 Aluminium structure,prts	0.1	0.1	0.1	0.7	0.8	1.3
6911 Metal structures,parts	0.6	0.7	0.5	0.4	0.5	0.7
Machinery and transport equipment	29.8	34.8	34.3	41.3	40.1	38.1
Power generating machines	0.6	0.4	0.8	0.5	0.5	1.1
Other non-electrical machinery	6.1	7.1	5.9	6.0	7.9	8.6
7359 Parts,nes,mch-tool w.mtl	0.0	0.0	0.0	0.0	0.0	0.8
Agricultural machinery and tractors	0.6	0.8	0.5	0.5	0.7	0.9
Office machines & telecommunication equipment	10.4	10.0	10.9	12.3	14.2	9.8
7764 Electronic microcircuits	0.1	0.7	1.4	1.2	1.1	2.1
7649 Parts,telecommun. equipt	2.1	3.5	3.2	5.4	7.8	1.8
7643 TV,radio transmittrs etc	0.3	0.6	1.3	0.9	1.4	1.8
7599 Parts,data proc. etc.mch	4.1	0.9	1.1	0.6	0.5	0.7
7763 Diodes,transistors etc.	0.0	0.7	0.7	1.0	0.3	0.7
Other electrical machines	4.7	8.1	9.6	14.9	8.4	8.1
7725 Switch.apparatus,<1000v	0.4	0.8	0.9	1.1	1.1	0.9
7722 Printed circuits	0.0	0.3	0.3	0.6	0.4	0.6
7731 Insultd wire,etc.condctr	0.9	1.0	1.3	1.6	1.2	1.1
7788 Elect machnery,equip,nes	0.3	0.5	1.0	1.1	2.0	2.1
Automotive products	7.0	7.6	5.6	6.3	7.6	8.4
7812 Pass.transport vehicles	3.8	4.3	3.3	4.1	4.9	5.2
7821 Goods vehicles	1.2	1.6	0.8	1.0	1.0	1.1
7843 Other parts,motor vehicl	1.3	1.0	0.9	0.6	0.8	1.0
Other transport equipment	0.9	1.6	1.5	1.1	1.5	2.1
Textiles	6.1	4.1	4.4	3.8	4.0	4.2
Clothing	2.6	2.4	2.4	1.9	2.0	2.0
Other consumer goods	9.4	7.9	8.5	7.5	8.2	7.6
Other	0.1	0.1	0.2	0.1	0.1	0.1
Gold	0.1	0.0	0.0	0.0	0.0	0.0

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Estonia 5
Destination of exports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total exports (US$ million)	**1,840.4**	**3,244.8**	**3,017.2**	**3,830.0**	**4,014.6**	**4,336.4**
			(Per cent)			
America	2.7	2.6	3.6	2.8	3.6	3.5
United States	2.4	1.9	2.5	1.8	2.2	2.2
Canada	0.1	0.2	0.1	0.3	0.4	0.4
Other America	0.2	0.4	1.0	0.6	1.0	1.0
Europe	95.9	95.3	93.4	93.8	88.9	89.5
EC(15)	54.1	55.1	62.8	68.5	59.9	57.2
Finland	21.5	18.9	19.1	27.0	28.5	20.4
Sweden	10.9	16.7	18.6	17.3	11.9	12.4
Germany	7.2	5.5	7.4	7.7	6.2	8.3
United Kingdom	3.3	4.3	5.2	3.9	3.7	4.3
Denmark	3.3	3.6	3.9	2.9	3.0	3.8
Netherlands	4.7	2.2	3.3	4.4	2.6	3.0
France	0.8	0.9	1.2	1.3	1.0	1.2
Italy	0.8	0.7	1.2	1.0	0.9	1.0
Belgium-Luxembourg	0.9	1.2	1.3	1.4	0.9	0.9
Spain	0.1	0.2	0.8	0.6	0.3	0.8
EFTA	2.4	3.7	3.0	3.2	3.3	3.8
Norway	1.9	2.1	2.4	2.2	2.6	3.0
Switzerland	0.3	1.5	0.5	0.7	0.6	0.7
Eastern Europe	38.9	35.7	27.2	21.5	25.2	27.8
Hungary	0.1	0.3	0.2	0.6	0.8	1.0
Poland	1.1	0.5	0.6	0.7	0.7	0.8
Former USSR	37.2	34.7	26.0	19.9	23.4	25.6
Russian Federation	17.7	13.3	9.2	6.8	8.6	10.0
Latvia	7.5	9.4	8.7	7.2	7.4	7.7
Lithuania	4.7	4.7	3.8	3.1	3.6	4.1
Ukraine	3.7	4.9	2.9	1.8	3.0	3.0
Other Europe	0.5	0.8	0.5	0.6	0.5	0.6
Asia	1.0	1.6	2.3	2.6	3.2	3.6
Middle East	0.3	0.4	0.5	0.5	0.6	0.8
East Asia	0.7	1.2	1.6	1.8	2.5	2.6
Korea, Rep. of	0.0	0.2	0.5	0.7	0.5	0.7
South Asia	0.0	0.1	0.2	0.3	0.1	0.2
Oceania	0.0	0.0	0.0	0.1	0.1	0.1
Africa	0.4	0.5	0.7	0.7	0.8	0.7
Sub-Saharan Africa	0.1	0.1	0.1	0.3	0.4	0.3
Other Africa	0.3	0.3	0.5	0.4	0.4	0.4
Other	0.0	0.0	0.0	0.0	3.4	2.5

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Estonia 6
Origin of imports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total imports (US$ million)	**2,546.3**	**4,786.8**	**4,109.5**	**5,052.3**	**5,230.0**	**5,863.3**
			(Per cent)			
America	3.4	5.6	5.1	3.0	3.1	3.6
United States	2.5	4.6	4.4	2.4	2.3	2.8
Canada	0.2	0.3	0.2	0.2	0.2	0.2
Other America	0.7	0.7	0.5	0.5	0.5	0.6
Europe	92.2	83.2	84.6	83.6	79.6	81.0
EC(15)	66.0	60.1	57.8	56.1	51.8	53.6
Italy	2.6	3.3	3.2	2.6	3.2	4.1
Austria	0.7	0.8	0.7	0.6	1.0	1.0
Belgium-Luxembourg	1.6	1.4	1.6	1.5	1.7	2.0
Denmark	2.8	2.8	2.5	2.2	2.3	2.3
United Kingdom	2.2	3.0	2.4	2.2	2.5	2.3
France	1.5	2.5	2.1	2.2	2.4	2.6
Sweden	8.5	9.1	9.3	8.7	8.3	8.4
Germany	9.6	10.8	9.3	8.8	10.2	11.1
Finland	32.6	22.6	22.8	23.8	16.0	15.6
Netherlands	3.1	2.6	2.5	2.1	2.3	2.5
EFTA	1.7	2.2	2.1	2.0	2.1	2.1
Norway	0.8	1.2	1.1	1.2	1.2	1.2
Eastern Europe	24.3	20.4	24.2	25.0	25.1	24.7
Poland	0.6	1.4	1.9	1.7	2.0	2.4
Czech Rep.	0.6	0.5	0.6	0.9	1.5	0.9
Former USSR	22.4	17.8	20.8	21.7	20.4	20.4
Latvia	2.0	2.0	2.2	2.4	2.1	2.3
Ukraine	1.1	1.0	1.0	0.9	1.3	1.3
Lithuania	1.6	1.6	1.6	1.5	2.3	2.8
Russian Federation	16.1	11.1	13.5	14.1	12.5	12.0
Other Europe	0.2	0.4	0.4	0.4	0.6	0.7
Asia	4.2	8.3	8.3	11.9	15.6	13.2
Middle East	0.1	0.1	0.1	0.1	0.1	0.1
East Asia	3.9	7.8	7.9	11.4	15.1	12.6
China	0.4	0.8	1.2	3.1	7.3	4.6
Japan	1.9	5.0	4.7	5.6	4.4	3.8
South Asia	0.2	0.3	0.3	0.4	0.4	0.5
Oceania	0.0	0.5	0.1	0.1	0.2	0.1
Africa	0.1	2.6	1.9	1.4	1.5	2.1
Sub-Saharan Africa	0.1	2.5	1.8	1.3	1.4	1.9
Côte d'Ivoire	0.1	1.8	1.5	0.9	1.2	1.4
Other Africa	0.0	0.1	0.2	0.1	0.1	0.1

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Estonia 7
Structure of customs tariffs, 2002 and 2003
(Per cent)

	MFN 2002	MFN 2003	2003 bound rate
1. Bound tariff lines (% of all tariff lines)	100.0	100.0	100.0
2. Duty free tariff lines (% of all tariff lines)	88.0	88.0	16.0
3. Non-*ad valorem* tariffs (% of all tariff lines)	0.0	0.0	0.0
4. Tariff quotas (% of all tariff lines)	..	..	..
5. Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.0	0.0	0.0
6. Simple average tariff rate	3.3	3.3	10.2
Agricultural products (HS01-24)	14.4	14.4	21.9
Non-agricultural products (HS25-97)	0.0	0.0	6.8
Agricultural products (WTO definition)[a]	15.5	15.5	21.9
Non-agricultural products (WTO definition)[b]	0.1	0.1	7.2
7 Domestic tariff "spikes" (% of all tariff lines)[c]	11.0	10.9	4.6
8. International tariff "spikes" (% of all tariff lines)[d]	9.1	9.0	12.4
9. Overall standard deviation of applied rates	10.0	10.0	9.8
10. "Nuisance" applied rates (% of all tariff lines)[e]	0.0	0.0	3.1

.. Not available.

a WTO Agreement on Agriculture.
b Excludes petroleum.
c Domestic tariff spikes are defined as those exceeding three times the overall simple average applied rate (indicator 6).
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.

Note Indicator 1 is calculated taking into account all tariff lines (i.e. in-quota and out-of-quota lines) while others exclude in-quota lines.

Source: WTO Secretariat calculations, based on data provided by Estonia's authorities.

Table AI.Estonia 8
Applied MFN tariff averages by HS2, 2003

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
	Total/Average	**10,559**	**10,559**	**3.3**	**0-59**	**10.0**	**4,810.6**
01	Live animals	56	56	15.8	0-39	16.7	1.1
02	Meat and edible meat offal	236	236	31.8	0-59	17.6	35.1
03	Fish and crustaceans, molluscs and other aquatic invertebrates	327	327	0.0	0	0.0	31.6
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	179	179	33.8	0-49	7.2	21.0
05	Products of animal origin, not elsewhere specified or included	21	21	1.0	0-20	4.4	2.1
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	42	42	0.0	0	0.0	7.4
07	Edible vegetables and certain roots and tubers	108	108	22.8	0-40	8.9	16.1
08	Edible fruit and nuts; peel of citrus fruit or melons	128	128	8.6	0-30	12.0	30.7
09	Coffee, tea, maté and spices	42	42	0.0	0	0.0	21.8
10	Cereals	61	61	6.6	0-59	15.0	16.0
11	Products of the milling industry; malt; starches; insulin; wheat gluten	82	82	45.9	20-50	8.8	12.5
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	80	80	0.0	0	0.0	10.3
13	Lac; gums, resins and other vegetable saps and extracts	18	18	11.7	0-15	6.4	0.6
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	8	8	0.0	0	0.0	0.0
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	128	128	2.7	0-48	8.1	31.4
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	92	92	28.4	0-39	7.6	8.6
17	Sugars and sugar confectionery	47	47	0.0	0	0.0	25.2
18	Cocoa and cocoa preparations	27	27	0.0	0	0.0	15.2
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	51	51	19.3	0-30	6.4	21.6
20	Preparations of vegetables, fruit, nuts or other parts of plants	322	322	20.0	5-30	11.2	21.9
21	Miscellaneous edible preparations	42	42	13.9	0-30	10.7	31.2
22	Beverages, spirits and vinegar	218	218	1.3	0-30	5.4	52.4
23	Residues and waste from the food industries; prepared animal fodder	66	66	14.7	0-35	12.8	26.7
24	Tobacco and manufactured tobacco substitutes	31	31	0.0	0	0.0	23.6
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	92	92	0.0	0	0.0	14.3
26	Ores, slag and ash	53	53	0.0	0	0.0	11.3
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	119	119	0.0	0	0.0	268.9
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	267	267	0.0	0	0.0	16.4
29	Organic chemicals	550	550	0.0	0	0.0	21.3
30	Pharmaceutical products	59	59	0.0	0	0.0	100.7
31	Fertilizers	37	37	0.0	0	0.0	21.1

Table AI.Estonia 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	67	67	0.0	0	0.0	57.9
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	59	59	0.0	0	0.0	43.8
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis	35	35	0.0	0	0.0	28.1
35	Albuminoidal substances; modified starches; glues; enzymes	32	32	0.0	0	0.0	8.7
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10	10	0.0	0	0.0	2.6
37	Photographic or cinematographic goods	60	60	0.0	0	0.0	8.9
38	Miscellaneous chemical products	136	136	0.0	0	0.0	41.8
39	Plastics and articles thereof	263	263	0.0	0	0.0	198.0
40	Rubber and articles thereof	112	112	0.0	0	0.0	45.6
41	Raw hides and skins (other than furskins) and leather	79	79	0.0	0	0.0	19.2
42	Articles of animal gut (other than silk-worm gut)	38	38	0.0	0	0.0	13.8
43	Furskins and artificial fur; manufactures thereof	41	41	0.0	0	0.0	25.8
44	Wood and articles of wood; wood charcoal	165	165	0.0	0	0.0	115.3
45	Cork and articles of cork	13	13	0.0	0	0.0	0.5
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	12	12	0.0	0	0.0	0.4
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	23	23	0.0	0	0.0	0.6
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	209	209	0.0	0	0.0	112.5
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	33	33	0.0	0	0.0	18.3
50	Silk	26	26	0.0	0	0.0	0.3
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	80	80	0.0	0	0.0	12.9
52	Cotton	162	162	0.0	0	0.0	75.1
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	43	43	0.0	0	0.0	15.1
54	Man-made filaments	86	86	0.0	0	0.0	33.6
55	Man-made staple fibres	167	167	0.0	0	0.0	48.8
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	66	66	0.0	0	0.0	15.1
57	Carpets and other textile floor coverings	39	39	0.0	0	0.0	4.7
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	56	56	0.0	0	0.0	18.3

Table AI.Estonia 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	42	42	0.0	0	0.0	24.2
60	Knitted or crocheted fabrics	65	65	0.0	0	0.0	22.1
61	Articles of apparel and clothing accessories, knitted or crocheted	171	171	0.0	0	0.0	40.6
62	Articles of apparel and clothing accessories, not knitted or crocheted	204	204	0.0	0	0.0	60.8
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	91	91	0.0	0	0.0	21.2
64	Footwear, gaiters and the like; parts of such articles	82	82	0.0	0	0.0	48.9
65	Headgear and parts thereof	15	15	0.0	0	0.0	2.7
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	9	9	0.0	0	0.0	0.6
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	8	8	0.0	0	0.0	0.6
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	74	74	0.0	0	0.0	33.3
69	Ceramic products	53	53	0.0	0	0.0	20.6
70	Glass and glassware	131	131	0.0	0	0.0	37.8
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	63	63	0.0	0	0.0	8.9
72	Iron and steel	432	432	0.0	0	0.0	142.7
73	Articles of iron or steel	273	273	0.0	0	0.0	146.6
74	Copper and articles thereof	69	69	0.0	0	0.0	15.3
75	Nickel and articles thereof	18	18	0.0	0	0.0	7.0
76	Aluminium and articles thereof	64	64	0.0	0	0.0	50.2
78	Lead and articles thereof	13	13	0.0	0	0.0	0.3
79	Zinc and articles thereof	12	12	0.0	0	0.0	4.1
80	Tin and articles thereof	8	8	0.0	0	0.0	0.3
81	Other base metals; cermets; articles thereof	73	73	0.0	0	0.0	0.9
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	105	105	0.0	0	0.0	22.5
83	Miscellaneous articles of base metal	50	50	0.0	0	0.0	43.4
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,075	1,075	0.0	0	0.0	564.6
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	673	673	0.0	0	0.0	865.5
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	40	40	0.0	0	0.0	47.2
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	192	192	0.0	0	0.0	444.4
88	Aircraft, spacecraft, and parts thereof	34	34	0.0	0	0.0	9.1
89	Ships, boats and floating structures	49	49	0.0	0	0.0	19.2

Table AI.Estonia 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	300	300	0.0	0	0.0	91.8
91	Clocks and watches and parts thereof	63	63	0.0	0	0.0	2.9
92	Musical instruments; parts and accessories of such articles	33	33	0.0	0	0.0	1.8
93	Arms and ammunition; parts and accessories thereof	30	30	0.0	0	0.0	2.5
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates	86	86	0.0	0	0.0	80.2
95	Toys, games and sports requisites; parts and accessories thereof	79	79	0.0	0	0.0	23.8
96	Miscellaneous manufactured articles	72	72	0.0	0	0.0	17.8
97	Works of art, collectors' pieces and antiques	7	7	0.0	0	0.0	0.3

Source: WTO Secretariat estimates, based on data provided by Estonia's authorities.

