



TOWARDS A NEW TRADE ROUND

This set of factsheets from the European Commission's Directorate General for Trade summarises the European Union's trade policy.

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October 2001

TOWARDS A NEW TRADE ROUND

Key objectives

- Liberalise market access
- Update and improve World Trade Organisation rules
- Promote a development agenda
- Address issues of public concern

The European Union has been in the forefront of trying to build momentum for a new global trade round. Trade Commissioner Pascal Lamy has argued consistently for a New Round that will respond creatively to the failure to launch a round in Seattle in 1999. In particular, a new round must take on board the concerns of less developed countries, and address legitimate concerns expressed by the public.

Below is an outline of what the EU believes are the essential elements for a successful New Round that would meet EU objectives, and help stimulate the global economy which currently faces an economic downturn.

➤ Liberalise market access

WTO Members must further liberalise access to markets for goods and services, on the basis of predictable and non-discriminatory rules. Agriculture, services and non-agriculture tariffs are all key areas for improving market access.

To achieve true market liberalisation, a comprehensive – rather than sectoral – approach is necessary. WTO members must be open to negotiations on all sectors. Developing countries clearly need more access to our markets. They, of course, will have to liberalise their own markets, but at a pace that permits their successful economic adjustment. The European Union has already taken a lead in this direction with its *Everything But Arms* initiative for Least Developed Countries.

➤ Update and improve World Trade Organisation rules

The WTO rulebook must be updated to ensure that it remains relevant in the 21st century. The WTO must strengthen its coverage in the areas of investment, competition and trade facilitation, ensuring among other things that the basic WTO rules of



Pascal Lamy, European Commissioner for Trade

transparency and non-discrimination apply to these areas.

Foreign direct investment is an alternative way to trade in today's rapidly integrating economy, and should be governed by a basic framework of multilateral rules. The rules should provide investors with stability and predictability (important factors in attracting foreign direct investment), but equally should preserve each country's control over investments in domestic enterprises. The WTO should put in place a basic infrastructure of *competition law and policy*, and establish mechanisms for cooperation among national competition authorities. This

will offer – for the first time – a multilateral framework in which to tackle the anti-competitive practices of enterprises.

The WTO should tackle *trade facilitation* – to introduce practical measures to reduce governmental red tape and thus speed up the movement of goods in the international marketplace. Customs procedures should be simplified, and customs administration improved. Technical assistance should be directed to the customs programmes of developing countries, with the complementary aims of making trading easier, reducing fraud, and increasing revenues.

➤ Promote a development agenda

The EU and the US, the world's trading giants, must take the lead in helping developing countries expand their economies in a sustainable way. The EU is opening its market further to developing countries, and is supporting comprehensive efforts to ensure that developing countries enjoy the benefits of multilateral liberalisation. The WTO must complement market access and rule-making with efforts directed at areas

such as trade-related aid, poverty reduction, and access to medicines. Such efforts should proceed in co-ordination with related initiatives within institutions including the World Bank, the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Environment Programme (UNEP).

Finally, the WTO must work in a more inclusive and transparent way, so that smaller developing countries in particular can participate more fully.

► **Address issues of public concern**

The European Union believes that the WTO must address issues of general public concern – in particular worries over the compatibility between environmental policies and trade policies, or concerns that the interests of consumers are not adequately reflected in trade rules. The EU plans therefore to ensure that trade rules remain compatible with the wider interests of society as a whole.

Specifically, the EU will in the New Round seek clarity in areas of genuine ambiguity, such as the role of WTO rules relating to environmental labelling, and the role of the precautionary principle. The rules in several of these areas are now being determined by dispute settlement panels and not by governments: by litigation and not negotiation. This is not in the interests of WTO Members.

The idea is bring certainty and predictability into the system, and to ensure that trade and environment rules in the WTO facilitate trade by being transparent, proportionate, and non-discriminatory.

European Trade Commissioner Pascal Lamy replies to questions about the need for a New Round...

• **Why a New Round of trade negotiations?**

The multilateral trading system needs to be better organised and further liberalised to cope with the increasing globalisation of economic activity. All regions of the world will gain from multilateral liberalisation in agriculture, industrial products and services, and from the positive effects of negotiations in policy areas such as trade facilitation, competition and investment. The New Round will also make a real contribution to sustainable development by integrating this concern throughout the negotiations and by ensuring that WTO rules are supportive of international efforts in this area. The New Round can also help consolidate structural reforms in many parts of the world, and will help contain further protectionist pressures by continuing the momentum for ongoing liberalisation.

• **Why must the New Round have a comprehensive agenda?**

A comprehensive trade round, offering a balance of benefits to all WTO members, is the best way to reconcile the competing demands of economic growth, better integration of developing countries, environmental protection and social development, and to strengthen further the rules-based trading system. The New Round's coverage of both traditional topics and new issues will allow all participants to have an interest in the negotiation, and will meet the needs of the economy of the 21st century. But a comprehensive agenda does not mean an open-ended agenda. Quite the contrary: WTO members must start the negotiations with a clear idea of the scope and aims of those negotiations.

• **Why is the case for a New Round so focused on the needs of developing countries?**

Fuller integration of developing countries into the multilateral trading system is essential if those countries are to avoid being marginalised in this era of globalisation. The New Round must take account of the specific needs and concerns of developing countries in a comprehensive way. To that end, the New Round must substantially improve market access and trading opportunities for the developing world. It must give special focus to the development dimension of trade liberalisation, and it must address the human resource and infrastructure constraints of developing countries.

