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TRADE POLICY REVIEW

THE EUROPEAN UNION

Report by the Government

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

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

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I. INTRODUCTION

1. This is the **first full review** of the EU under the revised TPRM arrangements. The review comes at a key moment in international trade policy, as international trade continues rapidly to expand and as the launch of a comprehensive Round of negotiations remains of the utmost importance. Recent key developments have demonstrated that the EU remains as committed as ever to the multilateral trading system and to further trade liberalization. The EU's proposals for a new Round reflect its wish to harness globalization in the context of sustainable development for further growth and employment for the benefit of all citizens, in the EU and world-wide.

2. A number of **key developments have taken place within the EU** since the last review of the EU. The launch of the euro represents a crucial step in the process of European economic and political integration. The EU has engaged itself in a truly historical process of unprecedented widening in the form of enlargement. Agenda 2000 has set important parameters for internal reform in particular in terms of agriculture and enlargement and has provided a secure financial basis for the years to come. Important steps have been taken towards further liberalization, economic and structural reform that will increase the EU's international competitiveness and contribute to an even stronger integration into world markets from a strong domestic basis.

3. Significant progress has been achieved in the **Single Market**. Intra-EU investment, trade in manufactures and in services all continue to grow with potential for further growth through improvements in a number of sectors. The growth and predictability provided by the internal market also benefits countries wishing to export to the EU. The euro constitutes a major contribution to the development of the EU's single market with benefits both for business and consumers. The European Economic Area-agreement extends the borders and the benefits of the Single Market to Norway, Iceland and Liechtenstein.

4. As was demonstrated e.g. during the Asian crisis, the EU continues to remain an open economy fully **committed to an open, equitable and truly multilateral trading system** with a well-functioning dispute settlement system. Regional preferential trade agreements as well as other forms of regional co-operation reinforce the EU's links with the rest of the world. The EU continues to search for improved market access for the benefit of EU business and consumers world-wide. It has faithfully implemented its obligations resulting from the Uruguay Round and has contributed to the success of the Singapore and Geneva ministerial meetings. The EU remains convinced that the integration of the developing countries in the world economy must be a key priority for the WTO and has acted accordingly.

5. The most important and indeed pressing task ahead for the Members of the WTO remains, however, **the launch of a new Round**. The EU is determined to play its role in order to enable all countries in the WTO to meet the challenges and reap the benefits of a globalised economy.

II. KEY DEVELOPMENTS IN THE EU SINCE THE LAST REVIEW

6. The **euro was successfully launched** in January 1999, representing a defining moment in the process of European integration. In the eleven Member States that adopted the euro, monetary policy is conducted by the independent European Central Bank in Frankfurt and has the primary objective of achieving price stability. A Stability and Growth Pact has been adopted to ensure that balanced and sustainable fiscal policies are followed by the countries in the euro area, thus maintaining the fiscal discipline achieved in the run up to the launch of the euro. As a result of the new macroeconomic policy framework, euro area countries enjoy lower interest rates that promote economic growth. The introduction of the euro has created a major international currency for payments and transactions,

underpinned by low and stable inflation in the euro area. The euro has already greatly increased the liquidity of European securities markets and, over time, it is likely that its importance as an international reserve currency will increase.

7. The EU remains committed to **enlargement**. Accession negotiations are currently taking place with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia (since March 1998) and, since February 2000, with Bulgaria, Latvia, Lithuania, Malta, Slovakia and Romania, while in December 1999 the EU decided to accept Turkey as a candidate for membership.

8. On 26 March 1999, at the European Council in Berlin, the Heads of Government or State concluded a political agreement on the reform package "**Agenda 2000**". Agenda 2000 is an action programme whose main objectives are to give the European Union a new financial framework for the period 2000-06 with a view to enlargement and to strengthen EU policies (reform in agriculture and regional development funding). Under this reform programme, the EU has continued reforming the common agricultural policy through further shifts from price support to direct payments, which partly compensate for the reduced price support. This has particularly been the case for the arable, beef and the dairy sectors. The EU has also further developed a coherent rural policy to accompany the reform process by re-organization of the existing rural policy instruments, such as structural and environmental measures.