Table AI.Estonia 9
Applied MFN tariff statistics, by ISIC Rev.2 category, 2003

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
			(Per cent)			US$ million
	Total	**10,559**	**3.3**	**0-59**	**10.0**	**4,810.6**
1	Agriculture, hunting, forestry & fishing	618	5.7	0-59	11.8	167.2
11	Agriculture and hunting	444	7.7	0-59	13.3	132.0
12	Forestry and logging	43	2.8	0-15	5.9	27.3
121	Forestry	21	5.7	0-15	7.5	0.4
122	Logging	22	0.0	0-0	0.0	26.9
13	Fishing	131	0.2	0-20	1.7	7.9
1301	Ocean and coastal fishing	112	0.2	0-20	1.9	5.4
1302	Fishing n.e.c.	19	0.0	0-0	0.0	2.5
2	Mining and quarrying	134	0.0	0-0	0.0	26.9
21	Coal mining	6	0.0	0-0	0.0	1.9
22	Crude petroleum and natural gas production	10	0.0	0-0	0.0	1.2
23	Metal ore mining	27	0.0	0-0	0.0	10.5
2301	Mining of iron ores	2	0.0	0-0	0.0	0.1
2302	Non-ferrous ore mining	25	0.0	0-0	0.0	10.5
29	Other mining	91	0.0	0-0	0.0	13.3
2901	Mining of feldspar	44	0.0	0-0	0.0	8.7
2902	Mining of fertilizer and chemical minerals	13	0.0	0-0	0.0	0.2
2903	Salt mining	5	0.0	0-0	0.0	2.8
2909	Mining and quarrying n.e.s.	29	0.0	0-0	0.0	1.6
3	Manufacturing	9,806	3.2	0-59	9.9	4,608.4
3 - 31	- - Manufacturing (excluding food processing)	7,960	0.0	0-15	0.3	4,232.4
31	Manufacture of food, beverages and tobacco	1,846	16.8	0-59	17.1	376.0
311	Food products	1,467	19.4	0-59	17.1	226.6
3111	Meat products	306	30.0	0-59	17.7	39.6
3112	Dairy products	158	33.1	0-38	7.4	21.7
3113	Fruit and vegetable canning	417	19.6	0-30	10.7	34.2
3114	Fish products	251	4.5	0-25	9.6	29.1
3115	Manufacture of oil and fats (veg. and animal)	129	1.4	0-20	4.0	41.0
3116	Grain mill products	116	32.7	0-50	20.4	10.6
3117	Manufacture of bakery products	32	17.0	15-22	3.2	14.0
3118	Sugar products	12	7.5	0-30	13.6	17.3
3119	Cocoa and chocolate confectionery	46	3.9	0-30	10.2	19.1
312	Other food products and animal feeds	147	14.9	0-50	16.4	68.2
3121	Other food products	109	14.3	0-50	17.9	50.8
3122	Manufacture of animal feeds	38	16.6	0-35	11.1	17.4
313	Beverages	222	1.5	0-35	6.3	57.7
3131	Distillation of spirits and alcohol production	58	0.0	0-0	0.0	15.5
3132	Manufacture of wines	147	0.0	0-0	0.0	20.0
3133	Manufacture of malt liquors and malt	8	21.9	0-35	18.1	10.5
3134	Soft drinks and mineral waters	9	17.2	10-25	7.5	11.7
314	Tobacco manufacturing	10	0.0	0-0	0.0	23.5
3140	Tobacco products	10	0.0	0-0	0.0	23.5
32	Textile, wearing apparel and leather industries	1,472	0.0	0-0	0.0	436.6
321	Textiles	1,067	0.0	0-0	0.0	295.1
3211	Textile spinning, weaving and finishing	591	0.0	0-0	0.0	165.8
3212	Made-up textile goods except wearing apparel	98	0.0	0-0	0.0	22.9
3213	Knitted and crocheted fabrics	236	0.0	0-0	0.0	62.7
3214	Carpets and rugs	39	0.0	0-0	0.0	4.7
3215	Cordage, rope, etc	24	0.0	0-0	0.0	3.6
3219	Textiles n.e.c.	79	0.0	0-0	0.0	35.3
322	Manufacture of wearing apparel, except footwear	225	0.0	0-0	0.0	70.4
323	Leather products, except footwear and wearing apparel	122	0.0	0-0	0.0	29.7
3231	Tanning and dressing of leather	60	0.0	0-0	0.0	19.2
3232	Fur dressing and dying	31	0.0	0-0	0.0	2.6
3233	Leather products except footwear	31	0.0	0-0	0.0	7.9
324	Footwear, except vulcanized rubber or plastic footwear	58	0.0	0-0	0.0	41.4
33	Wood and wood products, including furniture	190	0.0	0-0	0.0	123.7

Table AI.Estonia 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
331	Wood and wood products, except furniture	153	0.0	0-0	0.0	80.7
3311	Sawmills and wood mills	110	0.0	0-0	0.0	71.1
3312	Wooden case containers and cane ware	16	0.0	0-0	0.0	6.0
3319	Wood and cork products	27	0.0	0-0	0.0	3.7
332	Manuf. of furniture & fixtures, except primarily of metal	37	0.0	0-0	0.0	43.0
34	Paper, paper products, printing and publishing	267	0.0	0-0	0.0	124.5
341	Paper products	219	0.0	0-0	0.0	95.5
3411	Pulp, paper and paperboard	139	0.0	0-0	0.0	39.6
3412	Containers, paper boxes, paperboard	9	0.0	0-0	0.0	11.0
3419	Articles n.e.s.(stationery)	71	0.0	0-0	0.0	44.9
342	Printing and publishing and allied industries	48	0.0	0-0	0.0	29.0
35	Chemicals, petroleum, coal, rubber, plastics	1,829	0.0	0-15	0.7	871.3
351	Industrial chemicals	1,151	0.0	0-0	0.0	229.6
3511	Basic industrial chemicals	822	0.0	0-0	0.0	66.0
3512	Fertilizers and pesticides	63	0.0	0-0	0.0	30.6
3513	Synthetic resins, plastic materials except glass	266	0.0	0-0	0.0	133.0
352	Other chemicals, incl. pharm.	443	0.1	0-15	1.4	251.7
3521	Paints, varnishes and lacquers	32	0.0	0-0	0.0	45.8
3522	Drugs and medicines	156	0.1	0-15	1.2	96.8
3523	Soaps	38	0.0	0-0	0.0	58.7
3529	Other chemicals n.e.s.	217	0.2	0-15	1.8	50.5
353	Petroleum refineries	70	0.0	0-0	0.0	250.2
354	Manuf. of miscellaneous petroleum & coal products	18	0.0	0-0	0.0	14.2
355	Rubber products	112	0.0	0-0	0.0	50.0
3551	Tyre and tube industries	32	0.0	0-0	0.0	23.3
3559	Rubber products n.e.s.	80	0.0	0-0	0.0	26.7
356	Manufacture of plastic products n.e.s.	35	0.0	0-0	0.0	75.7
36	Non-metallic mineral products except of petrol. & coal	283	0.0	0-0	0.0	89.5
361	Pottery and china	25	0.0	0-0	0.0	8.8
362	Manufacture of glass and glass products	130	0.0	0-0	0.0	30.2
369	Other non-metallic mineral products	128	0.0	0-0	0.0	50.5
3691	Structural clay products	34	0.0	0-0	0.0	13.0
3692	Ciment, lime and plaster	10	0.0	0-0	0.0	1.2
3699	Non-metallic mineral products	84	0.0	0-0	0.0	36.2
37	Basic metal industries	772	0.0	0-0	0.0	232.5
371	Iron and steel basic industries	520	0.0	0-0	0.0	173.9
372	Non-ferrous metal basic industries	252	0.0	0-0	0.0	58.6
38	Fabricated metal products, machinery & equipment	2,840	0.0	0-0	0.0	2,271.3
381	Fabricated metal products, except machinery & equip.	353	0.0	0-0	0.0	211.0
3811	Manufacture of cutlery and hardware	92	0.0	0-0	0.0	44.0
3812	Metal furniture and fixtures	18	0.0	0-0	0.0	9.1
3813	Structural metal products	37	0.0	0-0	0.0	79.2
3819	Fabricated metal prod. excpt mach. & equip. n.e.c.	206	0.0	0-0	0.0	78.7
382	Non-electrical machinery incl. computers	1,053	0.0	0-0	0.0	555.1
3821	Engines and turbines	37	0.0	0-0	0.0	1.7
3822	Agricultural machinery	27	0.0	0-0	0.0	27.1
3823	Metal and woodworking machinery	218	0.0	0-0	0.0	100.2
3824	Special industrial machinery	226	0.0	0-0	0.0	125.7
3825	Office machinery	73	0.0	0-0	0.0	108.2
3829	Non-electrical machinery and equipment, n.e.s.	472	0.0	0-0	0.0	192.3
383	Electrical machinery apparatus, appliances & supplies	684	0.0	0-0	0.0	883.4
3831	Electrical motors and apparatus	157	0.0	0-0	0.0	134.4
3832	Radio, telivision and communication equipment	315	0.0	0-0	0.0	593.9
3833	Electrical appliances and houseware	48	0.0	0-0	0.0	24.7
3839	Electrical apparatus n.e.s.	164	0.0	0-0	0.0	130.4
384	Transport equipment	374	0.0	0-0	0.0	512.7
3841	Ship building and repairing	72	0.0	0-0	0.0	20.2
3842	Raiway and tramway	40	0.0	0-0	0.0	47.2

Table AI.Estonia 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
3843	Motor vehicles	166	0.0	0-0	0.0	423.2
3844	Motorcycles et bicycles	42	0.0	0-0	0.0	8.2
3845	Aircraft manufacture	48	0.0	0-0	0.0	10.5
3849	Other transport equipment n.e.c.	6	0.0	0-0	0.0	3.4
385	Professional and scientific equipment	376	0.0	0-0	0.0	109.1
3851	Prof., scientif., measuring equipment	219	0.0	0-0	0.0	89.6
3852	Photographic and optical goods	94	0.0	0-0	0.0	16.7
3853	Watches and clocks	63	0.0	0-0	0.0	2.9
39	Other manufacturing industries	307	0.0	0-0	0.0	83.0
3901	Jewellery and related articles	21	0.0	0-0	0.0	4.6
3902	Musical instruments	33	0.0	0-0	0.0	1.8
3903	Sporting goods	40	0.0	0-0	0.0	13.4
3909	Other manufacturing n.e.c.	213	0.0	0-0	0.0	63.2
4	Electrical energy	1	0.0	0-0	0.0	8.0

Source: WTO Secretariat calculations, based on data provided by Estonia's authorities.

Table AI.Latvia 1
Main economic indicators, 1998-02

	1998	1999	2000	2001	2002
Miscellaneous					
GDP (lats, million)	3,592	3,890	4,348	4,813	5,195
GDP (US$ million)	6,088	6,649	7,175	7,661	8,412
Real GDP (annual percentage change)	4.8	2.8	6.8	7.9	6.1
Unemployment rate (ILO; per cent)	13.7	14.5	14.6	12.8	11.6
Average consumer price index (end of period; percentage change)	4.7	2.4	2.6	2.5	1.9
Real effective exchange rate index (2000=100)[a]	84	95	100	97	94
Exchange rate (lats per US$; period average)	0.590	0.585	0.607	0.628	0.618
Discount rate (per cent)	4.0	4.0	3.5	3.5	3.0
Monetary sector	(percentage change, end of year)				
Broad money	0.2	5.2	6.0	5.4	7.4
Share of real GDP	(per cent)				
Agriculture, hunting, forestry and fishing	4.4	4.4	4.9	4.8	4.6
Industry (including mining and construction)	30.2	27.0	25.3	24.9	24.8
Services	65.4	68.6	69.8	70.3	70.6
Government finance	(percentage of GDP)				
Fiscal balance	-0.7	-3.8	-3.2	-2.3	-3.0
National accounts	(percentage of GDP)				
Private consumption	64.5	62.9	61.9	62.1	62.7
Public consumption	21.4	20.5	19.7	19.3	19.4
Gross fixed capital formation	27.3	25.2	26.5	27.0	26.4
Exports of goods and non-factor services	51.2	43.9	45.6	44.4	45.5
Imports of goods and non-factor services	64.8	54.2	54.3	55.6	56.1
Memorandum					
Current account balance (percentage of GDP)	-10.6	-9.7	-6.9	-9.6	-7.8
Gross external debt (percentage of GDP)	49.1	57.5	65.7	72.7	78.5
Gross international reserves (US$ million)	801.2	872.0	850.9	1,148.7	1,241.2
Gross international reserves (months of total imports)	2.9	2.9	2.6	3.0	2.9
Import cover (goods; ratio of exports to imports)	64.0	64.8	66.0	62.1	64.1
Trade in goods and non-factor services (percentage of GDP)	116.0	98.1	99.9	100.2	101.6

a The real effective exchange rate index is based on Latvia's 15 major trading partners. An increase in the index indicates real appreciation of the lats.

Source: IMF, *International Financial Statistics,* various issues, Washington, D.C.

Table AI.Latvia 2
Balance-of-payments, 1998-2002
(US$ million)

	1998	1999	2000	2001	2002
Current account	**-649.50**	**-654.30**	**-494.50**	**-731.60**	**-647.26**
Trade balance	**-1,130.20**	**-1,027.00**	**-1,058.20**	**-1,350.50**	**-1,444.23**
Goods exports	2,011.20	1,889.10	2,058.10	2,215.90	2,575.73
Goods imports	-3,141.40	-2,916.10	-3,116.30	-3,566.40	-4,019.96
Services balance	**302.80**	**335.70**	**442.00**	**496.10**	**544.52**
Credit	1,108.40	1,024.20	1,212.10	1,188.80	1,252.34
Debit	-805.60	-688.50	-770.10	-692.70	-707.82
Income (net)	**53.40**	**-55.80**	**24.30**	**44.30**	**-7.30**
Credit	207.40	157.80	215.20	278.20	288.66
Debit	-154.00	-213.60	-190.90	-233.90	-295.96
Current transfers (net)	**124.50**	**92.80**	**97.40**	**78.50**	**259.75**
Credit	137.30	113.80	202.80	221.40	537.40
Debit	-12.80	-21.00	-105.40	-142.90	-277.66
Capital account	**14.10**	**12.60**	**29.60**	**44.60**	**17.72**
Credit	14.10	12.60	38.50	55.90	24.59
Debit	..	..	-8.90	-11.30	-6.87
Financial account	**601.10**	**768.40**	**494.00**	**953.89**	**698.57**
Direct investment (net)	**302.90**	**330.60**	**400.60**	**151.50**	**374.25**
Direct investment (outflows)	-54.00	-17.00	-9.40	-12.40	-8.08
Direct investment (inflows)	356.90	347.60	410.00	163.90	382.33
Portfolio investment (net)	**-6.40**	**273.30**	**-321.30**	**127.00**	**-229.26**
Portfolio investment assets	-33.00	57.90	-346.40	-57.10	-219.71
Portfolio investment liabilities	26.60	215.40	25.10	184.10	-9.55
Other investment (net)	**304.60**	**164.50**	**412.80**	**674.59**	**540.61**
Other investment assets	75.40	-214.10	-360.50	-66.80	-475.91
Other investment liabilities	229.20	378.60	773.30	741.39	1016.52
Net errors and omissions	**96.94**	**38.29**	**-26.23**	**47.45**	**-56.97**
Overall balance	**62.64**	**164.99**	**2.87**	**314.34**	**12.07**

.. Not available.

Source: IMF, *International Financial Statistics*, various issues, Washington, D.C.

Table AI.Latvia 3
Structure of exports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total exports (US$ million)	**1,305.0**	**1,811.1**	**1,723.8**	**1,869.3**	**2,000.7**	**2,284.4**
			(Per cent)			
Total primary products	40.1	41.5	43.6	44.2	41.1	42.3
Agriculture	37.4	37.2	36.4	35.7	34.4	35.2
Food	14.4	10.1	6.2	5.7	8.7	10.1
0371 Fish, prepard, presrvd, nes	5.3	2.0	1.1	1.0	2.4	2.4
1222 Cigarettes contg.tobacco	0.6	0.1	0.2	0.4	0.9	1.4
1124 Spirits	0.2	0.2	0.1	0.1	0.2	1.1
Agricultural raw material	23.0	27.1	30.3	30.0	25.7	25.1
2482 Wood, conifer, sawn	9.7	15.6	19.3	18.8	15.5	14.0
2484 Wood, non-conifer, sawn	0.8	2.1	2.6	2.6	2.6	2.8
2475 Wood, non-conif,rough,unt	4.6	2.6	2.4	3.1	2.2	2.6
2474 Wood, conif,rough,untrted	5.5	2.3	2.9	3.2	3.0	2.5
2461 Wood in chips, particles	0.1	0.3	0.4	0.6	0.9	1.2
Mining	2.7	4.3	7.1	8.5	6.7	7.1
Ores and other minerals	0.7	1.9	2.3	3.4	1.9	1.4
Non-ferrous metals	0.2	0.7	1.9	2.6	3.4	4.2
6841 Alum., alum.alloy, unwrght	0.0	0.5	1.7	2.3	2.8	3.6
Fuels	1.7	1.7	2.9	2.5	1.4	1.5
3223 Peat	0.3	0.5	0.6	0.8	0.8	1.0
Manufactures	58.1	57.8	56.2	55.4	58.6	57.5
Iron and steel	4.9	5.7	6.3	6.2	5.8	5.6
6762 Bar, rod iron, stl.hot-fd	0.2	4.4	5.5	5.6	5.1	4.8
Chemicals	6.9	6.2	6.1	6.4	6.4	5.9
5429 Medicaments, nes	1.8	2.4	2.9	2.6	2.6	2.5
Other semi-manufactures	8.7	11.2	11.5	11.8	13.0	13.8
6343 Plywood,solely of wood	1.6	2.2	3.1	3.1	3.3	3.0
6353 Buildrs.joinery,wood etc	0.1	0.4	1.4	2.3	2.5	2.7
6351 Packings, pallets etc.	0.1	0.4	0.8	1.0	1.2	1.4
Machinery and transport equipment	16.3	9.0	6.6	7.1	8.3	8.3
Power generating machines	0.4	0.4	0.4	0.4	0.5	0.3
Other non-electrical machinery	3.4	2.7	2.2	2.7	2.7	2.5
Agricultural machinery and tractors	0.4	0.3	0.3	0.3	0.4	0.4
Office machines & telecommunication equipment	1.8	1.3	0.9	0.9	1.1	1.1
Other electrical machines	4.3	3.0	1.7	1.7	2.0	2.4
Automotive products	3.3	0.8	0.4	0.5	0.6	0.8
Other transport equipment	3.1	0.8	1.0	1.0	1.4	1.2
Textiles	9.1	7.6	6.2	5.6	5.9	5.7
6516 Oth.synth.filament yarn	0.6	1.1	0.6	0.4	0.9	1.0
Clothing	5.6	9.5	10.2	9.3	9.3	8.3
8453 Jersys, pullovrs, etc.knit	0.5	1.1	1.3	1.3	1.3	0.9
Other consumer goods	6.6	8.6	9.3	9.1	9.9	9.7
8215 Furniture, nes, of wood	1.8	1.6	2.1	2.2	2.7	2.8
8218 Parts, mtl, wood furniture	1.2	1.8	2.0	1.6	1.4	1.4
8928 Printed matter, nes	0.1	1.4	1.3	0.9	1.3	1.1
Other	1.8	0.7	0.2	0.3	0.3	0.3