• **Why does the EU want to lay so much stress on new issues such as environmental considerations and consumer protection?**

Sustainable economic development cannot be achieved without paying attention to the effects of globalisation on the environment and on public health. Environmental considerations must be integrated into various aspects of WTO negotiations, and concerns must be addressed in fields as diverse as climate change, bio-diversity, the compatibility of eco-labelling schemes with WTO rules, and biotechnology. Where food safety is concerned, consumer protection measures are needed to ensure that safety and quality standards are maintained at the highest possible level. The WTO must ensure that such measures, when taken, are taken for legitimate reasons, and are transparent and non-discriminatory.



October 2001

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The Multilateral Trading System

The world trading system was born in 1948, at the end of the Second World War, when the General Agreement on Tariffs and Trade (GATT) was established to promote reconstruction and economic growth through market opening and free trade. Members of the system enjoy rights and undertake obligations which have been

negotiated in a balanced manner. There have now been eight rounds of negotiations. In the first, there were only 23 participants; in the latest – the Uruguay Round, which was concluded in 1994 – there were 123. Today, the World Trade Organisation has 142 members and 30 candidate countries, most of them from the developing world.

GLOBALISATION AND LIBERALISATION

Key objectives

- **Ensure that gains are shared by all**
- **Strengthen multilateral institutions**
- **Improve the participation of developing countries**

Globalisation – the technology-driven phenomenon that is integrating economies worldwide – is a key factor in enhancing global welfare. It is promoting efficiency that brings down costs, raises productivity and boosts ever-greater consumer choice. The process is behind the economic growth that has raised living standards across the world. But the benefits arising from increasing economic interdependence are not being shared equally by all. The European Union wants to ensure that globalisation is seen as being not just efficiency-boosting, but also fair. To that end, it is promoting a trade policy agenda that would involve controlling and managing the processes of globalisation to ensure that the new market works better for more people.

- **Ensure that gains are shared by all**

Global welfare has been boosted by efficiency gains arising from increased access to foreign capital, while greater international specialisation and competition have resulted in enhanced global welfare. The continued process of globalisation has prompted cost reductions, rising levels of productivity and greater consumer choice. The resulting economic growth has raised living standards across the world.

However, the trend towards increasing economic interdependence has resulted in gains for some, but losses for others. That is because of the differing capability of countries and individuals to take advantage of the opportunities that globalisation offers. The popular backlash against globalisation is mainly based on a belief that globalisation implies increasing inequalities and environmental risks, and reduced social protection standards.

The European Union has an interest in a politically-managed globalisation that will ensure that gains from enhanced growth are spread evenly throughout society, while easing the plight of those

who must undergo painful adjustment. The EU is eager to share its experiences in combining market integration, common rules and solidarity mechanisms with other countries or groups of countries seeking to develop their own systems for managing an open and integrated system of trade and investment.

- **Strengthen multilateral institutions**

A global economy needs more international rules and stronger multilateral institutions. The risks inherent in globalisation must be controlled and managed if the phenomenon is to be a positive force for developed and developing economies alike. Policies geared toward the progressive removal of obstacles to trade must be complemented with trade rules that are managed in a non-discriminatory and transparent manner. The World Trade Organisation – the pre-eminent vehicle for governance of the new rules – must be modernised and strengthened.

At its heart, the WTO is all about the rule of law in international trade.

As the global economy changes, so must the WTO rulebook. It is no longer enough just to regulate trade in goods. Trade in services is now just as important as merchandise trade and should be addressed accordingly. Similarly, as public barriers to trade are dismantled, the WTO needs new rules that will address private barriers that are erected through the anticompetitive behaviour of companies. Finally, new rules are required to maximise the benefits and minimise the risks related to the increased flow of foreign direct investment.

- **Improve the participation of developing countries**

Economic growth and prosperity have been particularly marked in those countries whose economic policies have been geared toward greater interaction in the global economy. Unfortunately, globalisation has not proved to be a truly global phenomenon – some countries have been left out because they have not been able to ensure the degree of sophistication and good governance that is needed to support integration in the world economy.

The New Round offers industrialised countries the opportunity to assist developing countries as they work to establish the sound domestic policies and institutions that will enable them to benefit from the open world economy. Promotion of sustainable development policies – that is, policies which both encourage economic growth, preserve environmental resources and promote social equity – will encourage developing countries to adopt the macroeconomic, institutional and sectoral reforms necessary to enable them to share fully in the benefits of an open trade environment.

Frequently asked questions

- ***We hear so much about globalisation these days. Can you give a short definition of the term?***

'Globalisation' is a shorthand means of describing the process of worldwide integration of markets and economies. The process reflects the increasing volume and variety of cross-border transactions in goods and services, as well as the increased volume of international capital flows. It is based on today's rapid and widespread diffusion of technology and ideas, and further promotes this process. It is mainly driven by technology and by the actions of individual economic actors.

- ***Isn't there a danger that the WTO will impose inappropriate reforms on developing countries in the name of globalisation?***

Implementation of the macroeconomic, institutional and sectoral reforms needed to promote economic and social development is the responsibility of the developing countries themselves. Such reforms cannot be imposed from outside. They will only be successful if they are worked out domestically, and if they are the subject of an internal consensus within the societies concerned. Multilateral institutions such as the WTO only provide the models for such reforms. The final decisions on the optimum policy mix rests with the developing countries themselves.