9. The EU will continue to pursue its strategy to improve its **international competitiveness**. At a meeting of the European Council in Lisbon in March 2000 the EU Heads of State and Government traced out a new strategic objective for the Union in the economic and social arena, namely, "to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion". The confidence expressed in Lisbon draws from the sound macroeconomic conditions in the Union, in particular, low inflation, falling unemployment levels and healthy public finances. To realize the new objective a wide range of targets were established ranging from completing by the end of 2000 the legal framework for electronic commerce, stimulating greater competition in the telecoms sector by 2002 and establishing fully integrated financial and capital markets at the latest by 2005. This goal is also relevant for the future work of the WTO. A strong commitment was made to pursue existing structural economic reforms, including further opening of the gas, electricity, post and transport markets, as well as to maintain current macroeconomic policies. The meeting also focused on how to boost the skills and knowledge EU citizens will need in the emerging new economy, and promoting efforts to foster social inclusion and to maintain the downtrend of unemployment.

III. THE EU TRADE POLICY FRAMEWORK

10. The **formulation and implementation of trade policy in the EU** takes place in an efficient, transparent and democratically accountable manner. Article 133 of the Treaty on European Union constitutes the legal base for the EU trade policy. Decisions on the direction of trade policy are taken by the Council of Ministers, and the Commission ensures the uniform representation of EU trade policy views both bilaterally and multilaterally, assisted by a consultative Committee (Article 133 Committee) composed of representatives of Member States. The European Parliament is also kept informed and consulted systematically. In addition, the European Commission implements a policy of transparency and wide dialogue with stakeholders, *inter alia*, by organizing regular meetings and dialogue sessions with representatives of interest groups and civil society, including representatives from industry, the social partners and the NGO community.

11. The **EU' trade policy** should be viewed within the context of its general approach to **sustainable development**. The EU's Treaty (Article 6) requires integrating environmental concerns

into all EU policies as the best way to achieve sustainable development, which is one of the key objectives of the EU (Article 2). It is important to remember that this same overarching goal of sustainable development is also an objective of the WTO. The EU's commitment to sustainable development is reflected in its environment and development-related proposals for a New Round. The Commission's preparations for a new Round include the launch of a Sustainability Impact Assessment (SIA), an exercise which will continue throughout the course of a new Round.

IV. THE SINGLE MARKET

12. A **fully implemented internal market**, which ensures the interests of business and consumers, is the EU's cornerstone for microeconomic policies and central to its process of structural reform. Significant progress has been made to achieve it, also in terms of Member States implementation. Since 1993, intra-EU manufacturing trade has significantly outpaced the growth of EU GDP, which is all the more remarkable given that manufacturing has been falling as a percentage of total GDP. The value of inward investment flows in 1998, whether between Member States or from outside the EU, was double the value recorded in 1997, which itself broke all previous years' records. The EU will continue to take action in all sectors in which important internal market potential remains to be unlocked. Structural reforms as well as completing the transposition of legislation will be necessary elements. To ensure efficient action, an effective framework for ongoing review and improvement based on the Internal Market Strategy is being put in place. Moreover, increased economic benefits are expected to flow from the synergetic application of internal market, competition and state aid rules. The internal market contributes to a quicker European growth with benefits for countries wishing to export to the EU.

13. The **euro** has made a major contribution to the development of the EU's single market. Businesses no longer have to deal with exchange rate uncertainty within euro area. The transactions costs involved in trading in different currencies have been reduced and will essentially be removed within the euro area as notes and coins are introduced in 2002. The euro has created a liquid integrated market for corporate debt giving European companies access to cheaper debt finance. This has enabled cross-border merger and acquisition activity in Europe on an unprecedented scale. The euro has already played a part in encouraging the creation of more liquid and integrated European markets for equity finance, a process that is likely to gain pace in the future. The euro makes prices more transparent between countries, thus enhancing competition as consumers can more readily compare prices in different Member States.

14. The European Free Trade Association (EFTA) States Norway, Iceland and Liechtenstein are closely linked to the Internal Market through the Agreement on the **European Economic Area (EEA)**. The European Commission and the EFTA Surveillance Authority ensure uniform application of the common rules, while the EU Court of Justice and the EFTA Court exert judicial control. Until now, the transposition of Internal Market rules is high and a sign of the good functioning of the agreement is that no infringement case has had to be referred to the EFTA Court.