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Latvia 4
Structure of imports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total imports (US$ million)	**1,818.0**	**3,191.4**	**2,946.8**	**3,190.8**	**3,504.4**	**4,053.7**
			(Per cent)			
Total primary products	34.4	26.2	26.7	28.6	26.5	26.0
Agriculture	12.2	14.8	14.4	14.3	14.2	14.9
Food	10.5	12.8	12.4	12.3	12.4	12.9
0989 Food preparations, nes	0.5	0.9	0.6	0.7	0.6	0.7
1222 Cigarettes contg. tobacco	0.1	0.8	1.1	0.8	0.8	0.6
Agricultural raw material	1.7	1.9	2.0	2.0	1.8	2.1
Mining	22.2	11.5	12.2	14.3	12.3	11.0
Ores and other minerals	0.4	1.0	1.0	1.4	1.0	1.2
Non-ferrous metals	0.6	0.6	0.5	0.6	0.6	0.6
Fuels	21.2	9.9	10.7	12.3	10.7	9.3
3432 Natural gas, gaseous	5.0	3.2	3.0	3.0	2.8	2.4
3510 Electric energy	2.8	0.4	1.6	1.2	1.3	1.4
Manufactures	65.4	73.7	73.3	71.3	73.4	73.9
Iron and steel	2.9	4.0	2.8	3.7	3.7	3.6
Chemicals	12.7	12.5	13.4	12.5	12.4	12.7
5429 Medicaments, nes	2.0	3.1	3.8	3.3	3.3	3.6
Other semi-manufactures	10.1	10.7	10.5	10.4	10.7	10.9
6911 Metal structures, parts	0.6	0.7	0.6	0.7	0.7	0.6
Machinery and transport equipment	25.4	30.7	29.9	28.2	30.0	30.7
Power generating machines	0.8	0.6	0.8	0.7	0.4	1.0
7165 Generating sets	0.1	0.1	0.1	0.1	0.1	0.7
Other non-electrical machinery	7.4	8.6	9.3	8.6	8.8	8.9
7281 Mch-tools, special. indust	0.6	0.5	0.6	0.6	0.6	0.6
Agricultural machinery and tractors	0.6	1.6	1.1	0.8	1.0	1.3
Office machines & telecommunication equipment	4.8	7.1	7.1	6.7	6.7	6.4
7643 TV, radio transmittrs etc	0.6	0.8	0.8	0.7	0.9	1.1
7599 Parts, data proc. etc. mch	0.9	1.3	1.2	1.1	1.0	1.0
7649 Parts, telecommun. equipt	0.8	0.7	0.7	0.5	0.8	0.7
7526 Input or output units	0.2	0.5	0.6	0.6	0.6	0.6
Other electrical machines	4.2	4.5	4.7	4.6	5.0	4.9
7731 Insultd wire, etc.condctr	0.9	0.8	0.7	0.8	1.0	1.0
Automotive products	6.3	8.1	6.7	6.5	7.8	8.0
7821 Goods vehicles	1.1	2.4	1.5	1.2	1.2	1.4
7831 Pub-transport pass vehcl	0.2	0.6	0.4	0.5	0.8	0.6
7843 Other parts, motor vehicl	1.5	1.2	1.2	1.0	1.0	1.1
7812 Pass. transport vehicles	2.8	3.4	3.0	3.2	3.7	3.8
7832 Road tractor, semitrailer	0.1	0.1	0.0	0.3	0.9	0.7
Other transport equipment	1.9	1.7	1.2	1.1	1.3	1.5
Textiles	3.4	3.9	3.8	4.1	4.2	3.9
Clothing	3.7	2.9	3.3	2.9	2.8	2.6
8461 Accessories,notknitted	2.4	1.2	1.3	1.0	0.9	0.7
Other consumer goods	7.3	8.9	9.7	9.5	9.7	9.5
8931 Plastic containers etc.	0.4	0.5	0.6	0.5	0.6	0.6
Other	0.2	0.1	0.1	0.1	0.1	0.1

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Latvia 5
Destination of exports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total exports (US$ million)	**1,305.0**	**1,811.1**	**1,723.8**	**1,869.3**	**2,000.7**	**2,2844**
			(Per cent)			
America	1.4	4.1	6.6	5.1	4.1	5.4
United States	1.3	2.9	5.7	3.8	2.9	4.3
Canada	0.1	0.3	0.4	1.0	0.2	0.4
Other America	0.0	0.9	0.5	0.3	1.0	0.6
Europe	96.9	91.8	91.2	90.9	91.2	90.3
EC(15)	44.0	56.6	62.6	64.6	61.2	60.4
Germany	13.6	15.6	16.9	17.2	16.7	15.5
United Kingdom	9.1	13.5	16.4	17.4	15.6	14.6
Sweden	9.3	10.3	10.7	10.8	9.6	10.5
Denmark	2.0	5.1	6.1	5.8	5.8	5.7
Netherlands	2.0	3.5	3.5	4.0	3.7	3.8
Finland	3.2	2.1	1.9	1.9	2.3	2.3
Italy	1.1	1.8	1.7	1.5	1.8	2.2
France	1.3	1.7	1.8	1.8	1.9	2.0
Belgium-Luxembourg	0.9	1.1	1.4	1.3	1.3	1.1
Ireland	1.1	0.6	0.7	1.6	1.1	0.9
Spain	0.1	0.6	0.6	0.5	0.7	0.7
EFTA	2.2	1.5	1.5	1.5	2.1	2.4
Norway	1.7	0.8	0.8	0.8	1.4	1.7
Eastern Europe	50.5	33.3	26.9	24.4	27.5	27.1
Poland	2.5	1.8	1.8	1.6	1.9	1.6
Former USSR	46.9	30.9	24.2	21.6	24.2	24.3
Lithuania	5.5	7.4	7.5	7.6	8.1	8.4
Estonia	3.1	4.5	4.7	5.3	5.7	6.0
Russian Federation	25.3	12.1	6.6	4.2	5.8	5.9
Ukraine	5.5	2.9	2.9	2.4	1.7	1.8
Belarus	4.3	2.0	1.7	1.2	1.8	1.5
Other Europe	0.2	0.4	0.3	0.4	0.3	0.4
Asia	1.1	3.1	1.4	1.3	2.3	2.2
Middle East	0.5	1.3	0.7	0.6	1.1	0.6
East Asia	0.6	1.7	0.6	0.6	1.2	1.5
Japan	0.3	0.2	0.3	0.4	0.6	0.8
South Asia	0.0	0.1	0.1	0.1	0.1	0.1
Oceania	0.0	0.0	0.0	0.1	0.1	0.1
Africa	0.6	1.0	0.6	2.3	2.0	1.6
Sub-Saharan Africa	0.3	0.1	0.0	1.0	0.3	0.1
Other Africa	0.2	0.9	0.6	1.3	1.7	1.5
Algeria	0.0	0.4	0.1	0.5	1.0	1.0
Other	0.0	0.0	0.2	0.3	0.3	0.3

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Latvia 6
Origin of imports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total imports (US$ million)	**1,818.0**	**3,191.4**	**2,946.8**	**3,190.8**	**3,504.4**	**4,053.7**
			(Per cent)			
America	2.7	3.0	2.4	2.4	2.3	2.0
United States	1.9	2.0	2.0	2.0	1.8	1.6
Canada	0.2	0.3	0.2	0.2	0.2	0.2
Other America	0.6	0.7	0.1	0.2	0.2	0.3
Europe	94.4	94.1	95.1	94.7	94.5	94.5
EC(15)	49.9	55.3	54.5	52.5	52.6	52.9
Italy	2.3	3.6	3.7	3.6	4.1	4.2
Spain	0.4	0.8	0.8	1.0	1.2	1.2
Austria	1.2	1.3	1.3	1.1	1.2	1.4
Belgium-Luxembourg	1.4	2.2	1.9	1.9	1.9	2.0
United Kingdom	2.7	3.1	3.3	2.7	2.4	2.3
France	1.6	2.6	3.2	3.0	2.4	2.6
Denmark	2.9	3.8	3.9	3.6	3.7	3.4
Sweden	8.0	7.2	7.2	6.8	6.5	6.4
Finland	10.4	9.5	9.1	8.6	8.0	8.0
Germany	15.4	16.8	15.1	15.7	17.0	17.2
Netherlands	3.0	3.6	3.9	3.4	3.2	3.4
EFTA	1.7	3.1	3.9	3.0	3.1	3.2
Switzerland	0.9	1.5	2.1	1.8	1.8	1.9
Norway	0.8	1.5	1.7	1.1	1.3	1.3
Eastern Europe	42.6	35.3	36.0	38.6	38.0	37.4
Czech Rep.	0.8	1.4	1.2	1.3	1.4	1.4
Poland	1.9	3.5	4.4	4.7	5.0	5.0
Former USSR	38.8	28.9	28.7	30.7	29.5	29.1
Russian Federation	21.7	11.8	10.5	11.6	9.2	8.8
Estonia	5.1	6.6	6.4	6.2	6.3	6.2
Belarus	3.2	1.7	2.9	3.4	3.9	2.7
Ukraine	2.3	1.9	1.1	1.3	1.4	1.4
Lithuania	5.5	6.3	7.3	7.6	8.5	9.8
Other Europe	0.3	0.4	0.7	0.6	0.8	1.0
Asia	1.9	2.6	2.3	2.2	2.1	2.5
Middle East	0.4	0.9	0.7	0.5	0.4	0.3
East Asia	1.2	1.5	1.4	1.6	1.6	2.0
South Asia	0.2	0.2	0.2	0.2	0.2	0.2
Oceania	0.9	0.2	0.2	0.2	0.1	0.1
Africa	0.1	0.1	0.1	0.1	0.1	0.1
Sub-Saharan Africa	0.0	0.0	0.1	0.1	0.1	0.0
Other Africa	0.1	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.4	0.8	0.8

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Latvia 7
Structure of customs tariffs, 2002
(Per cent)

	MFN
1. Bound tariff lines (% of all tariff lines)	..
2. Duty free tariff lines (% of all tariff lines)	70.3
3. Non-*ad valorem* tariffs (% of all tariff lines)	0.1
4. Tariff quotas (% of all tariff lines)	..
5. Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.1
6. Simple average tariff rate	4.3
Agricultural products (HS01-24)	13.0
Non-agricultural products (HS25-97)	1.7
Agricultural products (WTO definition)[a]	13.1
Non-agricultural products (WTO definition)[b]	2.0
7 Domestic tariff "spikes" (% of all tariff lines)[c]	19.5
8. International tariff "spikes" (% of all tariff lines)[d]	4.4
9. Overall standard deviation of applied rates	8.8
10. "Nuisance" applied rates (% of all tariff lines)[e]	0.6

.. Not available.

a WTO Agreement on Agriculture.
b Excludes petroleum.
c Domestic tariff spikes are defined as those exceeding three times the overall simple average applied rate (Indicator 6).
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.

Note Indicator 1 is calculated taking into account all tariff lines (i.e. in-quota and out-of-quota lines) while others exclude in-quota lines.

Source: WTO Secretariat calculations, based on data provided by Latvia's authorities.

Table AI.Latvia 8
Applied MFN tariff averages by HS2, 2002

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
	Total/Average	**10,562**	**10,555**	**4.3**	**0-75.6**	**8.8**	**4,052.8**
01	Live animals	55	55	14.7	0-45	14.9	16.9
02	Meat and edible meat offal	236	236	23.5	0-36	8.0	43.6
03	Fish and crustaceans, molluscs and other aquatic invertebrates	325	325	7.0	0-15	7.2	23.1
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	175	175	25.0	0-36	10.2	18.6
05	Products of animal origin, not elsewhere specified or included	21	21	11.2	0-15	5.7	2.8
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	42	42	11.9	0-15	5.4	8.1
07	Edible vegetables and certain roots and tubers	123	123	15.6	0-30	5.8	24.2
08	Edible fruit and nuts; peel of citrus fruit or melons	149	149	1.1	0-15	3.8	50.4
09	Coffee, tea, maté and spices	42	42	0.0	0-0	0.0	26.2
10	Cereals	64	64	5.9	0-50	14.6	4.6
11	Products of the milling industry; malt; starches; insulin; wheat gluten	83	83	36.1	0-55	21.8	10.3
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	88	88	6.3	0-50	16.6	8.1
13	Lac; gums, resins and other vegetable saps and extracts	18	18	13.3	0-15	4.9	0.9
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	8	8	15.0	15-15	0.0	0.0
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	128	128	1.6	0-15	4.7	36.8
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	92	92	28.6	15-45	14.2	11.8
17	Sugars and sugar confectionery	51	44	3.6	0-15	5.3	14.0
18	Cocoa and cocoa preparations	27	27	16.7	0-30	15.2	20.6
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	52	52	22.6	0-35	11.5	18.5
20	Preparations of vegetables, fruit, nuts or other parts of plants	330	330	13.7	0-15	3.5	24.9
21	Miscellaneous edible preparations	44	44	8.7	0-15	7.4	47.4
22	Beverages, spirits and vinegar	176	176	4.5	0-75.6	10.2	69.6
23	Residues and waste from the food industries; prepared animal fodder	71	71	14.2	0-50	13.2	25.0
24	Tobacco and manufactured tobacco substitutes	30	30	2.5	0-12	4.6	36.2
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	92	92	0.8	0-15	3.4	19.3
26	Ores, slag and ash	53	53	0.0	0-0	0.0	0.7
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	111	111	0.0	0-0	0.0	375.6
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	266	266	0.0	0-0	0.0	12.6
29	Organic chemicals	550	550	0.0	0-13	0.6	22.7

Table AI.Latvia 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
30	Pharmaceutical products	59	59	0.0	0-0	0.0	183.9
31	Fertilizers	37	37	0.0	0-0	0.0	18.0
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	67	67	0.0	0-0	0.0	48.0
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	59	59	0.9	0-3	1.4	42.5
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis	35	35	0.7	0-3	1.3	28.6
35	Albuminoidal substances; modified starches; glues; enzymes	32	32	0.0	0-0	0.0	17.9
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10	10	8.7	0-20	6.6	0.5
37	Photographic or cinematographic goods	60	60	1.1	0-5	1.1	11.4
38	Miscellaneous chemical products	136	136	0.0	0-0	0.0	36.8
39	Plastics and articles thereof	265	265	0.7	0-11.2	2.2	165.8
40	Rubber and articles thereof	112	112	0.0	0-0	0.0	35.6
41	Raw hides and skins (other than furskins) and leather	79	79	0.0	0-0	0.0	3.7
42	Articles of animal gut (other than silk-worm gut)	38	38	2.6	0-15	2.4	9.5
43	Furskins and artificial fur; manufactures thereof	41	41	3.0	0-15	5.6	1.5
44	Wood and articles of wood; wood charcoal	234	234	0.0	0-0	0.0	66.4
45	Cork and articles of cork	13	13	0.0	0-0	0.0	0.9
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	12	12	15.0	15-15	0.0	0.3
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	23	23	0.0	0-0	0.0	0.5
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	208	208	0.0	0-3.4	0.2	145.9
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	26	26	4.9	0-6.7	3.0	28.2
50	Silk	26	26	0.0	0-0	0.0	0.4
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	80	80	0.0	0-0	0.0	11.0
52	Cotton	162	162	0.6	0-5	1.6	36.4
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	43	43	9.4	0-15	4.7	3.2
54	Man-made filaments	88	88	0.0	0-0	0.0	35.3
55	Man-made staple fibres	168	168	3.0	0-3	0.3	24.2
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	66	66	1.1	0-3	1.5	11.9
57	Carpets and other textile floor coverings	39	39	0.0	0-0	0.0	4.7

Table AI.Latvia 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	56	56	4.6	0-15	7.0	12.0
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	42	42	1.8	0-3	1.5	7.5
60	Knitted or crocheted fabrics	65	65	12.6	0-15	5.5	20.6
61	Articles of apparel and clothing accessories, knitted or crocheted	173	173	14.0	0-15	3.8	35.8
62	Articles of apparel and clothing accessories, not knitted or crocheted	204	204	14.6	0-15	2.0	60.9
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	91	91	2.8	0-3	0.8	14.4
64	Footwear, gaiters and the like; parts of such articles	82	82	1.7	0-3	1.5	28.2
65	Headgear and parts thereof	15	15	2.6	0-3	1.1	1.4
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	9	9	3.0	3-3	0.0	1.2
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	8	8	3.0	3-3	0.0	0.3
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	74	74	11.3	0-15	5.9	42.7
69	Ceramic products	53	53	10.7	3-15	5.8	24.7
70	Glass and glassware	131	131	8.8	0-15	7.1	37.9
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	63	63	1.0	0-3	1.4	8.7
72	Iron and steel	432	432	0.0	0-0	0.0	120.1
73	Articles of iron or steel	273	273	0.5	0-15	2.2	120.0
74	Copper and articles thereof	69	69	0.0	0-0	0.0	7.4
75	Nickel and articles thereof	18	18	0.0	0-0	0.0	0.2
76	Aluminium and articles thereof	64	64	0.0	0-0	0.0	45.1
78	Lead and articles thereof	13	13	0.0	0-0	0.0	0.2
79	Zinc and articles thereof	12	12	0.0	0-0	0.0	1.2
80	Tin and articles thereof	8	8	0.0	0-0	0.0	0.1
81	Other base metals; cermets; articles thereof	73	73	0.0	0-0	0.0	0.6
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	105	105	0.5	0-3	1.1	19.6
83	Miscellaneous articles of base metal	50	50	2.4	0-3	1.2	28.5
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,027	1,027	0.0	0-3	0.2	496.9
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	655	655	0.0	0-0	0.0	365.1
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	40	40	5.8	0-15	7.3	13.4
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	180	180	0.3	0-15	1.9	369.0
88	Aircraft, spacecraft, and parts thereof	34	34	0.0	0-0	0.0	9.7

Table AI.Latvia 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
89	Ships, boats and floating structures	40	40	6.4	0-15	7.5	4.9
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	300	300	0.1	0-3	0.4	78.6
91	Clocks and watches and parts thereof	63	63	0.0	0-0	0.0	3.0
92	Musical instruments; parts and accessories of such articles	34	34	0.4	0-15	2.6	1.0
93	Arms and ammunition; parts and accessories thereof	30	30	12.0	0-15	6.1	3.3
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates	98	98	0.9	0-3	1.4	81.9
95	Toys, games and sports requisites; parts and accessories thereof	79	79	1.6	0-5.6	2.0	26.7
96	Miscellaneous manufactured articles	72	72	2.5	0-3	1.1	13.5
97	Works of art, collectors' pieces and antiques	7	7	0.0	0-0	0.0	0.1

Source: WTO Secretariat estimates, based on data provided by Latvia's authorities.