- ***Isn't trade liberalisation just about the dismantling of barriers?***

Trade liberalisation was once purely focused on issues such as reducing tariffs and lifting capital and exchange controls. Now it is just as much about creating new rules which facilitate the world-wide integration of markets. Just as the trade agenda has now moved on to non-tariff issues such as the revision of domestic product regulations, so trade liberalisation has come to focus on the creation of simpler, more transparent and non-discriminatory rules that will help all nations share the benefits of globalisation.

- ***Who are the winners and the losers in this age of globalisation?***

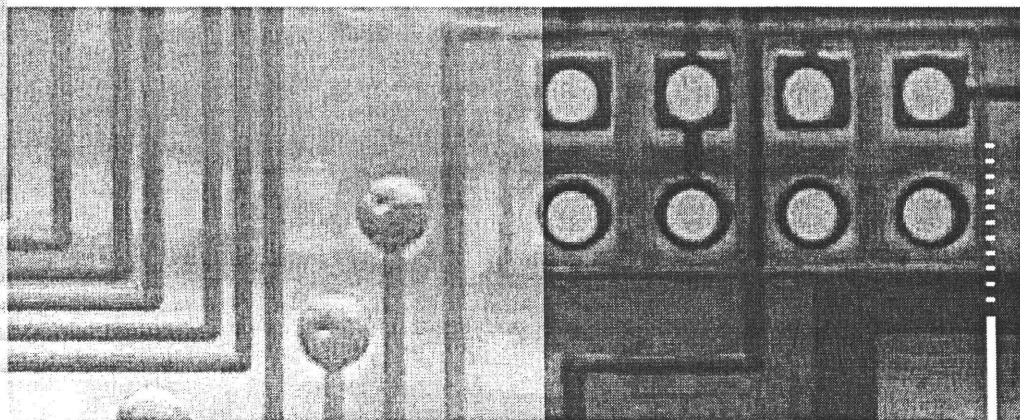
Economic growth and rising prosperity have been particularly marked in countries whose economic policies have been geared towards greater interaction in the global economy. In recent years, some East Asian economies have enjoyed double-digit growth rates in merchandise trade and levels of output growth to match. However, others – in particular sub-Saharan African nations – have fared less well, because they have not been able to ensure the degree of sophistication and good governance that is needed to support integration into the world economy. Trade liberalisation need not be a zero-sum game where some lose what others gain. Rather, it can be a win-win proposition, provided that trade is properly regulated and complemented with sound domestic policies that lead to sustainable and inclusive development.



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TOWARDS SUSTAINABLE TRADE

Key objectives

- ▶ **Support sustainable trade**
- ▶ **Enhance the World Trade Organisation's contribution to sustainable development**
- ▶ **Ensure that a New Round of trade liberalisation negotiations has sustainable development as an overall objective**

International trade is one of the means that enables the world's economic actors to cooperate in order to enhance growth and meet consumers' needs. But the EU is convinced that economic growth needs to take place within sustainable development worldwide. Sustainable development was first defined in a UN report to the World Commission on Environment and Development which became known as the Brundtland Report, 'Our Common Future' (1987). This identified sustainable development as a process that 'meets the needs of the present without compromising the ability of future generations to meet their own needs'. So both developed and developing economies should pursue development strategies that secure non-inflationary growth, while preserving environmental resources and promoting social equity. A balance must be struck between these three components of sustainable development: development, environment and social equity.

▶ **Support sustainable trade**

The EU pursues a policy of sustainable development at home, so sustainable development is also a basic objective for trade policy-makers. The EU plays a leading role in the international fora where trade and sustainable development issues are discussed. Particularly important among these are the World Trade Organisation (WTO) Committees on Trade and Environment and on Trade and Development.

Trade and trade liberalisation can be good for sustainable development. Trade liberalisation encourages countries to produce what they make most efficiently – in other words, using least natural resources. Trade in environmental goods and services can help provide the tools to make it easier to implement sustainable development and environmental policies.

But in order to get the best results from trade liberalisation, the world needs the right environmental and

economic policies and sustainable development strategies at national and sometimes regional and international levels. The EU consistently stresses the need for countries throughout the world to implement national sustainable development policies so that the three pillars of sustainable development are integrated into all relevant policy areas. The EU leads the way in Sustainability Impact Assessment – a methodology for examining the potential effects on sustainable development of its own proposals for the WTO New Round agenda and of bilateral trade initiatives. The EU is encouraging other WTO members to carry out their own Impact Assessments.

▶ **Enhance the World Trade Organisation's contribution to sustainable development**

Sustainable development is a key objective of the WTO. Nevertheless, the EU would like to see the WTO strengthen its contribution to sustainable development.

Although WTO rules do not stop members from taking measures to protect the environment, provided they are not discriminatory, there are a number of areas where the exact legal relationship between WTO rules and environmental measures is not clear. The EU believes that clarifying what WTO Members can and cannot do would be a positive step towards boosting the WTO's contribution to sustainable development.

See separate factfile on the EU, trade and environment.

The EU supports greater cooperation between the WTO and the United Nations Environment Programme (UNEP) and the United Nations Conference on Trade and Development (UNCTAD). Such cooperation has helped policy makers in the different institutions as well as national officials to develop a deeper understanding of the complexities of each others' policy areas. Such synergies mutually reinforce joint efforts to support sustainable development.

- **Ensure that a New Round of trade liberalisation negotiations has sustainable development as an overall objective**

The EU sees a New Round of trade liberalisation negotiations as the best way to promote sustainable trade. Only in a comprehensive WTO round will it be possible to address the various issues relevant to making trade sustainable. These include clarification of WTO rules; the legitimate interests of developing countries and the need to provide capacity-building to help them in sustainable development issues related to trade; development issues; and environmental concerns, in a holistic and coordinated manner among all WTO Members. Accordingly, sustainable development must be a basic aim of the New Round.