V. THE EU AND THE WTO

(1) A STRONG AND WELL-FUNCTIONING MULTILATERAL TRADING SYSTEM

15. An open and strong **multilateral trading system** is the best guarantee against the threat of unilateralism. The EU will continue to assume leadership in working towards reinforcing the WTO, enlarging and enhancing its system and promoting a wider and more active participation of all its Members. The EU will continue to work assiduously for the earliest possible **accession** on commercially viable terms of all candidates having applied to join the WTO.

16. The WTO agreements constitute a unique set of rights and obligations. The EU attaches the greatest importance to the correct and timely **implementation of the agreements** to which all WTO members have subscribed as an essential element for a well-functioning MTS. Implementation issues should be resolved in a way that will genuinely help Members' efforts at full and faithful implementation of the Uruguay Round agreements. The implementation programme of the General Council can make an important contribution to address implementation concerns. Improvements of existing agreements could be introduced as part of the new Round negotiations.

17. At the same time, the EU has consistently argued that there is a strong case for the **WTO to enlarge its scope of activities** in order to face the process of globalization by defining, through multilateral negotiations, rules in new areas, such as investment, competition and trade facilitation. Important trade and environment issues such as the need to clarify the relationship between WTO rules and trade related measures taken for the protection of the environment should also be addressed.

18. In the light of this, the EU has actively participated in the work programme established at **Singapore**. The Singapore work programme has allowed the WTO to develop a better understanding of the issues at stake through analytical work. The EU has been advocating to move those issues from the analytical phase to the negotiating table.

19. The EU has also participated in the launch of the **built-in agenda negotiations** on agriculture and services, which started smoothly in January. These negotiations evidently address only a part of the pressing challenges facing the international community in terms of trade-policy. The EU remains convinced that these issues would most efficiently be concluded in the context of a comprehensive Round. The EU notes that in the absence of any new mandate at Seattle, those negotiations necessarily begin on the basis of Article 20 of the Agreement on Agriculture, and Article XIX of GATS. In the absence of a decision at Seattle to launch a new round as a single undertaking, there remains no timeframe for the conclusion of these negotiations. The EU has also participated in the TRIPs built-in agenda.

20. The EU has continued to resort actively to the **WTO dispute settlement**. However, only about 50 percent of the cases in which the EU requested consultations actually lead to a panel request. This figure demonstrates that the negotiation of amicable settlements is still an important avenue for the resolution of trade disputes.

21. As a **complainant**, the EU has been involved in a number of cases of major systemic importance. The two separate panels on Section 301 of the U.S. Trade Act of 1974 and on the import measures on certain products from the EU addressed for instance the issue of unilateral determination, which has been a matter of concern to most WTO Members for several years. The case on "British Steel" (DS 138) is highly relevant to the process of privatization, which is not yet fully completed in the EU and still ongoing in Eastern Europe and in a number of developing countries. More generally, the EU has also been very active against the abusive use of trade defence instruments.

22. Similarly, the most important among the few cases in which the EU was the **defendant** touched upon the increasingly important issues of the protection of human health. In both the "hormones" and the "asbestos" cases, the WTO is called to strike a balance between the sovereign right of the Members to seek protection of the health of their population on the one hand, and the protection of the negotiated rights of third countries on the other hand. Despite the real difficulties that the EU is encountering in relation to the implementation of the "hormones" and "banana" cases, the EU rests fully committed to implementing the panels as soon as possible.

23. Finally, it is hardly necessary to mention that it is in the period under review that major lacunae in the provisions on implementation of the DSU came to the fore, in particular with respect to the sequencing of Articles 21.5 and 22.6 DSU, as illustrated in the banana case. The EU has therefore played an active role in the **DSU review**.