Table AI.Latvia 9
Applied MFN tariff statistics, by ISIC Rev.2 category, 2002

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
			(Per cent)			US$ million
	Total	**10,562**	**4.3**	**0-75.6**	**8.8**	**4,052.8**
1	Agriculture, hunting, forestry & fishing	686	7.1	0-50	11.4	149.1
11	Agriculture and hunting	490	8.1	0-50	12.7	126.6
12	Forestry and logging	64	4.5	0-15	6.9	16.9
121	Forestry	21	13.6	0-15	4.5	0.3
122	Logging	43	0.0	0-0	0.0	16.7
13	Fishing	132	4.6	0-15	6.3	5.6
1301	Ocean and coastal fishing	114	4.0	0-15	5.9	1.9
1302	Fishing n.e.c.	18	8.5	0-15	7.5	3.7
2	Mining and quarrying	133	0.0	0-0	0.0	24.3
21	Coal mining	6	0.0	0-0	0.0	3.7
22	Crude petroleum and natural gas production	9	0.0	0-0	0.0	5.2
23	Metal ore mining	27	0.0	0-0	0.0	0.0
2301	Mining of iron ores	2	0.0	0-0	0.0	0.0
2302	Non-ferrous ore mining	25	0.0	0-0	0.0	0.0
29	Other mining	91	0.0	0-0	0.0	15.3
2901	Mining of feldspar	44	0.0	0-0	0.0	10.4
2902	Mining of fertilizer and chemical minerals	13	0.0	0-0	0.0	0.3
2903	Salt mining	5	0.0	0-0	0.0	2.9
2909	Mining and quarrying n.e.s.	29	0.0	0-0	0.0	1.8
3	Manufacturing	9,742	4.1	0-75.6	8.6	3,822.8
3 - 31	- - Manufacturing (excluding food processing)	7,925	1.7	0-20	4.3	3,398.4
31	Manufacture of food, beverages and tobacco	1,817	14.7	0-75.6	13.4	424.3
311	Food products	1,477	16.7	0-55	13.4	236.0
3111	Meat products	306	24.7	0-45	11.8	54.5
3112	Dairy products	156	24.7	0-36	10.9	29.2
3113	Fruit and vegetable canning	426	12.6	0-15	5.0	36.1
3114	Fish products	248	9.9	0-15	7.0	22.8
3115	Manufacture of oil and fats (veg. and animal)	129	2.1	0-15	5.2	45.9
3116	Grain mill products	117	29.5	0-55	23.6	9.3
3117	Manufacture of bakery products	33	27.7	0-35	11.5	9.2
3118	Sugar products	16	8.3	0-15	7.9	2.0
3119	Cocoa and chocolate confectionery	46	14.5	0-30	12.0	27.0
312	Other food products and animal feeds	151	7.4	0-30	7.6	84.6
3121	Other food products	108	6.3	0-30	8.0	69.1
3122	Manufacture of animal feeds	43	10.4	0-15	5.5	15.5
313	Beverages	180	4.4	0-75.6	10.1	76.3
3131	Distillation of spirits and alcohol production	55	8.5	0-75.6	15.8	26.6
3132	Manufacture of wines	108	2.5	0-15	5.2	21.0
3133	Manufacture of malt liquors and malt	8	0.0	0-0	0.0	15.3
3134	Soft drinks and mineral waters	9	6.1	0-15	5.5	13.4
314	Tobacco manufacturing	9	7.1	0-12	5.4	27.4
3140	Tobacco products	9	7.1	0-12	5.4	27.4
32	Textile, wearing apparel and leather industries	1,476	5.5	0-15	6.5	316.8
321	Textiles	1,071	4.5	0-15	6.0	216.8
3211	Textile spinning, weaving and finishing	593	2.0	0-15	3.6	121.9
3212	Made-up textile goods except wearing apparel	98	2.4	0-3	1.2	15.3
3213	Knitted and crocheted fabrics	238	13.6	0-15	4.4	56.4
3214	Carpets and rugs	39	0.0	0-0	0.0	4.7
3215	Cordage, rope, etc	24	3.0	3-3	0.0	1.9
3219	Textiles n.e.c.	79	0.9	0-3	1.4	16.7
322	Manufacture of wearing apparel, except footwear	225	13.5	0-15	4.0	66.6
323	Leather products, except footwear and wearing apparel	122	1.4	0-15	3.3	9.9
3231	Tanning and dressing of leather	60	0.0	0-0	0.0	2.1
3232	Fur dressing and dying	31	2.9	0-15	5.4	1.5
3233	Leather products except footwear	31	2.7	0-15	2.6	6.4
324	Footwear, except vulcanized rubber or plastic footwear	58	1.7	0-3	1.5	23.4
33	Wood and wood products, including furniture	240	0.9	0-15	3.3	89.0

Table AI.Latvia 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
331	Wood and wood products, except furniture	193	0.9	0-15	3.6	44.1
3311	Sawmills and wood mills	150	0.0	0-0	0.0	38.7
3312	Wooden case containers and cane ware	16	11.3	0-15	6.7	2.4
3319	Wood and cork products	27	0.0	0-0	0.0	3.0
332	Manuf. of furniture & fixtures, except primarily of metal	47	0.5	0-3	1.1	44.9
34	Paper, paper products, printing and publishing	267	0.5	0-6.7	1.7	167.0
341	Paper products	226	0.0	0-3.4	0.2	127.6
3411	Pulp, paper and paperboard	146	0.0	0-3.4	0.3	49.5
3412	Containers, paper boxes, paperboard	9	0.0	0-0	0.0	23.9
3419	Articles n.e.s.(stationery)	71	0.0	0-0	0.0	54.1
342	Printing and publishing and allied industries	41	3.1	0-6.7	3.4	39.5
35	Chemicals, petroleum, coal, rubber, plastics	1,824	0.4	0-20	1.9	930.5
351	Industrial chemicals	1,152	0.2	0-13	1.1	189.5
3511	Basic industrial chemicals	821	0.0	0-13	0.5	48.8
3512	Fertilizers and pesticides	63	0.0	0-0	0.0	34.6
3513	Synthetic resins, plastic materials except glass	268	0.6	0-11.2	2.1	106.0
352	Other chemicals, incl. pharm.	443	0.9	0-20	3.0	327.2
3521	Paints, varnishes and lacquers	32	0.0	0-0	0.0	37.5
3522	Drugs and medicines	156	0.0	0-0	0.0	184.6
3523	Soaps	38	1.8	0-3	1.5	60.9
3529	Other chemicals n.e.s.	217	1.6	0-20	4.0	44.2
353	Petroleum refineries	64	0.0	0-0	0.0	306.1
354	Manuf. of miscellaneous petroleum & coal products	17	2.6	0-15	5.9	14.5
355	Rubber products	112	0.4	0-3	1.1	35.9
3551	Tyre and tube industries	32	0.0	0-0	0.0	20.1
3559	Rubber products n.e.s.	80	0.6	0-3	1.2	15.8
356	Manufacture of plastic products n.e.s.	36	2.8	0-3	0.7	57.3
36	Non-metallic mineral products except of petrol. & coal	283	9.2	0-15	6.8	104.0
361	Pottery and china	25	8.2	0-15	6.8	8.7
362	Manufacture of glass and glass products	130	8.9	0-15	7.0	33.8
369	Other non-metallic mineral products	128	9.6	0-15	6.7	61.5
3691	Structural clay products	34	10.7	0-15	6.0	17.7
3692	Ciment, lime and plaster	10	7.5	0-15	7.9	4.4
3699	Non-metallic mineral products	84	9.4	0-15	6.9	39.4
37	Basic metal industries	772	0.0	0-0	0.0	194.8
371	Iron and steel basic industries	520	0.0	0-0	0.0	151.3
372	Non-ferrous metal basic industries	252	0.0	0-0	0.0	43.5
38	Fabricated metal products, machinery & equipment	2,755	0.4	0-15	2.2	1,523.9
381	Fabricated metal products, except machinery & equip.	355	0.9	0-15	2.2	157.2
3811	Manufacture of cutlery and hardware	92	1.2	0-3	1.5	33.7
3812	Metal furniture and fixtures	20	0.6	0-3	1.2	10.5
3813	Structural metal products	37	0.3	0-3	0.9	49.8
3819	Fabricated metal prod. excpt mach. & equip. n.e.c.	206	0.8	0-15	2.6	63.1
382	Non-electrical machinery incl. computers	1,005	0.2	0-15	1.8	507.0
3821	Engines and turbines	37	0.0	0-0	0.0	4.6
3822	Agricultural machinery	24	0.0	0-0	0.0	26.7
3823	Metal and woodworking machinery	218	0.1	0-3	0.5	63.8
3824	Special industrial machinery	224	0.0	0-0	0.0	109.2
3825	Office machinery	66	0.0	0-0	0.0	113.0
3829	Non-electrical machinery and equipment, n.e.s.	436	0.5	0-15	2.7	189.7
383	Electrical machinery apparatus, appliances & supplies	666	0.1	0-3	0.4	386.5
3831	Electrical motors and apparatus	157	0.0	0-0	0.0	89.2
3832	Radio, telivision and communication equipment	308	0.0	0-0	0.0	187.3
3833	Electrical appliances and houseware	44	0.1	0-3	0.5	23.2
3839	Electrical apparatus n.e.s.	157	0.2	0-3	0.8	86.7
384	Transport equipment	353	1.5	0-15	4.5	383.4
3841	Ship building and repairing	63	4.0	0-15	6.7	5.8
3842	Raiway and tramway	40	5.8	0-15	7.3	13.4
3843	Motor vehicles	162	0.2	0-15	1.7	343.1

Table AI.Latvia 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
3844	Motorcycles et bicycles	34	0.0	0-0	0.0	7.6
3845	Aircraft manufacture	48	0.0	0-0	0.0	9.8
3849	Other transport equipment n.e.c.	6	2.5	0-15	6.1	3.7
385	Professional and scientific equipment	376	0.0	0-3	0.4	89.8
3851	Prof., scientif., measuring equipment	219	0.0	0-0	0.0	74.4
3852	Photographic and optical goods	94	0.2	0-3	0.7	12.3
3853	Watches and clocks	63	0.0	0-0	0.0	3.0
39	Other manufacturing industries	308	1.9	0-15	2.8	72.4
3901	Jewellery and related articles	21	2.4	0-3	1.2	7.9
3902	Musical instruments	34	0.4	0-15	2.6	1.0
3903	Sporting goods	40	1.9	0-5.6	1.7	13.2
3909	Other manufacturing n.e.c.	213	2.1	0-15	3.1	50.2
4	Electrical energy	1	0.0	0-0	0.0	56.5

Source: WTO Secretariat calculations, based on data provided by Latvia's authorities.

Table AI.Lithuania 1
Main economic indicators, 1998-02

	1998	1999	2000	2001	2002
Miscellaneous					
GDP (litai, million)	43,555	42,608	44,698	47,498	50,679
GDP (US$ million)	10,889	10,652	11,174	11,874	13,927
Real GDP (annual percentage change)	7.3	-1.8	4.0	6.5	6.7
Unemployment rate (per cent)	6.4	8.4	11.5	12.5	11.3
Average consumer price index (end of period; percentage change)	2.4	0.8	1.0	1.3	0.3
Real effective exchange rate index (1995=100)[a]	..	159.8	168.4	165.6	169.8
Exchange rate (litai per US$; end of period)	4.0	4.0	4.0	4.0	3.3
Money market interest rate (per cent)	6.12	6.26	3.60	3.37	2.21
Monetary sector	(percentage change, end of year)				
Broad money	14.5	7.7	16.5	21.4	16.9
Share of real GDP	(per cent)				
Agriculture, hunting, forestry and fishing	10.0	8.5	8.0	7.2	7.1
Industry (including mining and construction)	32.3	31.1	30.3	31.5	30.7
Services	57.7	60.4	61.7	61.3	62.2
Government finance	(percentage of GDP)				
Fiscal balance	-5.9	-8.5	-2.8	-2.0	-1.2
National accounts	(percentage of GDP)				
Private consumption	60.7	64.6	64.2	64.2	63.4
Public consumption	24.7	22.6	22.1	20.2	20.0
Gross fixed capital formation	24.6	22.5	19.2	20.6	20.7
Exports of goods and non-factor services	46.6	39.8	45.7	50.9	54.0
Imports of goods and non-factor services	58.8	50.1	52.2	56.4	59.7
Memorandum					
Current account balance (percentage of GDP)	-11.9	-11.2	-6.0	-4.8	-5.3
Gross external debt (percentage of GDP)	34.4	42.5	43.5	44.4	44.7
Gross international reserves (US$ million)	1,409	1,195	1,311	1,617	2,349
Gross international reserves (months of total imports)	3.1	3.2	3.1	3.2	3.8
Import cover (goods; ratio of exports to imports)	72.3	69.1	78.6	81.5	82.1
Trade in goods and non-factor services (percentage of GDP)	104.9	89.9	97.9	107.0	113.7

.. Not available.

a The real effective exchange rate index is based on Lithuania's 21 major trading partners. An increase in the index indicates real appreciation of the litai.

Source: IMF, *International Financial Statistis*, various issues, Washington, D.C.

Table AI.Lithuania 2
Balance-of-payments, 1998-02
(US$ million)

	1998	1999	2000	2001	2002
Current account	**-1298.21**	**-1193.98**	**-674.90**	**-573.58**	**-720.70**
Trade balance	**-1518.32**	**-1404.56**	**-1103.77**	**-1108.02**	**-1314.87**
Goods exports	3961.57	3146.68	4050.37	4888.95	6028.41
Goods imports	-5479.90	-4551.25	-5154.14	-5996.97	-7343.27
Services balance	**240.51**	**305.48**	**380.08**	**456.68**	**548.74**
Credit	1108.97	1091.54	1058.75	1157.00	1463.71
Debit	-868.46	-786.06	-678.67	-700.33	-914.97
Income (net)	**-255.40**	**-257.74**	**-193.78**	**-179.75**	**-183.34**
Credit	124.58	114.82	185.51	205.70	191.61
Debit	-379.98	-372.56	-379.29	-385.45	-374.95
Current transfers (net)	**235.00**	**162.84**	**242.57**	**257.53**	**228.77**
Credit	240.38	167.40	246.85	262.00	231.72
Debit	-5.38	-4.55	-4.28	-4.48	-2.95
Capital account	**-1.65**	**-3.29**	**2.15**	**1.40**	**56.48**
Credit	0.93	2.67	2.59	1.50	56.85
Debit	-2.58	-5.96	-0.45	-0.10	-0.36
Financial account	**1443.85**	**1060.70**	**702.40**	**777.60**	**1048.39**
Direct investment (net)	**921.33**	**477.84**	**375.18**	**438.73**	**694.78**
Direct investment (outflows)	-4.20	-8.62	-3.70	-7.10	-17.67
Direct investment (inflows)	925.53	486.46	378.88	445.83	712.45
Portfolio investment (net)	**-52.75**	**505.59**	**264.55**	**264.25**	**24.30**
Portfolio investment assets	-10.05	-1.95	-141.38	26.23	-124.51
Portfolio investment liabilities	-42.70	507.54	405.93	238.03	148.81
Other investment (net)	**575.28**	**77.27**	**62.68**	**75.95**	**332.35**
Other investment assets	-24.03	-182.47	39.91	-224.98	154.70
Other investment liabilities	599.30	259.74	22.77	300.93	177.66
Net errors and omissions	**282.86**	**-42.15**	**128.35**	**153.62**	**78.50**
Overall balance	**426.85**	**-178.72**	**157.99**	**359.05**	**462.68**

Source: IMF, *International Financial Statistics*, various issues, Washington, D.C.