Frequently asked questions

- ***Surely trade undermines sustainable development. Shouldn't we limit it if we want to save the planet?***

Trade is not the enemy of sustainable development; rather, trade helps economic growth and makes it easier for countries to specialise in activities where they have the best advantage, i.e. where they are most efficient and use least resources. Poverty, on the other hand, is one of the main contributors to environmental degradation. So by boosting growth, trade can help combat poverty and break this vicious circle. Furthermore, countries with open economies often have higher standards of living and high environmental standards, whereas closed economies tend to be poorer and have worse environmental records. Trade liberalisation in areas such as environmental goods and services makes clean technologies more widely available, at lower prices.

- ***But is the concept development-friendly for developing countries?***

Sustainable development has economic, social and environmental aspects. These are the main pillars for sustainable and equitable development in poor countries. So yes, sustainable development is certainly development-friendly.

- ***How can we judge if our trade policy is good for sustainability?***

This will take time and commitment from all. Everyone will have their own perspective, and the EU wants all those views to be brought to bear in the policy debate: it will also be seeking public input to the process of Sustainability Impact Assessment. As far as the implementation of trade deals is concerned, we should implement in ways which respect the needs of all countries involved, with timetables to match.

- ***What is the World Trade Organisation's role in all this?***

Sustainable development is one of the objectives of the World Trade Organisation. All WTO activities can make a potential contribution towards sustainability within the framework of the Committee on Trade and Environment. An exchange of views has taken place on efforts in Europe and elsewhere to design a more sustainable trade policy. There is also work underway on rules within the UN Environment Programme and the UN Commission on Sustainable Development.

- ***Is this topic on the agenda for a new trade round?***

Yes. Since 1996, Europe has been pressing for the mainstreaming of sustainable trade concerns in WTO, through its trade and environment and its development agenda. The pre-Seattle proposals of the EU most certainly encompassed sustainable development concerns, and our impression was that there was a good deal of understanding for them from other trading partners.



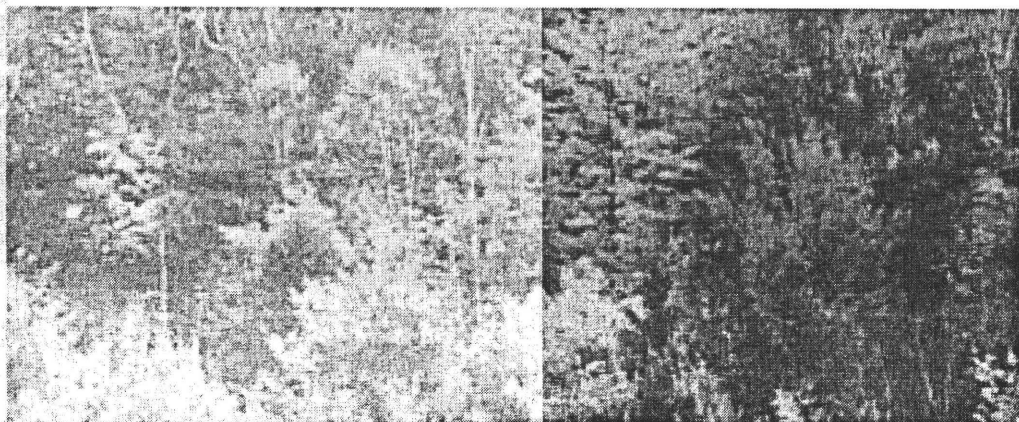
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TRADE AND DEVELOPMENT: BETTER OPPORTUNITIES FOR ALL

Key objectives

- **Make the new World Trade Organisation round supportive of development**
- **Help developing countries' own efforts to integrate in the world trading system and take advantage of opportunities**

Trade and investment liberalisation offer great opportunities for economic growth and sustainable development. However, the world's poorest countries have not been able to benefit fully from these opportunities. The European Union is committed to supporting developing countries' efforts to integrate into the trading system to help them reap the benefits of liberalisation. The European Commission has identified a strategy, which involves immediate action in crucial areas, such as market access and access to medicines. It has also set an agenda for a New Round of multilateral trade negotiations that makes development issues a priority. The EU is continuing work to refine this strategy, and seeks to ensure that it is part of all of our policies in the WTO. The integration of developing countries in the multilateral trading system is part of the EU's trade strategy.

- **Make the new World Trade Organisation round supportive of development**

The EU must make sure the interests and concerns of developing countries in the multilateral trading system are taken on board, to ensure that the system is supportive of development. The fundamental principles of the multilateral trading system – non-discrimination, predictability, stability and transparency – are certainly supportive of development and essential to serve the interest of all. But only via a New Round of negotiations under the auspices of the World Trade Organisation can we make sure that the needs of all countries are met in an integrated and balanced manner. A New Round of trade negotiations would offer developing countries opportunities for growth and development, and it must pay particular attention to the needs of the 49 least developed countries (LDCs).

The following issues are of particular importance:

- **Market access negotiations:** These must encompass sectors and products of particular interest to developing countries with view to boosting their access.

CASE STUDY

Technical assistance in Africa

In the Great Lakes region of Africa (Uganda, Tanzania, Kenya), EU-funded technical assistance helped the health authorities to set up laboratories and to organise training so that they had the equipment and skills to make sure their fish exports meet international sanitary requirements.