24. The full **integration of developing countries**, including in particular the least developed countries, in the multilateral trading system and the global economy is a key priority for the EU. The EU has therefore suggested immediate action in the WTO for improved market access, to address implementation concerns and for a new approach to trade related technical assistance. As regards market access, the EU is committed to grant duty-free and quota-free access to essentially all exports originating in LDCs by 2005 at the latest. The EU intends to announce further steps this year. While the EU already offers free access for 99% of current LDC exports, further improvements to the existing market access should allow LDCs to develop their full export potential. Experience shows that many countries have difficulties in making use of the trade opportunities offered, and improved market access therefore must be complemented by capacity building measures. The EU supports a new approach to trade related technical assistance, with the objective of better targeted assistance based on recipients' demands and enhanced co-operation among donors, taking due account of needs in relation to the implementation of WTO rights and obligations. A new approach should also address capacity building in a broader sense, supply side constraints and the ability to trade. The EU believes this goes beyond the competence of the WTO Secretariat as such and would require closer co-operation among international organizations, including in particular the Bretton Woods institutions as well as UNCTAD and UNEP, which has recently created a joint task force on capacity building. This is one of the fundamental considerations underlying the EU initiative on coherence in global economic policymaking, which aims at enhanced coherence for a comprehensive approach to trade and development to help developing countries integrate in the global economy.

25. The EU also favours an **implementation work programme** under the aegis of the General Council to consider a number of implementation concerns and is ready to address developing countries priorities within the context of a comprehensive Round.

26. The access of EU goods and services to markets around the world for the benefit of consumers world-wide and EU business remains a priority for the EU. The EU's **Market Access Strategy** of 1999 will focus on the launch and implementation of a *barriers removal programme*, under which the EU, in keeping with attachment to the multilateral trading system, will concentrate its efforts on priority cases, by using to the full the various multilateral and bilateral instruments and opportunities at its disposal, including dispute settlement mechanisms. The needs of small and medium sized enterprises and the interests of specific regions affected by particular trade barriers will be specifically taken into account.

27. The EU retains the option to use, if necessary and appropriate, relevant **trade defence instruments**, i.e. in the form of anti-dumping and anti-subsidy measures for the protection of the European industry when faced with unfair trading practices from third countries. It is noteworthy that although EU legislation provides for the possibility to apply safeguard measures, the EU has not recently applied safeguard measures against imports from other WTO members. The EU attaches the highest importance to all WTO members adhering to effective WTO-disciplines in the area of trade defence.

(2) PREFERENTIAL TRADE AGREEMENTS

28. The EU remains committed to promoting and further liberalizing international trade. In addition to supporting multilateral trade liberalization, the EU is engaged in boosting trade flows with

various trade partners in the world through a number of **preferential trade agreements** in conformity with relevant WTO provisions and in particular Article XXIV of the GATT. Through their trade enhancing effect, these agreements underpin and are mutually supportive to the multilateral trading system. In light of the increasing use of regional trade agreements, the EU in the Amsterdam European Council conclusions of 1997 underlined that the rules for regional trading agreements in the WTO should be clarified, *inter alia*, in order to guarantee the proper functioning of the multilateral trading system. When considering the negotiation of preferential trade agreements, the EU is committed to ensuring conformity with WTO rules. This approach is reflected in the EU preferential trade policy in the period under review.

29. Since the Europe Agreements with Estonia, Latvia and Lithuania have entered into force on 1 February 1998, and with Slovenia on 1 February 1999, such agreements now link the EU with all ten Central and Eastern European Countries. **Cyprus** and **Malta** have Association Agreements with the EU. **Turkey** applies Common Customs Tariff together with the EU on the products subject to the EU-Turkey Customs Union. In 2000, Turkey and the EU have also begun negotiations for the liberalization on trade in services and public procurement. An Accession Partnership for Turkey is also being prepared.

30. The new **ACP-EU Partnership Agreement of Suva**, whose trade provisions took effect as from 1 March 2000, provides for new WTO-compatible arrangements, removing progressively barriers to trade and enhancing co-operation in all trade-related areas, to be concluded and put into effect after a preparatory period of eight years. The appropriate request for a waiver from GATT Article I obligations has been presented to the WTO and the issue is currently under examination in the Council for Trade in Goods. In the meantime, and in order to facilitate the transition, the non-reciprocal trade preferences applied under the 4th Lomé Convention have been maintained. These include duty-free access for all industrial and a large part of agricultural and processed agricultural products as well as preferential tariffs for almost all the remaining agricultural products. Beef and veal and sugar protocols are also maintained during the preparatory period but will be reviewed in the context of the new trading arrangements. Preferential access is also provided for ACP bananas under the EU banana regime, which is presently under review.