Table AI.Lithuania 3
Structure of exports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total exports (US$ million)	**2,705.7**	**3,710.7**	**3,003.8**	**3,809.2**	**4,583.0**	**5,475.3**
			(Per cent)			
Total primary products	42.3	38.5	34.5	39.8	41.6	35.6
Agriculture	25.9	18.1	18.5	16.8	16.6	15.1
Food	18.1	13.8	12.4	11.6	12.3	10.7
0249 Other cheese; curd	0.6	1.6	1.6	1.9	1.9	1.9
0819 Food waste, animal feeds	0.2	1.0	1.1	1.5	1.6	1.6
Agricultural raw material	7.8	4.3	6.1	5.2	4.3	4.5
2482 Wood, conifer, sawn	2.8	1.7	2.4	2.1	1.5	1.6
2484 Wood, non-conifer, sawn	0.2	0.6	1.0	0.7	0.8	0.9
Mining	16.4	20.4	16.0	22.9	24.9	20.5
Ores and other minerals	4.5	1.6	1.4	1.8	1.5	1.6
Non-ferrous metals	0.5	0.1	0.2	0.3	0.3	0.2
Fuels	11.4	18.6	14.4	20.9	23.1	18.6
3510 Electric energy	1.9	3.2	2.5	0.7	1.0	1.5
Manufactures	57.7	61.4	65.3	60.0	58.2	64.2
Iron and steel	2.8	1.0	1.0	1.1	0.9	1.9
6715 Other ferro-alloys	0.1	0.0	0.0	0.0	0.0	1.1
Chemicals	14.3	10.9	11.0	9.5	7.5	7.4
5621 Nitrogenous chem.fertlzr	2.5	2.3	2.1	2.4	2.4	2.0
5629 Fertilizers, nes	1.6	2.5	3.8	2.6	1.4	2.0
5429 Medicaments, nes	1.1	1.2	1.0	0.9	1.0	0.9
Other semi-manufactures	6.4	6.5	6.9	6.6	6.3	5.9
Machinery and transport equipment	15.7	18.8	16.6	17.3	19.9	26.0
Power generating machines	0.3	0.2	0.2	0.3	0.4	0.3
Other non-electrical machinery	2.9	2.6	2.5	2.1	2.3	2.1
Agricultural machinery and tractors	0.3	0.4	0.4	0.3	0.4	0.3
Office machines & telecommunication equipment	4.3	3.8	4.3	4.8	4.7	4.3
7761 TV picture tubes, CRT, etc	2.6	1.9	2.2	2.6	2.2	1.9
Other electrical machines	2.9	3.9	4.1	3.2	3.2	3.2
7731 Insultd wire, etc.condctr	0.8	2.0	2.5	1.9	1.5	1.4
7752 Dom.refrigeratrs, freezrs	1.5	0.9	1.0	0.7	0.9	1.0
Automotive products	3.4	6.2	2.6	3.3	6.2	7.2
7812 Pass.transport vehicles	2.6	5.2	1.8	2.7	5.3	6.3
Other transport equipment	1.9	2.2	2.9	3.6	3.2	8.9
7932 Ships, boats, othr.vessels	0.5	0.3	0.2	0.7	0.7	6.2
Textiles	6.0	6.9	7.4	5.6	4.5	4.2
Clothing	7.6	11.4	15.1	12.7	11.4	10.4
8426 Trousers, breeches etc.	0.6	1.2	1.9	1.7	1.7	1.5
8414 Trousers, breeches,etc.	0.6	1.1	1.7	1.3	1.2	1.0
8427 Blouses, shirt-blouse,etc	0.6	1.0	1.3	1.0	0.9	1.0
Other consumer goods	5.0	5.8	7.3	7.4	7.7	8.4
8215 Furniture, nes, of wood	1.2	1.0	1.6	1.8	1.7	2.1
8931 Plastic containers etc.	0.2	0.5	0.7	0.9	1.3	1.3
8211 Convertible seats, parts	0.3	0.3	0.5	0.5	0.6	1.0
Other	0.0	0.2	0.2	0.2	0.2	0.2

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Lithuania 4
Structure of imports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total imports (US$ million)	**3,648.6**	**5,793.8**	**4,834.5**	**5,456.0**	**6,352.8**	**7,708.6**
			(Per cent)			
Total primary products	40.3	29.5	30.9	36.7	33.9	29.0
Agriculture	17.0	13.2	13.8	12.7	12.1	10.6
Food	13.1	10.6	10.8	9.7	9.2	7.9
Agricultural raw material	3.9	2.6	3.1	3.0	2.9	2.7
Mining	23.3	16.2	17.1	24.0	21.8	18.4
Ores and other minerals	2.9	1.4	1.8	1.6	0.9	1.2
2723 Natural calc.phosphates	0.6	0.7	1.2	1.0	0.4	0.7
Non-ferrous metals	1.0	0.5	0.6	0.6	0.6	0.7
Fuels	19.4	14.3	14.7	21.7	20.3	16.4
3330 Crude petroleum	8.1	8.8	9.9	16.7	15.7	13.0
3432 Natural gas, gaseous	5.1	2.9	3.0	3.4	3.1	2.6
Manufactures	57.8	68.8	66.8	60.7	64.0	68.9
Iron and steel	4.0	2.9	2.4	2.4	2.4	3.8
6715 Other ferro-alloys	0.0	0.0	0.0	0.0	0.0	1.4
Chemicals	12.5	11.9	12.8	12.3	12.2	11.5
5429 Medicaments, nes	1.5	2.3	3.0	2.8	3.1	2.6
5743 Polycarbonates, etc.	0.0	0.1	0.2	0.5	0.7	0.8
Other semi-manufactures	7.3	8.4	8.6	7.5	7.6	7.6
Machinery and transport equipment	21.7	30.7	26.0	24.3	28.2	33.5
Power generating machines	0.2	0.9	1.5	0.9	1.0	1.0
7187 Nuclear reactors,pts nes	0.0	0.6	1.0	0.6	0.5	0.7
Other non-electrical machinery	6.1	7.8	7.6	6.0	6.1	6.4
Agricultural machinery and tractors	0.6	1.1	0.9	0.4	0.6	0.8
Office machines & telecommunication equipment	4.1	5.4	5.0	4.9	5.6	5.7
7643 TV,radio transmittrs etc	0.5	0.9	0.4	0.6	0.9	1.1
7649 Parts, telecommun. equipt	0.5	0.6	0.8	0.7	0.7	0.7
7611 Colour televisn receiver	0.4	0.4	0.3	0.3	0.5	0.6
7526 Input or output units	0.2	0.4	0.4	0.4	0.6	0.5
Other electrical machines	2.9	4.4	4.2	3.7	3.8	4.1
7731 Insultd wire, etc.condctr	1.0	0.9	0.9	0.8	0.8	0.7
7725 Switch.apparatus, <1000v	0.2	0.6	0.6	0.6	0.6	0.6
Automotive products	6.2	10.1	5.7	6.2	9.1	9.7
7821 Goods vehicles	0.7	0.9	0.6	0.5	0.9	0.9
7832 Road tractor, semitrailer	0.1	1.0	0.3	0.8	1.2	0.8
7812 Pass.transport vehicles	3.9	6.8	3.4	4.0	6.1	7.1
7843 Other parts, motor vehicl	0.9	0.8	0.8	0.6	0.5	0.6
Other transport equipment	2.1	2.2	1.9	2.6	2.5	6.6
7932 Ships, boats, othr.vessels	0.2	0.1	0.3	0.8	0.5	4.4
7862 Trailers, transport goods	0.2	0.6	0.2	0.4	0.7	0.6
Textiles	5.2	6.3	7.5	6.6	6.1	5.6
Clothing	1.4	1.4	1.7	1.5	1.6	1.2
Other consumer goods	5.7	7.2	8.0	6.0	6.1	5.8
Other	1.8	1.7	2.2	2.7	2.1	2.1

Source: UNSD, Comtrade database (SITC Rev. 3).

Table AI.Lithuania 5
Destination of exports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total exports (US$ million)	**2,705.7**	**3,710.7**	**3,003.8**	**3,809.2**	**4,583.0**	**5,475.3**
			(Per cent)			
America	1.2	3.7	5.3	5.7	4.4	4.5
United States	0.7	2.8	4.4	4.9	3.8	3.5
Canada	0.1	0.1	0.1	0.3	0.3	0.5
Other America	0.4	0.8	0.8	0.5	0.2	0.4
Europe	97.5	94.6	93.2	92.6	94.1	91.8
EC(15)	36.3	38.0	50.1	47.9	47.8	48.3
United Kingdom	3.1	3.5	5.1	7.8	13.8	13.3
Germany	14.4	13.1	16.0	14.3	12.6	10.4
Denmark	2.7	4.1	6.2	4.9	4.5	5.1
Sweden	2.5	2.6	4.2	4.4	3.7	4.2
France	1.7	3.5	4.7	4.4	3.3	4.1
Netherlands	4.9	2.5	3.5	4.8	2.9	3.2
Italy	1.9	4.1	4.2	2.3	2.0	2.8
Belgium-Luxembourg	1.1	1.3	1.7	1.6	1.6	1.9
Finland	1.1	0.8	1.0	1.3	1.4	1.2
Spain	0.8	1.1	1.5	1.2	1.3	1.1
EFTA	3.2	2.2	2.7	2.5	1.9	4.2
Norway	0.6	0.5	1.1	1.1	1.3	2.4
Switzerland	2.5	1.5	1.6	1.3	0.6	1.8
Eastern Europe	56.9	53.4	39.3	40.5	42.9	37.4
Poland	3.9	3.0	4.5	5.5	6.3	3.5
Former USSR	51.6	49.4	33.3	33.5	35.6	32.6
Russian Federation	20.4	16.5	7.0	7.1	11.0	12.1
Latvia	7.1	11.1	12.8	15.0	12.6	9.7
Estonia	2.2	2.6	2.4	2.3	3.2	3.8
Belarus	10.8	8.9	5.9	2.9	3.9	3.2
Ukraine	7.5	7.8	3.7	4.4	3.4	2.6
Other Europe	1.0	1.0	1.2	1.8	1.5	1.9
Turkey	0.9	0.9	1.0	1.8	1.4	1.7
Asia	1.2	1.5	1.2	1.5	1.2	3.4
Middle East	0.1	0.3	0.3	0.4	0.2	1.4
East Asia	0.9	1.1	0.6	0.8	0.8	1.8
South Asia	0.1	0.2	0.2	0.3	0.2	0.2
Oceania	0.0	0.0	0.0	0.0	0.0	0.0
Africa	0.1	0.1	0.1	0.1	0.3	0.2
Sub-Saharan Africa	0.1	0.0	0.0	0.0	0.1	0.1
Other Africa	0.0	0.1	0.1	0.1	0.1	0.1
Other	0.0	0.1	0.1	0.1	0.1	0.1

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Lithuania 6
Origin of imports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001	2002
Total imports (US$ million)	**3,648.6**	**5,793.8**	**4,834.5**	**5,456.0**	**6,352.8**	**7,708.6**
			(Per cent)			
America	3.4	2.9	3.3	1.9	2.2	3.9
United States	1.9	2.6	2.9	1.5	1.9	2.8
Canada	0.4	0.1	0.1	0.1	0.1	0.2
Other America	1.1	0.2	0.3	0.2	0.2	0.9
Europe	93.2	94.7	93.9	95.4	94.7	84.5
EC(15)	37.1	50.2	49.7	46.5	48.0	44.5
United Kingdom	3.1	3.2	3.8	4.3	3.1	3.3
Belgium-Luxembourg	1.5	2.2	2.5	2.3	2.7	2.0
Netherlands	2.6	3.4	3.7	3.6	3.8	2.2
Finland	3.3	4.2	4.3	3.5	3.3	2.3
Sweden	2.8	3.7	3.6	3.6	3.2	3.3
France	1.6	2.9	2.9	3.0	3.0	3.9
Italy	2.4	3.4	3.4	2.8	3.1	4.9
Germany	14.3	20.0	18.0	17.0	19.3	17.0
Denmark	3.5	4.6	4.9	4.2	4.1	2.9
EFTA	2.4	2.6	2.3	2.2	2.2	2.5
Norway	0.9	0.9	0.8	0.8	0.9	1.5
Eastern Europe	53.2	41.2	41.3	45.9	43.9	36.1
Poland	4.2	6.6	7.0	6.3	6.4	4.8
Czech Rep.	1.7	1.6	1.8	1.5	1.3	1.3
Former USSR	45.3	31.4	30.8	36.9	35.0	28.7
Belarus	3.6	2.3	2.3	1.8	2.0	1.5
Russian Federation	29.5	20.2	19.4	26.7	24.5	21.2
Kazakhstan	1.8	0.2	0.1	0.4	0.1	1.5
Latvia	3.1	3.9	4.6	3.9	4.3	1.6
Ukraine	3.7	1.8	1.5	1.4	1.5	1.6
Other Europe	0.5	0.7	0.6	0.8	0.7	1.4
Asia	1.3	1.8	1.9	1.7	2.0	9.2
Middle East	0.5	0.4	0.4	0.2	0.2	1.1
East Asia	0.7	1.3	1.3	1.3	1.6	7.7
China	0.0	0.3	0.4	0.4	0.7	2.4
Japan	0.2	0.1	0.2	0.1	0.1	2.1
South Asia	0.1	0.1	0.2	0.2	0.2	0.4
Oceania	0.1	0.1	0.1	0.0	0.1	0.1
Africa	0.2	0.0	0.1	0.0	0.1	0.7
Sub-Saharan Africa	0.0	0.0	0.0	0.0	0.0	0.4
Other Africa	0.2	0.0	0.1	0.0	0.0	0.3
Other	1.8	0.5	0.7	1.0	0.9	1.6

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Lithuania 7
Structure of customs tariffs, 2002
(Per cent)

	MFN	Bound rate
1. Bound tariff lines (% of all tariff lines)	100.0	100.0
2. Duty free tariff lines (% of all tariff lines)	69.6	24.3
3. Non-*ad valorem* tariffs (% of all tariff lines)	2.3	2.4
4. Tariff quotas (% of all tariff lines)	..	..
5. Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	2.3	2.4
6. Simple average tariff rate	4.7	10.5
Agricultural products (HS01-24)	13.0	18.6
Non-agricultural products (HS25-97)	2.3	8.1
Agricultural products (WTO definition)[a]	14.0	19.1
Non-agricultural products (WTO definition)[b]	2.3	8.3
7 Domestic tariff "spikes" (% of all tariff lines)[c]	12.7	3.5
8. International tariff "spikes" (% of all tariff lines)[d]	8.7	14.1
9. Overall standard deviation of applied rates	10.2	10.2
10. "Nuisance" applied rates (% of all tariff lines)[e]	0.0	0.2

.. Not available.

a WTO Agreement on Agriculture.
b Excludes petroleum.
c Domestic tariff spikes are defined as those exceeding three times the overall simple average applied rate (indicator 6).
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.

Note Indicator 1 is calculated taking into account all tariff lines (i.e. in-quota and out-of-quota lines) while others exclude in-quota lines.

Source: WTO Secretariat calculations, based on data provided by Lithuania's authorities.

Table AI.Lithuania 8
Applied MFN tariff averages by HS2, 2002

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
	Total/Average	**11,071**	**10,813**	**4.7**	**0-87**	**10.2**	**7,557.2**
01	Live animals	60	60	18.3	0-20	5.6	2.4
02	Meat and edible meat offal	251	251	32.1	0-50	12.5	24.9
03	Fish and crustaceans, molluscs and other aquatic invertebrates	361	361	1.1	0-30	5.7	71.4
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	179	179	32.9	0-54	10.3	14.9
05	Products of animal origin, not elsewhere specified or included	26	26	3.7	0-5	2.3	12.2
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	47	47	11.0	5-50	11.9	5.2
07	Edible vegetables and certain roots and tubers	123	123	8.9	0-50	11.9	24.3
08	Edible fruit and nuts; peel of citrus fruit or melons	143	143	2.4	0-20	4.8	72.4
09	Coffee, tea, maté and spices	42	42	2.1	0-5	2.5	33.7
10	Cereals	55	55	5.3	0-50	14.0	19.1
11	Products of the milling industry; malt; starches; insulin; wheat gluten	91	91	20.0	0-50	15.3	17.4
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	79	79	0.8	0-30	4.7	18.0
13	Lac; gums, resins and other vegetable saps and extracts	19	19	3.2	0-5	2.5	1.9
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	8	8	5.0	5-5	0.0	0.1
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	146	146	4.4	0-50	9.1	49.9
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	94	94	33.5	5-50	15.6	15.4
17	Sugars and sugar confectionery	54	46	42.3	0-87	35.3	13.2
18	Cocoa and cocoa preparations	69	69	27.0	0-35	8.8	18.8
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	66	66	18.0	0-35	14.7	17.7
20	Preparations of vegetables, fruit, nuts or other parts of plants	359	359	6.5	0-40	7.3	29.3
21	Miscellaneous edible preparations	88	86	5.4	0-30	5.6	56.3
22	Beverages, spirits and vinegar	277	33	16.3	0-40	15.7	45.6
23	Residues and waste from the food industries; prepared animal fodder	68	68	2.9	0-20	5.2	48.3
24	Tobacco and manufactured tobacco substitutes	33	29	1.0	0-30	5.6	25.9
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	92	92	1.3	0-25	5.0	87.4
26	Ores, slag and ash	53	53	0.0	0-0	0.0	1.0
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	143	143	1.8	0-15	4.9	1,268.1
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	267	267	0.3	0-30	2.4	38.5
29	Organic chemicals	596	596	0.1	0-15	0.9	25.5