- **New rules on investment and competition:** These are in the clear interest of developing countries. They would help to attract increased levels of investment, as well as helping to ensure a well-functioning market. Such rules would be useful and constructive – for all members.
- **Implementing existing trade agreements:** Developing countries' concerns about the implementation of existing agreements must be addressed. This should be done before the WTO ministerial if possible, otherwise at

the ministerial, and in the follow-up as appropriate.

- **Help developing countries' own efforts to integrate in the world trading system and take advantage of opportunities**

Trade and investment liberalisation in a rules-based trading system is essential for economic growth and development. But there must also be policies to help countries reap the benefits of liberalisation, and to meet the costs of adjustment. Trade-related technical assistance is a key element in building capacity in developing countries, so that they can take advantage of the opportunities available. Country development programmes must have trade and integration in the world economy built into them. We must make sure that the trade-related technical assistance and capacity-building on offer are:

- **Demand-driven**, so that they really do meet the needs of recipient countries;
- **Co-ordinated**, so that the efforts of different donors add up to make a coherent package.

CASE STUDY

Help for potential exporters in ACP* countries

The EU-ACP Export Business Assist Scheme (EB@s), set up with a grant fund of € 20 million, aims to help companies in ACP countries that are already successful on their home markets to compete internationally.

- In **ETHIOPIA**, a shoe factory that exports 10% of its output to Europe got a grant to improve its processing systems and quality control.
- In **UGANDA**, a service company providing export marketing information to East African exporters got a grant to enable it to redesign and upgrade its website.
- In **ZAMBIA**, an association of horticulturalists acting on behalf of a group of associations in East and Southern Africa got a grant to train auditors and quality control specialists to improve produce destined for export to the EU.

* *African, Caribbean and Pacific countries (77 in all).*

Frequently asked questions

• Surely developing countries must share responsibility for their own development?

Certainly. The international community or bilateral donors can only do so much. Developing countries must themselves create adequate domestic frameworks if they are to seize potential opportunities. That means domestic policy frameworks that are conducive to trade, investment and private sector development as well as measures that target sustainable development and its environmental, social and economic aspects. These are essentials.

• What does the EU do to enhance market access for developing countries?

- **Everything But Arms for LDCs:** The Council of the European Union in early 2001 adopted a regulation to grant duty-free and quota-free access to all exports from LDCs, except arms. This significantly enhances export opportunities and hence potential income and economic growth for these countries. Improved market access for other developing countries is best dealt with in the framework of a New Round that would pay particular attention to this point.

- **Trade-Related Technical Assistance:** Improved export opportunities are not in themselves sufficient. Many developing countries also need assistance to enhance their capacity to make use of the trading opportunities offered by improved market access and multilateral trade liberalisation in general. For instance, such assistance is important to be able to meet the various technical requirements which are so pervasive in today's international trade. Trade has been identified as one of the priorities in the EU's assistance activities. We are working to ensure that trade is integrated in development aid in a more systematic way.

- **Integrated Framework for Technical Assistance:** As far as the Least Developed Countries are concerned, the international community's Integrated Framework for Trade-Related Technical Assistance has been reviewed to make it more effective. The Framework started in 1997 and builds on very sound principles – demand-driven and well-targeted technical assistance, based on co-operation and synergy among donors.



October 2001

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For details of the EU's agreement with African, Caribbean and Pacific countries, go to:

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Special and Differential Treatment

in making use of enhanced trading opportunities. So the provisions need to be re-examined, with a view to making them more appropriate to developing countries' needs, while respecting the specificity of each WTO Agreement or Decision.

Basic WTO principles, such as trade liberalisation, non-discrimination, national treatment and transparency are beneficial for developing countries as well as

developed countries. They help to bring about enhanced trade and economic growth, which is necessary – but not sufficient – for development. Only by maintaining these principles and striving for full WTO membership and obligations can all countries reap the full benefits. Special and Differential Treatment is a step on the road towards full participation on equal terms.

TRADE AND THE ENVIRONMENT: SUPPORT SUSTAINABLE DEVELOPMENT

Key objectives

- **Support sustainable development**
- **Clarify World Trade Organisation rules**
- **Promote multilateral solutions to global environmental problems**

The relationship between trade and the environment is increasingly important in international relations. There are three main aspects to the relationship: the environmental impact of trade and trade policies; the potential effects of environmental measures on trade flows; and the use of trade measures to achieve environmental policy aims.

The interface between trade and the environment covers many areas which affect our everyday lives. They include climate change, the ozone layer, biotechnology, (e.g. genetically modified organisms), dangerous chemicals and toxic wastes, trade in endangered species and methods of agriculture and fishing.

The European Union takes a leading role in international discussions, in particular in the World Trade Organisation's (WTO) Committee on Trade and Environment. The EU wants a new WTO round to have a strong environmental component so that trade and environment issues can be addressed and resolved.

The approach chosen must deal with these issues in ways which do not allow disguised protectionism in the name of environmentalism.

➤ **Support sustainable development**

The EU supports a high level of environmental protection and an open, equitable and non-discriminatory multilateral trade system. It believes the most effective way of addressing international environmental problems is through getting countries to work together, not by unilateral action.

Trade and environment policies can enhance sustainable development. Trade liberalisation encourages countries to produce what they make most efficiently – in other words, using natural resources sparingly. The EU wants a New Round to be especially attentive to areas where boosting trade can help sustainable development, for instance, by producing environmentally-friendly goods. Trade liberalisation, by creating wealth, can boost the resources available for environmental protection. People enjoying a high standard of living often become more aware of the environment.