31. The EU has concluded or is still negotiating bilateral association agreements with the **Mediterranean countries**. These agreements contain a political component, a trade component, and a co-operation component. The agreements with Tunisia (1 March 1998) and Morocco (1 March 2000) have entered into force. Entry into force of the agreement with Jordan (signed in November 1997) is foreseen for 2000. The trade provisions of the agreements with Israel (signed in November 1995) and the Palestinian Authority (signed in February 1997) are both being applied on an interim basis. The negotiations on an agreement with Egypt have been finalized although not signed or ratified yet. Negotiations are ongoing with Lebanon, Syria and Algeria. The individual agreements foresee in particular the establishment of a free trade area between each country and the EU for goods. In addition, they contain provisions for liberalization in the area of services, capital movement and competition.

32. The EU and **Mexico**, in the framework of the 1997 Economic Partnership, Political Co-ordination and Co-operation Agreement, concluded on 23 March 2000, a comprehensive trade agreement covering the area of goods, government procurement, competition and dispute settlement as well as services, investment and related payments, and intellectual property rights. The agreement establishes a free trade area in the sense of Article XXIV of the GATT 1994 (covering around 95% of bilateral trade) and Article V of GATS and will enter into force during 2000.

33. At the Summit of Rio de Janeiro in June 1999, EU, Mercosur and Chile Heads of State and Government launched trade negotiations between the EU and the **Mercosur** countries (in the framework of negotiations to conclude an Interregional Association Agreement) and the EU and **Chile** (in the framework of negotiations to conclude a Political and Economic Association Agreement). The aim is bilateral, gradual and reciprocal trade liberalization, without excluding any sector and in accordance with WTO rules encompassing liberalization of trade in goods and trade in services, government procurement, intellectual property rights, competition, investment, trade defence instruments, and a dispute settlement mechanism.

34. The EU concluded with **South Africa** a Trade, Development and Co-operation agreement (TDCA) on 24 March 1999. The TDCA was signed on 11 October 1999 and its trade provisions put provisionally into effect on 1 January 2000. Under this agreement, 95% of EU imports from South Africa will be fully liberalized at the end of a transition period of ten years. On the other side, 86% of South Africa's imports from the EU will be fully liberalized at the end of a transition period of 12 years. Within these transitional periods, the bulk of liberalization of industrial products will take place for the EU within the first four years and for South Africa after the first six years. The combined coverage will be more than 90% of current trade between the parties. Supplementary agreements are being negotiated on protection of wines and spirits denominations and fisheries. The EU and South Africa committed themselves to design their free trade agreement in a way so as to support the process of regional economic integration in the Southern Africa region.

35. Trade relations with **Switzerland**, based on the Free Trade Agreement of 1972 continue to develop. In 1999 a number of new sectoral agreements, including on the mutual recognition of conformity assessment, on trade in agricultural products and on public procurement have been signed. These will enter into force after ratification by both sides, expected for 2001.

36. The EU sees trade policy as crucial for the reconstruction of **the Western Balkan Countries**. The EU grants trade preferences on an autonomous basis to Albania, Croatia and Bosnia and Herzegovina and on the basis of a Co-operation Agreement to the Yugoslav Republic of Macedonia. The appropriate request for a waiver from GATT Article I obligations has been presented to the WTO and the issue is currently under examination in the Council for Trade in Goods. With all of them, the EU intends to negotiate, when eligibility criteria will so allow, Stabilization and Association Agreements which comprise the establishment of a free trade area for both goods and services. Given the non respect of political and economic criteria by the Federal Republic of Yugoslavia, this country has been excluded from this regime.

37. Since 1995, the EU Scheme of **Generalized Trade Preferences (GSP)** is implemented on the basis of Regulations covering periods of three to four years. The present regulation entered into force on 1 July 1999. The EU GSP now covers virtually all sectors. Instead of duty free access for limited quantities it grants limited tariff reductions without quantitative restrictions. The preferential margin depends on the sensitivity of a product so that while very sensitive products enjoy a smaller preference, non sensitive products enter duty free. This is also the case for essentially all products covered by the scheme originating in LDCs. Some 11 Latin American countries fighting drug production and trafficking enjoy similar advantages. In order to contribute to sustainable development, the EU GSP offers additional preferences to countries which demonstrate compliance with certain internationally agreed social and environmental standards.