Table AI.Lithuania 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
30	Pharmaceutical products	59	59	0.0	0-0	0.0	254.6
31	Fertilizers	37	37	0.4	0-6.5	1.5	35.3
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	67	67	0.0	0-0	0.0	84.6
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	78	78	0.0	0-0	0.0	72.3
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis	44	44	3.1	0-6.5	3.3	47.9
35	Albuminoidal substances; modified starches; glues; enzymes	33	33	0.0	0-0	0.0	15.3
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10	10	2.5	0-25	7.9	2.1
37	Photographic or cinematographic goods	60	60	0.0	0-0	0.0	14.9
38	Miscellaneous chemical products	151	151	0.2	0-5	1.1	67.5
39	Plastics and articles thereof	275	275	1.5	0-6.5	2.7	323.3
40	Rubber and articles thereof	112	112	0.0	0-0	0.0	75.8
41	Raw hides and skins (other than furskins) and leather	79	79	0.0	0-0	0.0	39.0
42	Articles of animal gut (other than silk-worm gut)	38	38	9.7	0-10	1.6	9.0
43	Furskins and artificial fur; manufactures thereof	41	41	0.5	0-5	1.5	11.5
44	Wood and articles of wood; wood charcoal	177	177	2.8	0-15	4.6	105.5
45	Cork and articles of cork	13	13	0.0	0-0	0.0	0.8
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	12	12	9.2	0-10	2.9	0.4
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	23	23	0.0	0-0	0.0	4.5
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	210	210	0.4	0-20	2.3	157.6
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	43	43	0.0	0-0	0.0	31.2
50	Silk	26	26	7.0	0-13	6.6	2.2
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	80	80	5.3	0-13	6.4	67.0
52	Cotton	170	170	5.8	0-13	6.3	79.8
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	43	43	5.3	0-30	10.1	31.6
54	Man-made filaments	88	88	5.9	0-13	6.3	74.7
55	Man-made staple fibres	168	168	6.0	0-13	6.5	126.7
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	66	66	0.0	0-0	0.0	20.2
57	Carpets and other textile floor coverings	39	39	18.6	16.6-22.2	2.5	5.8

Table AI.Lithuania 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	57	57	8.1	0-10	4.0	25.6
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	42	42	0.5	0-10	2.2	16.2
60	Knitted or crocheted fabrics	65	65	11.7	0-13	1.6	44.1
61	Articles of apparel and clothing accessories, knitted or crocheted	171	171	14.9	0-15	1.1	43.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	204	204	14.9	0-15	1.1	41.0
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	91	91	7.9	0-13.4	6.3	25.3
64	Footwear, gaiters and the like; parts of such articles	82	82	8.7	0-10	3.4	40.3
65	Headgear and parts thereof	15	15	10.0	10-10	0.0	1.4
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	9	9	7.2	5-15	4.4	0.9
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	8	8	10.0	10-10	0.0	0.5
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	82	82	1.8	0-30	6.0	34.5
69	Ceramic products	53	53	4.0	0-15	2.7	32.8
70	Glass and glassware	139	139	4.0	0-30	5.6	48.0
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	63	63	0.0	0-0	0.0	23.6
72	Iron and steel	432	432	0.0	0-0	0.0	256.3
73	Articles of iron or steel	279	279	0.1	0-15	1.3	139.5
74	Copper and articles thereof	69	69	0.0	0-0	0.0	14.4
75	Nickel and articles thereof	18	18	0.0	0-0	0.0	0.2
76	Aluminium and articles thereof	64	64	0.0	0-0	0.0	39.0
78	Lead and articles thereof	13	13	0.0	0-0	0.0	0.4
79	Zinc and articles thereof	12	12	0.0	0-0	0.0	0.9
80	Tin and articles thereof	8	8	0.0	0-0	0.0	0.1
81	Other base metals; cermets; articles thereof	73	73	0.0	0-0	0.0	7.0
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	105	105	0.0	0-0	0.0	23.4
83	Miscellaneous articles of base metal	51	51	1.5	0-20	4.6	44.1
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,029	1,029	0.3	0-20	2.2	767.4
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	655	655	0.8	0-20	2.9	567.9
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	40	40	0.0	0-0	0.0	14.0
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	229	229	0.9	0-10	2.6	832.6
88	Aircraft, spacecraft, and parts thereof	34	34	0.0	0-0	0.0	55.7

Table AI.Lithuania 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2002 (US$ million)
89	Ships, boats and floating structures	39	39	0.0	0-0	0.0	344.3
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	300	300	0.0	0-10	0.6	122.7
91	Clocks and watches and parts thereof	63	63	0.0	0-0	0.0	3.4
92	Musical instruments; parts and accessories of such articles	33	33	0.0	0-0	0.0	1.0
93	Arms and ammunition; parts and accessories thereof	30	30	0.0	0-0	0.0	10.6
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates	124	124	14.5	0-25	10.3	67.7
95	Toys, games and sports requisites; parts and accessories thereof	80	80	0.0	0-0	0.0	21.2
96	Miscellaneous manufactured articles	72	72	1.8	0-10	2.8	25.9
97	Works of art, collectors' pieces and antiques	7	7	0.0	0-0	0.0	0.2

Source: WTO Secretariat estimates, based on data provided by Lithuania's authorities.

Table AI.Lithuania 9
Applied MFN tariff statistics, by ISIC Rev.2 category, 2002

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
			(Per cent)			US$ million
	Total	**11,071**	**4.7**	**0-87**	**10.2**	**7,557.2**
1	Agriculture, hunting, forestry & fishing	693	5.2	0-50	10.1	175.6
11	Agriculture and hunting	474	7.4	0-50	11.5	164.2
12	Forestry and logging	48	1.6	0-5	2.3	5.5
121	Forestry	22	3.4	0-5	2.4	0.6
122	Logging	26	0.0	0-0	0.0	4.9
13	Fishing	171	0.1	0-5	0.7	5.9
1301	Ocean and coastal fishing	144	0.1	0-5	0.7	3.4
1302	Fishing n.e.c.	27	0.0	0-0	0.0	2.5
2	Mining and quarrying	136	0.0	0-0	0.0	1,099.4
21	Coal mining	6	0.0	0-0	0.0	8.2
22	Crude petroleum and natural gas production	12	0.0	0-0	0.0	1,009.1
23	Metal ore mining	27	0.0	0-0	0.0	0.4
2301	Mining of iron ores	2	0.0	0-0	0.0	0.0
2302	Non-ferrous ore mining	25	0.0	0-0	0.0	0.4
29	Other mining	91	0.0	0-0	0.0	81.8
2901	Mining of feldspar	44	0.0	0-0	0.0	13.1
2902	Mining of fertilizer and chemical minerals	13	0.0	0-0	0.0	61.6
2903	Salt mining	5	0.0	0-0	0.0	4.5
2909	Mining and quarrying n.e.s.	29	0.0	0-0	0.0	2.6
3	Manufacturing	10,240	4.7	0-87	10.2	6,278.0
3 - 31	- - Manufacturing (excluding food processing)	8,139	2.3	0-30	5.2	5,764.8
31	Manufacture of food, beverages and tobacco	2,101	15.5	0-87	17.5	513.3
311	Food products	1,610	15.7	0-54	16.4	321.6
3111	Meat products	325	31.2	0-50	15.3	57.9
3112	Dairy products	160	31.7	0-54	11.1	15.1
3113	Fruit and vegetable canning	458	5.9	0-40	6.6	50.1
3114	Fish products	248	6.2	0-32.5	12.2	75.7
3115	Manufacture of oil and fats (veg. and animal)	146	3.9	0-50	9.2	81.3
3116	Grain mill products	124	13.6	0-50	15.0	9.7
3117	Manufacture of bakery products	42	25.6	0-35	13.5	9.7
3118	Sugar products	13	0.0	0-0	0.0	3.8
3119	Cocoa and chocolate confectionery	94	26.0	0-35	10.0	18.2
312	Other food products and animal feeds	197	13.3	0-87	24.8	120.7
3121	Other food products	156	15.5	0-87	27.3	95.4
3122	Manufacture of animal feeds	41	5.1	0-20	5.9	25.3
313	Beverages	282	17.6	0-40	15.9	57.8
3131	Distillation of spirits and alcohol production	74	0.0	0-0	0.0	7.0
3132	Manufacture of wines	187	20.0	0-40	20.7	18.0
3133	Manufacture of malt liquors and malt	10	24.3	0-30	9.2	16.9
3134	Soft drinks and mineral waters	11	9.5	0-15	7.6	15.9
314	Tobacco manufacturing	12	3.8	0-30	10.6	13.2
3140	Tobacco products	12	3.8	0-30	10.6	13.2
32	Textile, wearing apparel and leather industries	1,483	8.5	0-30	6.8	627.9
321	Textiles	1,078	8.0	0-30	6.9	529.2
3211	Textile spinning, weaving and finishing	602	6.3	0-30	6.5	384.3
3212	Made-up textile goods except wearing apparel	98	7.4	0-13.4	6.3	16.4
3213	Knitted and crocheted fabrics	236	14.0	0-15	1.9	87.5
3214	Carpets and rugs	39	18.6	16.6-22.2	2.5	5.8
3215	Cordage, rope, etc	24	0.0	0-0	0.0	3.6
3219	Textiles n.e.c.	79	0.5	0-10	2.2	31.5
322	Manufacture of wearing apparel, except footwear	225	14.4	0-15	2.0	47.2
323	Leather products, except footwear and wearing apparel	122	2.7	0-10	4.4	23.6
3231	Tanning and dressing of leather	60	0.0	0-0	0.0	14.7
3232	Fur dressing and dying	31	0.6	0-5	1.7	2.9
3233	Leather products except footwear	31	10.0	10-10	0.0	6.0
324	Footwear, except vulcanized rubber or plastic footwear	58	8.1	0-10	4.0	28.0

Table AI.Lithuania 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
33	Wood and wood products, including furniture	221	7.8	0-25	9.5	128.2
331	Wood and wood products, except furniture	155	2.9	0-10	4.6	91.9
3311	Sawmills and wood mills	111	1.7	0-10	3.8	83.0
3312	Wooden case containers and cane ware	16	9.4	0-10	2.5	5.1
3319	Wood and cork products	28	3.9	0-10	5.0	3.8
332	Manuf. of furniture & fixtures, except primarily of metal	66	19.2	0-25	8.3	36.3
34	Paper, paper products, printing and publishing	283	0.7	0-15	2.8	168.4
341	Paper products	225	0.9	0-15	3.2	126.8
3411	Pulp, paper and paperboard	144	1.4	0-15	3.8	51.7
3412	Containers, paper boxes, paperboard	10	1.0	0-10	3.2	20.0
3419	Articles n.e.s.(stationery)	71	0.0	0-0	0.0	55.1
342	Printing and publishing and allied industries	58	0.0	0-0	0.0	41.5
35	Chemicals, petroleum, coal, rubber, plastics	1,953	0.7	0-30	2.5	1,339.7
351	Industrial chemicals	1,220	0.3	0-30	1.8	443.0
3511	Basic industrial chemicals	882	0.2	0-30	1.6	108.6
3512	Fertilizers and pesticides	64	0.2	0-6.5	1.1	58.4
3513	Synthetic resins, plastic materials except glass	274	0.9	0-6.5	2.3	276.0
352	Other chemicals, incl. pharm.	474	0.5	0-25	1.9	487.0
3521	Paints, varnishes and lacquers	32	0.0	0-0	0.0	60.6
3522	Drugs and medicines	156	0.0	0-5	0.4	250.9
3523	Soaps	60	1.3	0-6.5	2.6	104.8
3529	Other chemicals n.e.s.	226	0.7	0-25	2.4	70.7
353	Petroleum refineries	89	2.9	0-15	5.9	243.2
354	Manuf. of miscellaneous petroleum & coal products	18	2.5	0-15	5.8	11.5
355	Rubber products	112	1.8	0-10	3.8	85.0
3551	Tyre and tube industries	32	0.0	0-0	0.0	47.5
3559	Rubber products n.e.s.	80	2.5	0-10	4.4	37.5
356	Manufacture of plastic products n.e.s.	40	3.6	0-10	3.4	70.0
36	Non-metallic mineral products except of petrol. & coal	299	3.4	0-30	5.6	118.2
361	Pottery and china	25	4.0	0-5	2.0	10.1
362	Manufacture of glass and glass products	137	4.2	0-30	5.7	45.6
369	Other non-metallic mineral products	137	2.6	0-30	5.9	62.5
3691	Structural clay products	34	3.2	0-15	3.2	24.3
3692	Ciment, lime and plaster	10	12.0	0-25	10.6	5.8
3699	Non-metallic mineral products	93	1.3	0-30	5.1	32.4
37	Basic metal industries	776	0.0	0-0	0.0	353.0
371	Iron and steel basic industries	524	0.0	0-0	0.0	291.3
372	Non-ferrous metal basic industries	252	0.0	0-0	0.0	61.8
38	Fabricated metal products, machinery & equipment	2,816	0.6	0-25	2.9	2,941.1
381	Fabricated metal products, except machinery & equip.	365	1.2	0-25	5.1	183.8
3811	Manufacture of cutlery and hardware	92	0.2	0-15	1.6	52.4
3812	Metal furniture and fixtures	27	12.0	0-25	12.7	7.9
3813	Structural metal products	37	0.5	0-10	2.3	49.5
3819	Fabricated metal prod. excpt mach. & equip. n.e.c.	209	0.4	0-20	2.6	74.0
382	Non-electrical machinery incl. computers	1,008	0.3	0-20	2.3	708.5
3821	Engines and turbines	37	0.0	0-0	0.0	3.0
3822	Agricultural machinery	24	0.0	0-0	0.0	29.3
3823	Metal and woodworking machinery	218	0.0	0-0	0.0	65.9
3824	Special industrial machinery	226	0.1	0-20	1.3	170.3
3825	Office machinery	66	0.0	0-0	0.0	162.3
3829	Non-electrical machinery and equipment, n.e.s.	437	0.6	0-20	3.3	277.8
383	Electrical machinery apparatus, appliances & supplies	666	1.0	0-20	3.2	591.3
3831	Electrical motors and apparatus	157	0.1	0-15	1.2	112.1
3832	Radio, telivision and communication equipment	308	1.1	0-10	3.1	323.3
3833	Electrical appliances and houseware	44	2.1	0-13.4	4.3	33.6
3839	Electrical apparatus n.e.s.	157	1.5	0-20	4.3	122.2
384	Transport equipment	401	0.5	0-10	2.0	1,257.6
3841	Ship building and repairing	62	0.0	0-0	0.0	344.9

Table AI.Lithuania 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
3842	Raiway and tramway	40	0.0	0-0	0.0	14.0
3843	Motor vehicles	211	1.0	0-10	2.7	811.1
3844	Motorcycles et bicycles	34	0.0	0-0	0.0	21.1
3845	Aircraft manufacture	48	0.0	0-0	0.0	64.6
3849	Other transport equipment n.e.c.	6	0.0	0-0	0.0	1.9
385	Professional and scientific equipment	376	0.0	0-10	0.5	199.8
3851	Prof., scientif., measuring equipment	219	0.0	0-10	0.7	175.1
3852	Photographic and optical goods	94	0.0	0-0	0.0	21.3
3853	Watches and clocks	63	0.0	0-0	0.0	3.4
39	Other manufacturing industries	308	1.3	0-15	2.9	88.3
3901	Jewellery and related articles	21	0.0	0-0	0.0	10.3
3902	Musical instruments	33	0.0	0-0	0.0	1.0
3903	Sporting goods	40	1.3	0-10	3.3	9.6
3909	Other manufacturing n.e.c.	214	1.6	0-15	3.1	67.3
4	Electrical energy	2	0.0	0-0	0.0	4.1

Source: WTO Secretariat calculations, based on data provided by Lithuania's authorities.

Table AI.Malta 1
Main economic indicators, 1998-02

	1998	1999	2000	2001	2002
Miscellaneous					
GDP (Maltese lira, million)	1,362	1,456	1,562	1,634	1,675
GDP (US$ million)	3,508	3,665	3,570	3,633	3,872
Real GDP (annual percentage change)	3.4	4.1	6.4	-1.2	1.0
Unemployment rate (per cent)	5.6	5.8	5.0	5.1	5.2
Average consumer price index (end of period; percentage change)	1.3	3.3	1.1	4.6	0.3
Real effective exchange rate index (1990=100)[a]	95.9	96.7	98.3	99.7	99.7
Exchange rate (Maltese lira per US$; end of period)	0.38	0.40	0.44	0.45	0.40
Discount rate (per cent)	5.50	4.75	4.75	4.25	3.75
Monetary sector	(percentage change, end of year)				
Broad money	8.6	9.9	4.0	8.4	10.4
Share of gross value added	(per cent)				
Agriculture	2.7	2.5	2.3	2.6	2.8
Industry (including construction)	27.8	27.3	29.2	27.2	28.0
Services	69.5	70.2	68.5	70.2	69.2
Government finance	(percentage of GDP)				
Fiscal balance	-10.8	-8.2	-7.0	-6.8	-6.2
National accounts	(percentage of GDP)				
Private consumption	62.1	62.8	63.8	64.0	64.7
Public consumption	19.8	18.7	18.6	20.1	20.4
Gross fixed capital formation	24.5	23.4	26.2	23.2	23.2
Exports of goods and non-factor services	87.7	90.7	102.7	87.4	85.5
Imports of goods and non-factor services	93.2	96.3	113.5	92.2	89.2
Memorandum					
Current account balance (percentage of GDP)	-6.2	-3.4	-13.4	-4.7	-4.6
Gross external debt (percentage of GDP)	92.3	107.5	160.2	135.4	..
Gross international reserves (US$ million)	1,696	1,794	1,463	1,682	2,191
Gross international reserves (months of total imports)	6.2	6.5	4.4	6.2	7.1
Import cover (goods; ratio of exports to imports)	68.8	69.7	71.9	71.9	74.1
Trade in goods and non-factor services (percentage of GDP)	180.9	187.0	216.2	179.6	174.7

.. Not available.

a The real effective exchange rate index is based on Malta's major trading partners. An increase in the index indicates real appreciation of the Maltese lira.

Source: IMF, *International Financial Statistics*, various issues, Washington, D.C.