The EU consistently underlines the need for all countries to implement

national sustainable development policies so that environmental protection requirements are integrated into all relevant policy areas. We must not allow trade liberalisation to put pressure on the environment in damaging ways. The EU leads the way in Sustainability Impact Assessment by examining the potential effects of its own proposals for the WTO new round agenda and for bilateral trade initiatives. It is encouraging other WTO members to do the same.

➤ **Clarify WTO rules**

WTO rules allow Members to adopt measures necessary to protect human, animal or plant life or health, or relating to the conservation of exhaustible natural resources. But there are some grey areas. Where WTO Members have disagreed on the use of the rules, the WTO's dispute settlement mechanism employs panels of experts to examine and settle the issue. Only governments, however, can provide an authoritative interpretation of the rules. So the EU wants the relationship clarified and is pushing for an environmentally-friendly interpretation of the rules that takes

into account the growing understanding of our fragile environment and our dependence on it.

There are three key areas where the rules need clarifying: eco-labelling, precaution and multilateral environmental agreements.

The EU wants to ensure that **eco-labelling schemes** are devised in a transparent way. They must be WTO-compatible, and they must not create trade barriers. The EU is urging the international community to accept its Life Cycle Analysis (LCA) – an essential component of the EU's labelling system. The LCA approach means that all aspects of the production, potential use and disposal of a product should be taken into account when it is being considered for an eco-label.

Policymakers apply the **precautionary principle** when scientific evidence regarding assessment of a risk to the environment or health is incomplete or contradictory, though action is in the public interest. It is important in risk management: sometimes, the potential risk is so great that we simply cannot

wait until all scientists agree before acting. The EU wants to ensure that WTO rules do not stop its members from taking precautionary measures.

The EU also wants to clarify that measures taken to tackle international environmental problems under **Multilateral Environmental Agreements (MEAs)**, such as the Kyoto Protocol on Climate Change, are not contrary to WTO rules. For instance, problems could arise if a country imposed a trade measure for environmental purposes on another WTO Member which had not signed the MEA. Could the country affected use WTO rules to overrule the trade measures? The EU wants WTO Members to agree that this should not be allowed to happen.

► **Promote multilateral solutions to global environmental problems**

The relationship between the multilateral trading system and environmental policies is evolving in response to growing environmental awareness in both developed and developing countries. We now understand that trade, environment and sustainable development are inextricably linked.

In an increasingly interdependent world, it is clear that environmental challenges such as climate change, the protection of the ozone layer, the disposal of toxic wastes and the threat of extinction of endangered species cannot be solved by one country or group of countries alone. That is why the EU promotes a multilateral approach to tackling environmental problems, in particular by means of Multilateral Environmental Agreements.

The EU is keen to ensure that MEAs mesh seamlessly with international trade and it wants the WTO to support multilateral efforts to tackle environmental problems. The EU is leading the drive to ensure that the multilateral trading system adapts to rapidly-changing needs and perspectives in today's world and does not hinder the development of environmental policy.

Frequently asked questions

• **Why should trade policy take priority over environment policy?**

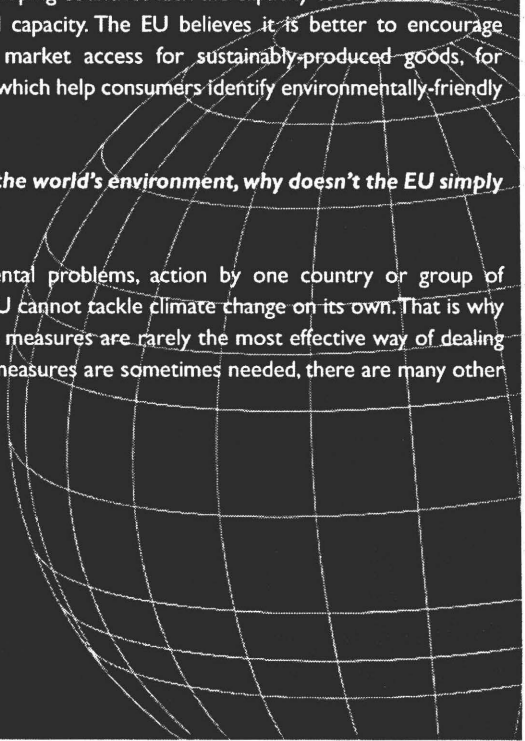
It should not – and it does not need to. Both policies can work together to support sustainable development without us having to choose between them. For example, liberalisation in trade in environmental goods and services makes them more widely available at affordable prices; and eco-labels can help consumers identify and choose environmentally-friendly goods.

• **Why doesn't the EU stop imports of unsustainably-produced goods, such as tropical timber?**