(3) NON-PREFERENTIAL AGREEMENTS AND REGIONAL TRADE DIALOGUES

38. The EU is continuously engaged in developing and upgrading trade relations with other trade partners through **bilateral non-preferential agreements** or **regional trade dialogues**.

39. Trade relations between the two biggest trade entities in the world, the EU and **United States** remain robust and have been marked by the launch in 1995 of the New Transatlantic Agenda (NTA) (which reaffirmed the shared commitment of the EU and the US to strengthen the multilateral trading system and by agreement to the Transatlantic Economic Partnership (TEP) of 1998 which aims to break down remaining - now mainly regulatory - barriers to trade across the Atlantic while preserving a high level of protection for health, safety, consumers and the environment. Negotiations are ongoing, in particular concerning the mutual recognition of certain technical regulation in the area of goods and the mutual recognition of qualifications in the area of services (architects, engineers, insurance). The EU and the United States also agreed in 1999 on a set of principles to provide for a more effective "early warning" system in order to prevent conflicts and facilitate their resolution at an early stage before they risk undermining the much broader EU-US relationship.

40. Trade relations with **Canada** are marked by the EU-Canada Joint Declaration and Action Plan of December 1996. The Action Plan has borne early fruit with agreements on Mutual Recognition. Agreements were also signed on Mutual Recognition of Conformity Assessment, Customs Co-operation and co-operation regarding competition matters and veterinary equivalence. Furthermore, the EU and Canada agreed to undertake the EU-Canada Trade Initiative (ECTI), which is a comprehensive programme covering multilateral and bilateral trade areas.

41. The EU and **Japan** share a strong commitment to the Multilateral Trading System. The EU has put the emphasis of its bilateral economic dialogue on facilitating market access for goods and services and improving the investment climate in Japan through structural reform. A two-way deregulation dialogue was launched in 1994 in the framework of which the EU and Japan exchange an annual list of proposals for regulatory reform in their partner's respective markets.

42. Joint declarations on bilateral relations with **Australia** (1997) and with **New Zealand** (1999) provide the framework for further liberalization of trade in goods and services. Mutual Recognition Agreements in relation to conformity assessments for goods have also been concluded with each of these countries. In 1996 a veterinary agreement was concluded with New Zealand.

43. The growing importance of Asia for the EU was demonstrated by the creation in 1996 of the **Asia-Europe Meeting (ASEM)**, a process for dialogue on political, economic and cultural issues. In the economic field, ASEM aims, *inter alia*, to improve trade and investment opportunities for both partners through mechanisms such as the Investment Promotion Action Plan and the Trade Facilitation Action Plan. Both Action Plans have recently been upgraded to reinforce the elimination of barriers to trade and investment. ASEM-Partners and the private sector respectively are currently drafting a priority list identifying the most important generic obstacles to trade and investment in both regions. ASEM partners will thereafter report yearly on voluntary actions to remove or reduce these obstacles.

44. **Korea** has remained one of the EU's key Asian trade and investment partners after its impressive recovery from the recent economic crisis. The EU welcomes Korea's commitment to market-based economic and regulatory reform, which would further improve trade and investment conditions.

45. Bilateral trade and investment flows with **India** continue to grow. The EU and many potential investors follow with intense interest the recently enhanced pace of economic reforms in India. Meanwhile the EU and India continue to engage in a close high level economic dialogue that centres not only on bilateral trading issues but also on ways to strengthen the multilateral trading systems.

46. A strengthening of trade relations between **China** and the EU is happening at both the multilateral and the bilateral level. The EU is a keen advocate of China's accession to the WTO. Bilaterally, the EU is addressing trade issues through its dialogue with China, the main forum for which are the EC-China Joint Committee and its subordinate bodies. The EU is seeking to intensify this dialogue in areas that are crucial for WTO implementation and economic reform. Moreover, the EU supports China's economic and trade reforms by offering EU expertise through a range of co-operation programmes; it also stimulates co-operation in the fields of investment promotion and technological co-operation.

47. In the framework of the **San José Dialogue**, the EU and the Central American Countries are engaged in a process which includes the consideration of economic, trade and investment issues. A similar dialogue takes place with the Latin American countries under the umbrella of the **EU-Rio Group** dialogue.