Table AI.Malta 2
Balance-of-payments, 1998-02
(US$ million)

	1998	1999	2000	2001	2002
Current account	**-221.42**	**-121.83**	**-469.57**	**-165.12**	**-83.92**
Trade balance	**-673.00**	**-662.90**	**-753.49**	**-566.04**	**-424.47**
Goods exports	1,824.45	2,017.27	2,478.49	2,002.15	2,243.36
Goods imports	-2,497.45	-2,680.17	-3,231.97	-2,568.19	-2,667.83
Services balance	**460.92**	**464.86**	**371.87**	**367.69**	**359.12**
Credit	1,181.19	1,219.84	1,105.02	1,105.83	1,096.63
Debit	-720.27	-754.98	-733.15	-738.14	-737.51
Income (net)	**-67.10**	**33.72**	**-113.41**	**24.99**	**-4.89**
Credit	511.00	1,234.90	895.21	824.07	836.42
Debit	-578.10	-1,201.18	-1,008.62	-799.08	-841.31
Current transfers (net)	**57.76**	**42.50**	**25.45**	**8.24**	**-13.69**
Credit	114.99	120.38	101.81	190.50	238.09
Debit	-57.23	-77.88	-76.36	-182.26	-251.78
Capital account	**28.64**	**25.74**	**18.56**	**1.48**	**6.29**
Credit	33.34	31.09	24.07	4.35	8.02
Debit	-4.70	-5.36	-5.51	-2.87	-1.73
Financial account	**293.49**	**402.61**	**156.22**	**267.37**	**217.04**
Direct investment (net)	**258.41**	**769.50**	**578.65**	**246.27**	**-425.29**
Direct investment (outflows)	-14.51	-44.70	-25.72	-23.81	-0.05
Direct investment (inflows)	272.92	814.20	604.37	270.08	-425.24
Portfolio investment (net)	**-82.78**	**-503.65**	**-753.65**	**-444.86**	**-415.97**
Portfolio investment assets	-141.51	-470.70	-745.11	-445.19	-414.27
Portfolio investment liabilities	58.73	-32.95	-8.54	0.32	-1.70
Other investment (net)	**117.85**	**136.76**	**331.22**	**465.96**	**1058.30**
Other investment assets	-2052.27	-1593.00	-928.55	1844.66	-520.93
Other investment liabilities	2170.12	1729.76	1259.77	-1378.70	1579.23
Net errors and omissions	**90.23**	**-68.22**	**72.97**	**151.27**	**148.45**
Overall balance	**190.93**	**238.30**	**-221.83**	**255.00**	**287.87**

Source: IMF, *International Financial Statistics*, various issues, Washington, D.C.

Table AI.Malta 3
Structure of exports, 1995-01
(US$ million and per cent)

Description	1995	1998	1999	2000	2001
Total exports (US$ million - Including re-exports)	**1,913.2**	**1,832.8**	**1,979.6**	**2,437.9**	**1,958.8**
			(Per cent)		
Total primary products	4.3	5.5	6.6	7.4	9.7
Agriculture	2.2	3.2	3.2	2.7	4.0
Food	2.1	3.1	3.1	2.6	3.9
0989 Food preparations, nes	0.6	1.1	1.2	1.0	1.2
1222 Cigarettes contg.tobacco	0.3	0.6	0.7	0.7	0.8
Agricultural raw material	0.1	0.0	0.1	0.1	0.1
Mining	2.1	2.3	3.4	4.7	5.8
Ores and other minerals	0.3	0.2	0.1	0.1	0.2
Non-ferrous metals	0.2	0.4	0.3	0.2	0.1
Fuels	1.5	1.8	2.9	4.4	5.5
3341 Motor gasolene,light oil	0.0	0.6	0.0	2.8	3.7
3343 Gas oils	0.0	0.0	0.0	0.9	1.2
Manufactures	95.6	94.4	93.2	92.5	90.1
Iron and steel	0.0	0.0	0.0	0.0	0.0
Chemicals	2.2	2.3	2.3	1.6	2.3
5429 Medicaments, nes	1.1	1.3	1.2	0.7	1.1
Other semi-manufactures	3.1	4.1	4.2	3.3	3.6
6299 Hard rubber etc.,nes	2.0	2.5	2.7	2.1	2.1
Machinery and transport equipment	66.3	65.0	63.5	70.9	63.2
Power generating machines	1.3	0.7	0.9	0.6	0.7
Other non-electrical machinery	1.2	2.1	2.4	2.0	2.2
Agricultural machinery and tractors	0.0	0.1	0.0	0.0	0.0
Office machines & telecommunication equipment	55.6	54.1	53.5	63.8	54.0
7764 Electronic microcircuits	21.3	52.1	51.3	62.1	51.2
7529 Data proc equipment,nes	0.0	0.2	0.3	0.3	1.0
Other electrical machines	4.5	4.8	4.7	3.3	5.5
7725 Switch.apparatus,<1000v	1.6	2.3	2.3	1.9	2.7
7724 Switch.apparatus,1000v+	0.7	1.4	0.9	0.5	1.2
Automotive products	0.2	0.4	0.2	0.4	0.7
Other transport equipment	3.6	3.0	1.8	0.7	0.2
Textiles	1.2	1.2	1.2	0.9	1.3
6552 Oth.knit.crochet.fabrics	0.2	0.3	0.7	0.5	0.8
Clothing	8.4	8.3	8.5	5.9	7.3
8414 Trousers,breeches,etc.	4.3	4.9	4.9	3.7	4.8
8413 Jackets and blazers	1.1	1.0	1.0	0.6	1.0
8412 Suits and ensembles	0.8	0.9	1.0	0.6	0.8
Other consumer goods	14.4	13.3	13.5	9.9	12.5
8942 Children+s toys	2.3	2.4	2.4	2.1	2.3
8928 Printed matter, nes	2.5	1.9	2.5	1.5	1.9
8973 Gold,silver jewelry,ware	1.8	1.6	1.3	1.2	1.7
8722 Othr.medical instruments	2.0	1.8	1.9	1.4	1.7
8519 Parts footwear,etc.	1.6	1.6	1.5	1.1	1.5
8931 Plastic containers etc.	0.6	0.9	1.0	0.7	1.1
Other	0.2	0.1	0.2	0.1	0.1
Gold	0.1	0.1	0.1	0.0	0.0

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Malta 4
Structure of imports, 1995-01
(US$ million and per cent)

Description	1995	1998	1999	2000	2001
Total imports (US$ million)	**2,941.8**	**2,666.5**	**2,840.2**	**3,398.7**	**2,726.8**
			(Per cent)		
Total primary products	15.9	16.8	17.2	16.8	20.7
Agriculture	10.9	12.0	11.3	9.0	11.6
Food	10.1	11.2	10.6	8.4	10.9
1223 Oth.manufactured tobacco	0.5	0.4	0.4	0.4	0.6
Agricultural raw material	0.8	0.8	0.7	0.5	0.7
Mining	5.0	4.8	6.0	7.8	9.2
Ores and other minerals	0.3	0.3	0.3	0.2	0.3
Non-ferrous metals	0.7	0.7	0.5	0.5	0.6
Fuels	3.9	3.8	5.2	7.1	8.3
3341 Motor gasolene,light oil	0.0	2.4	0.0	4.4	5.2
3343 Gas oils	0.0	0.0	0.0	1.4	1.8
3342 Kerosene, medium oils	0.0	1.1	0.0	1.0	0.9
Manufactures	83.2	82.2	82.0	82.5	78.3
Iron and steel	1.2	1.3	0.9	0.7	1.0
Chemicals	6.9	7.8	7.3	6.2	7.3
5429 Medicaments, nes	0.7	1.4	1.3	1.1	1.4
Other semi-manufactures	7.8	7.5	7.1	5.8	7.0
6412 Paper,paperbrd.uncoated	0.9	0.7	0.7	0.5	0.6
6114 Oth.bovine,equine leathr	0.5	0.6	0.3	0.2	0.6
Machinery and transport equipment	51.9	50.5	52.5	57.1	49.4
Power generating machines	1.4	1.5	0.8	0.7	0.8
Other non-electrical machinery	6.3	6.4	6.3	6.2	5.7
7373 Welding,brazing etc.mach	0.6	0.7	0.9	1.6	0.9
Agricultural machinery and tractors	0.1	0.1	0.1	0.1	0.1
Office machines & telecommunication equipment	32.8	32.9	35.0	41.8	31.8
7764 Electronic microcircuits	27.5	28.0	30.2	37.3	26.5
7768 Elctrn comp pts,crystals	1.1	1.6	1.3	1.1	1.0
7599 Parts,data proc. etc.mch	0.9	0.6	0.8	0.8	0.8
Other electrical machines	3.4	3.9	3.2	2.9	4.8
7722 Printed circuits	0.1	0.2	0.3	0.6	1.0
7728 Parts,electrc.panels etc	0.5	1.0	0.5	0.4	0.7
Automotive products	5.7	4.6	5.1	3.9	4.7
7843 Other parts,motor vehicl	0.6	0.6	0.6	0.5	0.6
7812 Pass.transport vehicles	3.7	3.1	3.8	3.0	3.6
Other transport equipment	2.3	1.1	2.1	1.4	1.7
7929 Parts,nes,aircraft,equip	0.7	0.6	1.2	0.9	1.1
Textiles	4.2	4.3	3.8	2.7	3.5
6524 Oth85%+cottn.fabric200g+	1.2	1.5	1.3	1.0	1.5
Clothing	2.1	2.2	2.2	1.8	2.1
Other consumer goods	9.2	8.7	8.3	8.1	8.1
8973 Gold,silver jewelry,ware	1.1	1.0	0.9	0.8	1.1
8939 Plastic articles nes	0.6	0.7	0.7	0.6	0.8
Other	0.9	0.9	0.8	0.7	0.9
Gold	0.8	0.8	0.7	0.7	0.8

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Malta 5
Destination of exports, 1995-02
(US$ million and per cent)

Description	1995	1998	1999	2000	2001
Total exports (US$ million - Including re-exports)	**1,913.2**	**1,832.8**	**1,979.6**	**2,437.9**	**1,958.8**
			(Per cent)		
America	10.4	18.5	21.8	28.6	20.2
United States	9.6	18.2	21.3	27.4	19.8
Canada	0.5	0.2	0.4	1.0	0.2
Other America	0.3	0.1	0.1	0.2	0.2
Europe	73.4	53.9	49.9	40.7	49.7
EC(15)	71.4	52.8	48.7	33.4	41.3
Germany	15.0	12.6	12.6	9.6	13.1
France	12.2	20.7	15.2	8.0	9.3
United Kingdom	7.5	7.7	9.3	7.3	8.7
Italy	30.4	4.7	4.9	3.4	3.4
Belgium-Luxembourg	3.5	3.9	3.4	2.0	3.1
Netherlands	1.5	1.8	1.7	1.1	1.4
Finland	0.0	0.1	0.3	0.9	0.8
Spain	0.3	0.4	0.4	0.4	0.5
Denmark	0.2	0.2	0.2	0.2	0.2
EFTA	1.4	0.7	0.7	6.6	6.9
Switzerland	0.5	0.2	0.6	6.4	6.8
Eastern Europe	0.5	0.3	0.4	0.7	1.4
Hungary	0.1	0.0	0.0	0.3	0.9
Former USSR	0.3	0.1	0.1	0.1	0.1
Other Europe	0.0	0.1	0.1	0.1	0.2
Asia	10.9	21.1	20.8	22.9	19.7
Middle East	0.9	3.3	1.3	1.0	1.4
United Arab Emirates	0.3	0.5	0.3	0.3	0.5
Saudi Arabia	0.4	0.4	0.4	0.3	0.4
East Asia	9.8	17.6	19.4	21.9	18.3
Singapore	7.5	14.5	15.9	15.5	11.8
Japan	0.9	2.3	2.6	3.8	3.0
Hong Kong	0.0	0.1	0.3	0.7	1.8
Korea, Rep. of	0.1	0.1	0.4	0.8	1.4
South Asia	0.3	0.1	0.1	0.0	0.0
Oceania	0.1	0.1	0.1	0.1	0.1
Africa	3.0	3.7	3.4	2.3	3.7
Sub-Saharan Africa	0.6	0.3	0.3	0.5	0.5
Ghana	0.0	0.0	0.0	0.0	0.3
Other Africa	2.4	3.4	3.1	1.8	3.2
Libyan Arab Jamahiriya	2.1	2.7	2.5	1.5	2.5
Other	2.3	2.8	3.9	5.4	6.5

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Malta 6
Origin of imports, 1995-01
(US$ million and per cent)

Description	1995	1998	1999	2000	2001
Total imports (US$ million)	**2,941.8**	**2,666.5**	**2,840.2**	**3,398.7**	**2,726.8**
			(Per cent)		
America	7.0	9.6	9.2	11.5	12.8
United States	6.0	8.9	8.4	10.6	11.6
Canada	0.1	0.2	0.2	0.3	0.5
Other America	0.8	0.5	0.5	0.5	0.8
Europe	75.8	72.9	69.4	63.5	68.2
EC(15)	72.7	69.3	65.4	60.0	63.6
United Kingdom	15.6	12.4	10.9	8.0	10.0
Denmark	0.7	0.9	0.7	0.6	0.7
Austria	0.5	0.6	0.5	0.6	0.9
Belgium-Luxembourg	1.2	1.3	1.3	1.1	1.3
Netherlands	2.3	2.5	2.3	2.0	2.3
Germany	12.2	10.5	10.0	8.2	8.8
France	8.3	17.8	19.1	18.9	15.0
Italy	27.4	19.3	16.7	16.7	19.9
Spain	2.0	2.1	2.0	1.8	2.5
EFTA	1.1	1.6	2.0	1.8	1.5
Switzerland	1.0	1.1	1.2	1.5	1.4
Eastern Europe	1.1	0.9	0.8	0.9	2.0
Former USSR	0.5	0.2	0.2	0.4	1.2
Russian Federation	0.4	0.1	0.0	0.3	0.8
Other Europe	0.9	1.1	1.1	0.8	1.1
Turkey	0.8	1.0	1.1	0.8	1.0
Asia	13.4	14.8	18.0	23.0	16.1
Middle East	0.2	0.4	0.6	1.0	1.0
Israel	0.1	0.1	0.1	0.2	0.7
East Asia	12.6	13.9	17.0	21.5	14.5
Singapore	5.7	6.6	9.5	14.8	6.7
Japan	2.5	3.5	2.7	2.0	2.1
China	1.0	1.2	1.6	1.6	2.0
Chinese Taipei	0.8	0.7	0.8	0.8	1.0
Malaysia	0.4	0.4	0.5	0.7	1.0
Korea, Rep. of	1.4	0.6	0.8	0.8	0.6
South Asia	0.5	0.5	0.4	0.5	0.6
Oceania	0.3	0.6	0.5	0.4	0.6
Africa	3.6	2.1	2.8	1.6	2.3
Sub-Saharan Africa	0.1	0.1	0.1	0.2	0.2
Other Africa	3.5	2.0	2.7	1.4	2.1
Libyan Arab Jamahiriya	3.0	1.6	2.3	1.1	1.6

Source: UNSD, Comtrade database (SITC Rev.3).

Table AI.Malta 7
Structure of customs tariffs, 2002
(Per cent)

	MFN
1. Bound tariff lines (% of all tariff lines)	..
2. Duty free tariff lines (% of all tariff lines)	23.9
3. Non-*ad valorem* tariffs (% of all tariff lines)	0.3
4. Tariff quotas (% of all tariff lines)	..
5. Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.3
6. Simple average tariff rate	6.2
Agricultural products (HS01-24)	7.0
Non-agricultural products (HS25-97)	5.9
Agricultural products (WTO definition)[a]	7.3
Non-agricultural products (WTO definition)[b]	5.9
7 Domestic tariff "spikes" (% of all tariff lines)[c]	5.2
8. International tariff "spikes" (% of all tariff lines)[d]	6.3
9. Overall standard deviation of applied rates	6.1
10. "Nuisance" applied rates (% of all tariff lines)[e]	6.4

.. Not available.

a WTO Agreement on Agriculture.
b Excludes petroleum.
c Domestic tariff spikes are defined as those exceeding three times the overall simple average applied rate (indicator 6).
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.

Note Indicator 1 is calculated taking into account all tariff lines (i.e. in-quota and out-of-quota lines) while others exclude in-quota lines.

Source: WTO Secretariat calculations, based on data provided by Malta's authorities.