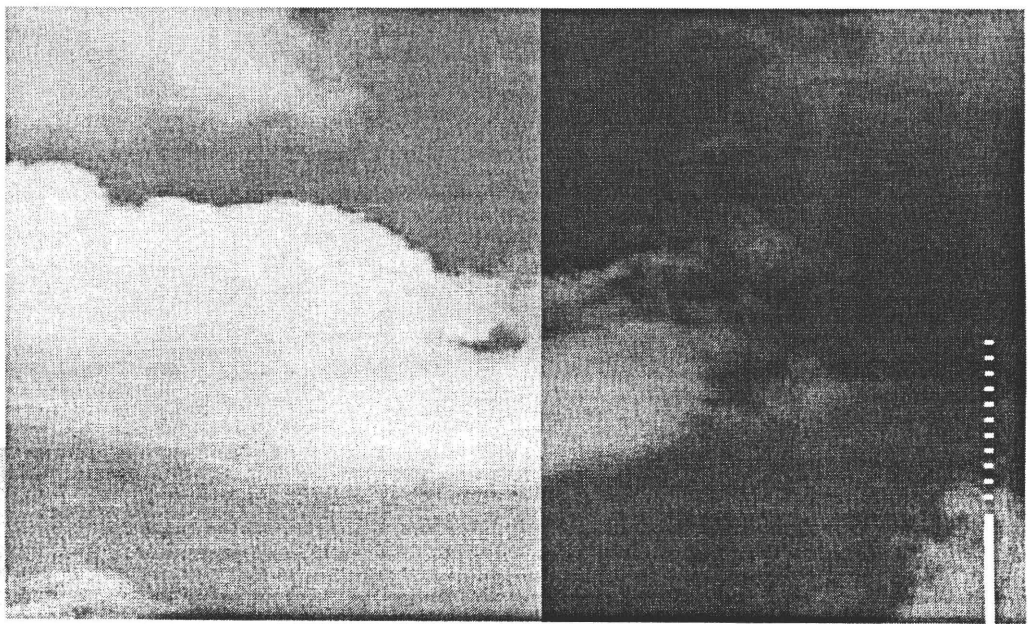
Simply banning imports of unsustainably-produced goods will not stop their production. On the contrary, it can create a black market and make matters worse by raising prices. In fact, not all tropical timber is produced unsustainably. Indeed, the EU is active in providing technical assistance to schemes aimed at making timber production sustainable. Sometimes logging is illegal according to the laws of the country in which it is produced. Some developing countries lack the capacity to enforce domestic laws. The EU is active here too, helping build capacity. The EU believes it is better to encourage sustainable production by providing greater market access for sustainably-produced goods, for instance, through lower tariffs, or by eco-labels which help consumers identify environmentally-friendly products.

• **If other countries aren't bothered about the world's environment, why doesn't the EU simply act on its own with trade sanctions?**

Given the nature of international environmental problems, action by one country or group of countries is unlikely to have much effect. The EU cannot tackle climate change on its own. That is why the EU supports multilateral approaches. Trade measures are rarely the most effective way of dealing with environmental problems. Although trade measures are sometimes needed, there are many other policy instruments which bring better results.



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TRADE POLICY: DEBATE WITH CIVIL SOCIETY

Key objectives

- **Consult widely**
- **Address civil society concerns on trade policy**
- **Improve EU trade policy-making through structured dialogue**
- **Improve transparency**

Trade policy, business activity and globalisation have become topics of increasing interest for civil society. The failure to launch a new World Trade Organisation round in Seattle and the media attention surrounding that event in December 1999 have raised issues that deserve the widest possible attention. Among these are attitudes to trade and health, trade and sustainable development sensitive to the environment, trade and agriculture, trade in service, and the application of intellectual property rights. In response, the Commission has made it a priority to consult and debate with non-governmental organisations (NGOs) and other representatives of civil society in the European Union.

Since 1998, the Commission has organised meetings with civil society organisations. These meetings have become regular, well-structured events involving the Commissioner for Trade personally.

➤ **Consult widely**

The Commission is committed to drafting policy and proposing action that takes into account the views of all interested parties. That is why the European Commission (DG Trade) initiated a Civil Society Dialogue process in addition to the institutional contacts that normally take place as part of the legislative process, namely the involvement of the Council, European Parliament and the Economic and Social Committee. In the course of this Dialogue process, the Commission has held regular, structured meetings, both general and on specific issues, with a wide variety of institutions and organisations. They include the European Parliament and the Economic and Social Committee, international bodies including the World Bank and World Health Organisation, representatives from the academic world, from organised labour and employers' organisations, including small businesses, and non-governmental organisations working on topics as diverse as consumer protection, the environment, animal welfare, human rights and humanitarian aid.

➤ **Address civil society concerns on trade policy**

The European Commission is aware that many of the effects of globalisation raise concerns or at least questions in the minds of citizens and NGOs. That is why it makes available time and resources to debate these issues in an attempt to answer relevant questions. Some of the questions that have been raised in this context can be found on the European Commission (DG Trade) website along with up-to-date answers. The aim is to have an ongoing debate by organising meetings on specific issues that take place at regular intervals, the so-called issue groups. There is an informal Contact Group of representatives, selected by their 'constituencies', which helps to circulate information to their contacts, and which ensures, together with DG Trade, that there is some coordination in the running of issue groups.

There are two types of events:

- Issue groups, which debate four subjects of interest at regular intervals, for a fixed period of time.
- General meetings, at which

Commissioner Pascal Lamy himself meets with a large group of civil society representatives.

➤ **Improve European trade policy-making**

Listening to opinions and expertise, be they from civil society, academia, trade unions or business, is important to the European Commission. It aims also to strengthen its expertise by debating the questions that play an important role in shaping public opinion. These questions have an impact on public acceptance of trade policy, which is why it is essential to understand them, to take them into account and to respond to them when making policy.

➤ **Improve transparency**

The European Commission considers that transparency is the foundation for public debate and understanding on policy in any area. It has therefore made a big effort to improve transparency on EU trade policy and its development. It has contributed to public knowledge in this area both through Dialogue with Civil Society, and by making documents available on the DG Trade website.