48. The EU concluded a Partnership and Co-operation Agreement (PCA) with the **Russian Federation** in 1994, which entered into force in 1997, and which provides for the parties to grant each other MFN and national treatment. The parties may not apply quantitative restrictions on imports from the other party; separate agreements apply to EU imports of textiles and clothing, and iron and steel products. PCAs have also been concluded with **Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova and Ukraine**, respectively. An agreement on trade, commercial and economic co-operation with **Mongolia** provide for the parties to grant each other MFN treatment.

VI. FUTURE POLICY DIRECTIONS - A NEW TRADE ROUND

49. During the period under review the EU has been at the forefront of efforts to **launch a new comprehensive round** of trade negotiations in the WTO in 2000. It considers that a comprehensive trade round, conducted as a **single undertaking** and offering a balance of benefits to all WTO members will make an important contribution to global economic growth and sustainable development as well as strengthening further the rules-based trading system.

(1) THE EU'S POSITION ON A COMPREHENSIVE ROUND

50. The **Commission's substantive proposals** for a Round were set out in the 1999 Communication from the Commission to the Council and to the European Parliament concerning the EU Approach to the WTO Millennium Round. This Communication set out a possible EU agenda for the Round, covering among other things further liberalization or rule-making in the fields of agriculture and services, non-agricultural tariffs, investment, competition, trade facilitation, trade and environment, TRIPS and public procurement. It stressed that results in all areas should support and contribute to sustainable development, and proposed a detailed agenda to ensure that the needs and interests of developing countries would be concretely reflected in the negotiations. The Communication noted how it had been sought to involve, and reflect the views of, the European Parliament and representatives of civil society in developing its approach to the new round, and noted the strength of European business support for a Round. It also noted the need to develop a better understanding of how to progress in relation to social and labour issues.

51. A separate **economic appraisal of the Round** prepared by the Commission concluded that further multilateral liberalization on the lines of the EU's agenda could result in global annual welfare gains of US\$400 billion, of which about US\$90 billion would accrue to the EU but over half the gains would accrue outside the main industrialized countries i.e. in the developing world. Independent studies commissioned by other WTO members show closely comparable results.

52. In its conclusions of 26 October 1999, the **EU Council** unanimously supported the proposal to launch a comprehensive Round. The Council recognized that a new trade round could constitute an important means to improve the European economy, to foster global economic growth and development, and ensure the successful management of globalization. The Council also stressed that a comprehensive Round offers the best way to take account of the trade interests of the WTO membership as a whole. These Conclusions constituted the basis for the EU's position at the Seattle Ministerial Conference and remain the EU's position.

(2) SEATTLE AND AFTER

53. Like other WTO Members, the EU was profoundly disappointed by the failure of the **Seattle** conference to launch a new round. It believes that there are lessons that all Members can draw from this.

54. One of these **lessons** to be drawn from Seattle is that in future the WTO needs to work in a more inclusive and transparent way vis-à-vis all Members, and improve communication with the outside world. Work also needs to be organized more efficiently. There may be scope for short-term improvements in working methods, particularly in preparing for and managing ministerial conferences, where greater transparency, efficiency, and means to ensure fuller participation by developing countries seem warranted. In the longer term, we may need to examine options for broader improvements to the system, in particular to ensure the greatest possible transparency towards, and dialogue with, the wider public. However, we should not let "institutional reform" detract from the goal of launching a Round. Nor should the WTO system be made the scapegoat for failure to bridge gaps on the substance of negotiations.

55. The second – and key - conclusion that no delegation can fail to draw from Seattle is on the **substance of the discussions**. Despite continued differences on several points of the negotiating agenda, can one conclude that those differences could not have been bridged given better preparation in Geneva? Is it not possible that with more time in Seattle and appropriate flexibility all round, negotiations could have been launched? And does this not mean therefore that it should be possible to bridge those differences in the future?

(3) THE CONTINUED CASE FOR A NEW ROUND

56. Against this background, the EU continues to support the launch of a **comprehensive Round**, along the lines supported by a large group of countries before and at Seattle: a Round in the sense of an inclusive approach in which all WTO Members can find their interests addressed.