Table AI.Malta 8
Applied MFN tariff averages by HS2, 2002

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2001 (US$ million)
	Total/Average	**11,181**	**11,143**	**6.2**	**0-80**	**6.1**	**2,507.9**
01	Live animals	72	72	3.9	0-10	4.8	1.0
02	Meat and edible meat offal	246	246	0.8	0-3	1.0	19.3
03	Fish and crustaceans, molluscs and other aquatic invertebrates	324	324	2.1	0-20	4.8	13.2
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	197	197	1.2	0-13	3.2	26.9
05	Products of animal origin, not elsewhere specified or included	26	26	0.2	0-4	0.8	0.2
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	48	48	11.0	0-20	6.2	3.5
07	Edible vegetables and certain roots and tubers	116	116	2.7	0-19	6.1	5.9
08	Edible fruit and nuts; peel of citrus fruit or melons	151	151	4.2	0-25	6.7	19.9
09	Coffee, tea, maté and spices	46	46	3.4	0-12	4.7	4.0
10	Cereals	55	55	0.1	0-1	0.3	21.6
11	Products of the milling industry; malt; starches; insulin; wheat gluten	91	91	5.0	0-30	7.9	3.4
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	79	79	0.6	0-9	2.0	4.2
13	Lac; gums, resins and other vegetable saps and extracts	18	18	0.0	0	0.0	0.4
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	8	8	0.0	0	0.0	0.1
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	133	133	1.9	0-15	3.0	7.6
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	120	120	11.1	0-26	9.2	19.1
17	Sugars and sugar confectionery	77	77	12.4	0-80	13.4	12.0
18	Cocoa and cocoa preparations	29	29	9.6	0-22	5.4	15.7
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	62	62	10.4	0-25	4.6	25.8
20	Preparations of vegetables, fruit, nuts or other parts of plants	550	550	20.8	0-50	9.3	14.7
21	Miscellaneous edible preparations	77	77	10.6	0-25	7.2	18.8
22	Beverages, spirits and vinegar	215	211	1.8	0-24	5.2	22.3
23	Residues and waste from the food industries; prepared animal fodder	69	69	3.6	0-15	6.4	16.6
24	Tobacco and manufactured tobacco substitutes	46	46	0.0	0	0.0	26.9
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	93	93	1.0	0-20	3.2	15.6
26	Ores, slag and ash	53	53	0.0	0	0.0	0.2
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	122	122	2.0	0-8	2.3	11.7
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	271	241	5.8	0-13	2.9	5.0
29	Organic chemicals	562	562	6.9	0-20	3.5	17.8

Table AI.Malta 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2001 (US$ million)
30	Pharmaceutical products	59	59	1.8	0-8	3.1	45.1
31	Fertilizers	37	37	5.0	0-11	3.6	0.9
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	87	87	7.4	0-10	3.1	17.1
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	66	66	6.1	0-20	4.1	28.5
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis	39	39	5.8	0-8	1.9	11.3
35	Albuminoidal substances; modified starches; glues; enzymes	32	32	7.9	0-14	5.0	2.5
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10	10	7.4	6-10	1.3	0.3
37	Photographic or cinematographic goods	60	56	5.7	0-8	2.2	4.2
38	Miscellaneous chemical products	147	147	6.2	0-12	1.8	12.2
39	Plastics and articles thereof	311	311	7.0	0-13	3.9	96.9
40	Rubber and articles thereof	114	114	3.5	0-10	2.8	11.7
41	Raw hides and skins (other than furskins) and leather	93	93	1.7	0-5	1.5	17.0
42	Articles of animal gut (other than silk-worm gut)	38	38	7.1	4-12	2.9	5.6
43	Furskins and artificial fur; manufactures thereof	41	41	3.2	0-6	2.0	0.0
44	Wood and articles of wood; wood charcoal	172	172	4.3	0-10	3.8	22.1
45	Cork and articles of cork	13	13	6.1	0-8	3.2	0.5
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	14	14	3.6	0-6	1.5	0.3
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	23	23	0.0	0	0.0	0.1
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	226	226	5.0	0-12	4.2	54.0
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	29	29	2.3	0-6	2.7	19.2
50	Silk	26	26	5.0	0-8	2.7	0.1
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	80	80	6.3	0-17	7.0	13.3
52	Cotton	162	162	7.8	0-10	3.2	43.2
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	43	43	4.0	0-14	5.0	0.1
54	Man-made filaments	88	88	7.8	2-11	3.2	8.9
55	Man-made staple fibres	168	168	8.6	2-11	3.0	5.0
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	70	70	7.6	3-12	2.6	8.3
57	Carpets and other textile floor coverings	39	39	10.3	4-14	2.8	2.2

Table AI.Malta 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2001 (US$ million)
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	57	57	10.2	5-15	3.7	2.5
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	42	42	7.3	4-14	2.8	2.5
60	Knitted or crocheted fabrics	65	65	11.8	6-12	1.0	2.0
61	Articles of apparel and clothing accessories, knitted or crocheted	187	187	13.2	8-14	1.5	27.7
62	Articles of apparel and clothing accessories, not knitted or crocheted	212	212	13.0	6-14	2.2	26.3
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	96	96	10.5	0-14	3.8	6.8
64	Footwear, gaiters and the like; parts of such articles	82	82	11.5	3-20	6.3	15.9
65	Headgear and parts thereof	15	15	5.3	0-10	2.4	0.8
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	9	9	7.2	5-8	1.3	0.3
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	8	8	5.8	4-8	1.5	0.4
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	86	86	3.2	0-10	2.0	5.2
69	Ceramic products	53	53	7.2	3-14	2.5	20.1
70	Glass and glassware	138	138	7.0	0-12	3.1	12.6
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	64	64	2.2	0-8	2.5	53.7
72	Iron and steel	432	432	4.2	0-8	1.9	21.1
73	Articles of iron or steel	276	276	5.9	0-10	2.5	31.1
74	Copper and articles thereof	69	69	4.1	0-6	2.5	5.9
75	Nickel and articles thereof	18	18	2.5	0-5	2.3	0.3
76	Aluminium and articles thereof	64	64	7.4	0-10	3.1	15.3
78	Lead and articles thereof	13	13	5.0	0-9	3.1	0.1
79	Zinc and articles thereof	12	12	4.8	0-8	2.5	0.4
80	Tin and articles thereof	8	8	2.3	0-5	2.1	0.4
81	Other base metals; cermets; articles thereof	73	73	4.8	0-10	2.6	0.3
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	106	106	5.9	2-17	3.5	9.1
83	Miscellaneous articles of base metal	51	51	4.0	0-6	2.3	12.4
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,036	1,036	3.9	0-12	1.8	218.1
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	671	671	6.2	0-25	4.9	962.0
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	40	40	4.6	4-8	1.0	0.0
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	184	184	8.7	0-20	3.6	132.0
88	Aircraft, spacecraft, and parts thereof	34	34	3.0	0-15	3.6	30.9

Table AI.Malta 8 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2001 (US$ million)
89	Ships, boats and floating structures	39	39	1.6	0-5	1.6	6.5
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	308	308	3.7	0-11	3.1	53.0
91	Clocks and watches and parts thereof	63	63	5.3	0-8	1.4	3.0
92	Musical instruments; parts and accessories of such articles	33	33	5.5	3-8	0.9	0.9
93	Arms and ammunition; parts and accessories thereof	30	30	4.4	0-7	2.3	1.2
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates	106	106	5.8	0-10	1.9	20.6
95	Toys, games and sports requisites; parts and accessories thereof	79	79	6.5	0-10	1.8	13.5
96	Miscellaneous manufactured articles	72	72	6.5	0-14	2.7	6.9
97	Works of art, collectors' pieces and antiques	7	7	0.0	0	0.0	2.2

Source: WTO Secretariat estimates, based on data provided by Malta's authorities.

Table AI.Malta 9
Applied MFN tariff statistics, by ISIC Rev.2 category, 2002

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
				(Per cent)		US$ million
	Total	**11,181**	**6.2**	**0-80**	**6.1**	**2,507.9**
1	Agriculture, hunting, forestry & fishing	670	2.5	0-20	4.6	53.5
11	Agriculture and hunting	494	2.4	0-20	4.4	49.8
12	Forestry and logging	43	0.0	0-0	0.0	0.4
121	Forestry	21	0.0	0-0	0.0	0.3
122	Logging	22	0.0	0-0	0.0	0.0
13	Fishing	133	3.5	0-20	5.4	3.4
1301	Ocean and coastal fishing	115	3.2	0-20	5.3	3.2
1302	Fishing n.e.c.	18	5.4	0-15	5.9	0.2
2	Mining and quarrying	134	0.6	0-20	2.6	6.6
21	Coal mining	6	0.0	0-0	0.0	0.0
22	Crude petroleum and natural gas production	9	1.3	0-8	2.6	0.6
23	Metal ore mining	27	0.0	0-0	0.0	0.0
2301	Mining of iron ores	2	0.0	0-0	0.0	0.0
2302	Non-ferrous ore mining	25	0.0	0-0	0.0	0.0
29	Other mining	92	0.7	0-20	3.0	5.9
2901	Mining of feldspar	44	0.3	0-4	1.0	4.1
2902	Mining of fertilizer and chemical minerals	14	0.4	0-3	0.9	0.2
2903	Salt mining	5	8.0	0-20	11.0	0.3
2909	Mining and quarrying n.e.s.	29	0.2	0-3	0.8	1.3
3	Manufacturing	10,376	6.5	0-80	6.2	2,447.8
3 - 31	- - Manufacturing (excluding food processing)	8,141	6.0	0-25	4.0	2,198.2
31	Manufacture of food, beverages and tobacco	2,235	8.2	0-80	10.6	249.7
311	Food products	1,791	9.0	0-80	11.0	166.7
3111	Meat products	337	2.1	0-26	5.5	30.0
3112	Dairy products	185	2.2	0-24	4.7	27.0
3113	Fruit and vegetable canning	653	18.7	0-50	10.4	23.1
3114	Fish products	256	4.0	0-25	7.1	18.5
3115	Manufacture of oil and fats (veg. and animal)	134	1.5	0-15	2.5	16.6
3116	Grain mill products	123	3.2	0-15	4.8	8.3
3117	Manufacture of bakery products	37	11.9	0-25	4.4	15.9
3118	Sugar products	18	11.7	0-80	20.1	7.2
3119	Cocoa and chocolate confectionery	48	11.9	0-25	6.5	20.1
312	Other food products and animal feeds	201	8.2	0-30	9.6	33.3
3121	Other food products	162	8.7	0-30	10.0	24.2
3122	Manufacture of animal feeds	39	6.3	0-15	7.4	9.1
313	Beverages	219	1.7	0-24	5.1	22.9
3131	Distillation of spirits and alcohol production	56	0.0	0-0	0.0	7.8
3132	Manufacture of wines	123	0.0	0-0	0.0	4.1
3133	Manufacture of malt liquors and malt	11	13.1	0-24	12.5	4.9
3134	Soft drinks and mineral waters	29	8.2	0-15	5.8	6.1
314	Tobacco manufacturing	24	0.0	0-0	0.0	26.8
3140	Tobacco products	24	0.0	0-0	0.0	26.8
32	Textile, wearing apparel and leather industries	1,528	9.2	0-20	4.4	184.3
321	Textiles	1,101	9.3	0-17	4.1	122.1
3211	Textile spinning, weaving and finishing	594	7.8	0-17	4.3	72.3
3212	Made-up textile goods except wearing apparel	109	10.7	2-14	3.2	7.0
3213	Knitted and crocheted fabrics	252	12.8	6-14	1.5	29.7
3214	Carpets and rugs	39	10.3	4-14	2.8	2.2
3215	Cordage, rope, etc	24	10.2	6-12	2.0	0.8
3219	Textiles n.e.c.	83	6.7	3-14	2.3	10.1
322	Manufacture of wearing apparel, except footwear	233	12.4	0-14	3.0	28.0
323	Leather products, except footwear and wearing apparel	136	3.6	0-12	2.6	22.0
3231	Tanning and dressing of leather	74	2.1	0-5	1.4	17.0
3232	Fur dressing and dying	31	4.2	0-6	1.1	0.0
3233	Leather products except footwear	31	6.7	4-12	3.0	5.0
324	Footwear, except vulcanized rubber or plastic footwear	58	8.3	3-20	4.3	12.2
33	Wood and wood products, including furniture	215	4.8	0-10	3.0	29.5

Table AI.Malta 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
331	Wood and wood products, except furniture	162	4.5	0-10	3.3	20.8
3311	Sawmills and wood mills	113	4.4	0-10	3.5	17.6
3312	Wooden case containers and cane ware	19	4.3	0-8	1.9	0.8
3319	Wood and cork products	30	4.9	0-10	3.0	2.3
332	Manuf. of furniture & fixtures, except primarily of metal	53	5.9	0-7	1.3	8.7
34	Paper, paper products, printing and publishing	279	4.4	0-12	4.2	69.3
341	Paper products	235	4.2	0-12	4.0	46.4
3411	Pulp, paper and paperboard	141	3.0	0-10	3.3	28.9
3412	Containers, paper boxes, paperboard	13	11.0	2-12	2.7	6.7
3419	Articles n.e.s.(stationery)	81	5.3	0-12	3.8	10.8
342	Printing and publishing and allied industries	44	5.5	0-12	5.0	22.9
35	Chemicals, petroleum, coal, rubber, plastics	1,935	6.1	0-20	3.8	269.1
351	Industrial chemicals	1,221	6.5	0-20	3.5	94.4
3511	Basic industrial chemicals	843	6.6	0-20	3.3	28.1
3512	Fertilizers and pesticides	73	5.5	0-11	2.6	3.8
3513	Synthetic resins, plastic materials except glass	305	6.3	0-13	4.1	62.5
352	Other chemicals, incl. pharm.	469	5.6	0-18	3.6	112.8
3521	Paints, varnishes and lacquers	51	8.3	0-10	2.7	8.0
3522	Drugs and medicines	158	4.0	0-18	4.0	50.6
3523	Soaps	42	6.5	0-9	1.7	34.1
3529	Other chemicals n.e.s.	218	6.0	0-13	3.1	20.1
353	Petroleum refineries	75	2.6	0-7	2.4	8.2
354	Manuf. of miscellaneous petroleum & coal products	17	1.1	0-9	2.2	4.0
355	Rubber products	114	6.8	0-20	6.4	12.7
3551	Tyre and tube industries	32	5.3	0-6	1.9	3.2
3559	Rubber products n.e.s.	82	7.5	0-20	7.3	9.5
356	Manufacture of plastic products n.e.s.	39	7.5	0-9	1.9	36.9
36	Non-metallic mineral products except of petrol. & coal	302	5.9	0-14	3.2	47.9
361	Pottery and china	25	8.3	5-14	2.7	7.5
362	Manufacture of glass and glass products	137	6.9	0-12	3.1	12.3
369	Other non-metallic mineral products	140	4.4	0-10	2.7	28.0
3691	Structural clay products	34	6.6	3-9	2.2	13.0
3692	Ciment, lime and plaster	10	3.5	2-8	1.8	10.4
3699	Non-metallic mineral products	96	3.7	0-10	2.5	4.5
37	Basic metal industries	772	4.5	0-10	2.9	64.2
371	Iron and steel basic industries	520	4.7	0-10	2.6	25.1
372	Non-ferrous metal basic industries	252	4.2	0-10	3.4	39.1
38	Fabricated metal products, machinery & equipment	2,800	5.0	0-25	3.5	1,469.7
381	Fabricated metal products, except machinery & equip.	362	5.4	0-17	2.5	49.7
3811	Manufacture of cutlery and hardware	93	6.1	0-17	4.1	12.0
3812	Metal furniture and fixtures	20	5.0	0-6	1.8	4.4
3813	Structural metal products	38	5.2	2-7	1.2	6.6
3819	Fabricated metal prod. excpt mach. & equip. n.e.c.	211	5.2	0-9	1.6	26.7
382	Non-electrical machinery incl. computers	1,014	3.9	0-12	1.8	204.4
3821	Engines and turbines	37	4.9	0-7	2.3	3.8
3822	Agricultural machinery	24	5.4	2-11	2.3	0.8
3823	Metal and woodworking machinery	219	4.1	0-8	1.3	25.8
3824	Special industrial machinery	229	3.7	0-11	1.4	37.6
3825	Office machinery	67	4.3	0-12	2.2	58.4
3829	Non-electrical machinery and equipment, n.e.s.	438	3.7	0-9	1.9	77.8
383	Electrical machinery apparatus, appliances & supplies	683	6.2	0-25	4.9	965.4
3831	Electrical motors and apparatus	157	3.9	0-8	2.2	67.2
3832	Radio, telivision and communication equipment	316	7.8	0-25	6.4	851.0
3833	Electrical appliances and houseware	45	5.1	0-7	1.0	8.9
3839	Electrical apparatus n.e.s.	165	5.6	0-9	2.3	38.2
384	Transport equipment	356	6.1	0-20	4.1	188.4
3841	Ship building and repairing	62	3.3	0-10	2.4	7.9
3842	Raiway and tramway	40	4.6	4-8	1.0	0.0
3843	Motor vehicles	166	8.0	0-20	3.8	130.7

Table AI.Malta 9 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	Imports 2002
3844	Motorcycles et bicycles	34	9.9	6-17	3.0	3.3
3845	Aircraft manufacture	48	2.0	0-15	3.2	45.8
3849	Other transport equipment n.e.c.	6	3.8	0-5	1.9	0.6
385	Professional and scientific equipment	385	4.2	0-11	3.0	61.7
3851	Prof., scientif., measuring equipment	224	3.3	0-11	3.2	47.8
3852	Photographic and optical goods	98	5.4	0-10	2.3	11.0
3853	Watches and clocks	63	5.3	0-8	1.4	3.0
39	Other manufacturing industries	310	5.7	0-20	3.1	64.3
3901	Jewellery and related articles	22	2.8	0-8	2.5	29.3
3902	Musical instruments	33	5.5	3-8	0.9	0.9
3903	Sporting goods	40	6.8	0-20	4.1	3.9
3909	Other manufacturing n.e.c.	215	5.8	0-20	3.0	30.2
4	Electrical energy	1	0.0	0-0	0.0	0.0

Source: WTO Secretariat calculations, based on data provided by Malta's authorities.

WORLD TRADE ORGANIZATION

RESTRICTED

WT/TPR/S/136/Corr.1 [*]
22 September 2004

(04-3984)

Trade Policy Review Body

TRADE POLICY REVIEW

European Communities[1]

Report by the Secretariat

Corrigendum

Please replace the cover page of WT/TPR/S/136 with the attached.

[*] In English and French only.

[1] Previous Trade Policy Reviews of the European Communities had used the "European Union" in the title. At the request of the Commission, the title has been changed to the "European Communities".

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 Communities.

WORLD TRADE ORGANIZATION

RESTRICTED

WT/TPR/S/136
23 June 2004

(04-2591)

Trade Policy Review Body

TRADE POLICY REVIEW

European Communities[1]

Report by the Secretariat

This report, prepared for the Trade Policy Review of the European Communities, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the European Communities on its trade policies and practices.

Any technical questions arising from this report may be addressed to Messrs. Ricardo Barba (5088), Allen Dennis (6844), and Jacques Degbelo (5583).

Document WT/TPR/G/136 contains the policy statement submitted by the European Communities.

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