57. The fundamental reasons in favour of a broad agenda remain valid. First, as regards further trade **liberalization**, both developed and developing countries seek improved market access for their products and services, in order to increase economic growth. It was clear at Seattle that only a comprehensive approach to market access, covering all sectors, can enable all Members to exploit their comparative advantage and thus increase their trade.

58. Secondly, the WTO also still needs to update its **rules** to respond to the effects of globalization, so that our traders and investors can enjoy a predictable, transparent and non-discriminatory framework in which to make their economic decisions and to compete. Basic rules on **investment** and **competition** are necessarily part of such an agenda and will go some way towards providing this environment. There continues to be solid support from a large number of Members for the inclusion of these issues in a negotiation. It is capital to launch negotiations on two subjects of such systemic importance and of benefit to companies and consumers around the world. It is equally important to begin negotiations either on **trade facilitation** or on improvements to rules in areas like

trade defence or **technical barriers to trade**, all of which would contribute to more predictable market access conditions and to the freer flow of goods. Also, WTO rules on government procurement are in serious need of updating.

59. Third, Seattle also highlighted acutely the need to better **integrate developing countries** into the trading system through better market access, improved special and differential treatment, better co-ordinated capacity building, and a more active role within the WTO mechanisms. The EU remains willing to address comprehensively the priority issues for developing countries in a Round. Indeed, it is only in the framework of a comprehensive approach that the developing countries' trade agenda – including more sensitive issues – can be fully addressed.

60. And finally the WTO must still answer **questions of concern to governments and the wider public**. The potential interlinkages of the trading system with the environment, sustainable development, social issues and consumer health and safety, need to be addressed in a way that safeguards both the trading system and these concerns. The EU initiative in relation to a Sustainable Impact Assessment of a new Round is an integral part of this approach. While the EU position on some of these issues would benefit from being clarified, the EU's fundamental objectives remain valid. The EU stands ready to consider the options available to achieve these objectives in order to ensure that any further clarification of the rules resolves the very complex equation of meeting legitimate societal and ethical objectives while bringing greater legal security to all Members, preserving the fundamental principles of the WTO, and preventing unjustified discrimination or disguised restrictions on trade.

61. In addition the EU will continue its efforts to develop a meaningful dialogue involving the ILO and the WTO on questions relating to **trade, labour and social development**.

62. The EU will continue to promote **transparency** in trade policy. Internally, it has launched a campaign of awareness, information and exchange of views with all actors of the civil society. This will be a permanent feature of the EU internal trade policy making. In Geneva, the EU has argued in favour of the greatest possible transparency of the WTO vis-à-vis the outside world.

(4) CONCLUSION - PREPARING FOR THE LAUNCH OF A NEW ROUND

63. The Council, meeting in Seattle on 3 December, confirmed that the elements of the EU's comprehensive approach, as set out in those conclusions, should continue to be pursued. The EU is therefore continuing actively to make the case for a comprehensive new round and is working with all its trading partners to **maintain and broaden support for a round**, which it wishes to see launched this year. It is more than ever necessary to adapt the multilateral trading system to the economic realities of today and to harness the powers of globalization for the benefit of all countries. WTO-members have put their priorities clearly on the table at various occasions. The launch of a comprehensive round, which takes everybody's concerns into account, but without unduly prejudging the outcome, is achievable if the necessary political capital is invested in an inclusive and transparent process.

64. An intensive process of consultation, review, and where necessary, adjustment constitutes the best way to restore momentum, to find convergence and to bridge outstanding differences.

65. In the shorter term, the EU has been among those WTO members calling for the adoption of **confidence building measures**, and was gratified that elements of this could be adopted in the WTO in May. The EU's contribution includes the pledge of duty and quota free treatment for essentially all products from least developed countries, and proposals to support implementation of the Uruguay Round agreements, capacity building and transparency.

66. In sum, the proposed approach reflects the EU **will to continue to assume its responsibilities within the WTO** and to maintain the momentum for further liberalization and rule making. The EU will work to ensure that the future negotiations are put on the most solid basis possible, that flexibility is brought into the debate, that the problems identified by developing countries are being properly addressed, and that the functioning of the WTO is being improved. On this basis the EU is confident that **a comprehensive trade round can be launched** this year and that it can be successfully concluded in the near future.