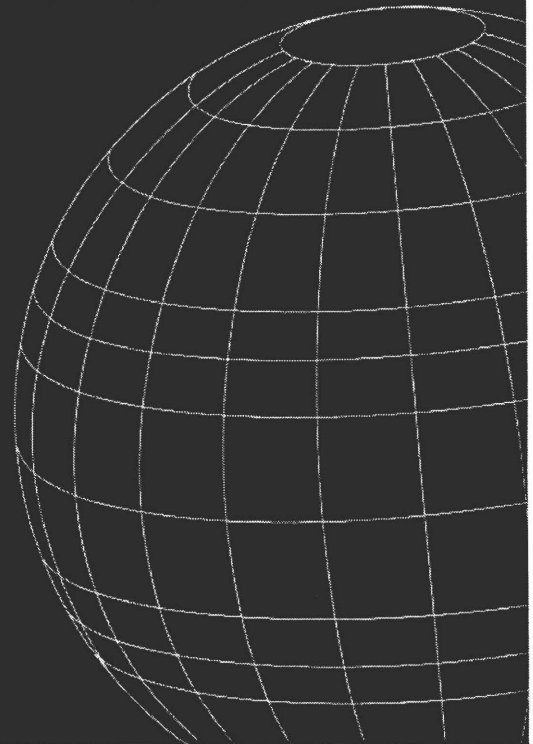
Frequently asked questions

- **How can I make my views known?**

Information on participation and registration is available on the DG Trade website. Prospective participants from EU civil society organisations have to complete a short questionnaire giving information about applicants and their organisations. Participants are asked to register for individual meetings.

- **How can I get more background information on meetings, and on what was discussed?**

All reports are made public on the DG Trade website. For reports of meetings to date and for background documentation made available for the meetings by participants, you may consult the extensive coverage there, contributed by participants themselves. These pages also include full documentation on all issues that are of interest to civil society. The site is updated regularly.



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For full details on eligibility and on the registration procedure, go to:

<http://europa.eu.int/comm/trade/csc/reg.htm>

For reports of meetings and upcoming events, go to:

<http://europa.eu.int/comm/trade/csc/dcs00.htm>

http://europa.eu.int/comm/trade/csc/dcs_proc.htm

Pascal Lamy on dialogue with civil society



Pascal Lamy,
European Trade Commissioner

'All information on the trade policy dialogue is available on our website. The Contact Group does not exclude anyone. Its content is defined by civil society itself. The inclusion of business as well as non-profit NGOs is appropriate given that our dialogue with civil society as a whole based on the principle of inclusivity. If some sectors feel excluded,

they are very welcome to tell us, and nominate representatives. Regarding the issue group membership, its content and organisation has been defined in dialogue with civil society. It has accepted all the suggestions made by NGOs so far. In future they will all continue to have every opportunity to advise us.

May 2001

CONSUMER PROTECTION AND BENEFITS

Key objectives

- **Protect consumer health and safety**
- **Increase choice for consumers**
- **Reduce costs for consumers**

Promoting consumers' interests is one of the European Union's key objectives for the New Round of World Trade Organisation negotiations. The EU attaches great importance to consumer protection. The idea is to ensure that food safety and quality standards are kept as high as possible. EU trade policy is geared towards offering consumers the widest possible choice of products, at the most competitive prices.

➤ **Protect consumer health and safety**

Nothing is more important in the New Round than protecting the health of EU consumers. The EU is committed to ensuring that high food safety and quality standards are maintained. In the New Round, the EU will work to clarify the WTO rules and procedures that protect consumers' health.

WTO Members have an inalienable right to take whatever public health measures they consider necessary to protect the well-being of their citizens. Of course, such measures must be justified. But in cases of doubt, the interests of consumers should be given priority.

The **precautionary principle** helps ensure that consumer interests are fully protected. The principle may be used where the possibility of harmful effects on health or the environment has been identified, and preliminary scientific evaluation proves inconclusive for assessing the level of risk.

A number of developments over recent years highlight the importance of applying the precautionary principle to ensure the protection of both health and the environment. The depletion of the ozone layer and the extinction of certain species of flora and fauna are

examples of problems where action was obviously delayed too long. Potential as well as known risks need to be addressed.

There is no reason to believe that measures based on the precautionary principle are incompatible with WTO provisions. However, there are three good reasons to clarify the rules of the game.

- **First**, a clear framework for managing risks and developing measures based on the principle would reduce the risk of it being abused to justify arbitrary trade barriers.
- **Second**, clarification would promote predictable and trade-friendly regulation and provide an opportunity to enhance transparency. Once again, consumers would benefit.
- **Third**, it would make action based on the principle more internationally acceptable, thus enhancing consumer protection.

Finally, the EU wants to ensure that consumers have access to information to make informed choices about the products they buy. To that end, the EU would like clearer guidelines on the implications of WTO rules for the kind of labelling that producers and governments may wish to introduce.

➤ **Increase choice for consumers**

Trade liberalisation can give consumers more choice. Consumers receive immediate benefits from increased access to finished imports. They receive additional benefits when imported products are used in the local production of goods.

Open trade increases not only the number of products available, but also the range of qualities consumers may wish to choose from. The success of an imported product or service on the domestic market may encourage both domestic and foreign producers to expand the range of goods and services in the marketplace.

➤ **Reduce prices for consumers**

The prices consumers pay for food and clothing – whether necessities or luxuries – are affected by trade policies. Protectionism is expensive: it raises prices. Open trade, on the other hand, results in reduced costs of production (as less expensive goods are used in production). This in turn cuts the prices of goods and services, and, ultimately, reduces the cost of living.

Frequently asked questions

- **Shouldn't EU Member States be able to protect their citizens from questionable products?**

Protection of consumer welfare is a matter entirely different from trade-distorting protectionism. All WTO Members have the right to protect consumers from harmful – or potentially harmful – products. However, the EU is working to clarify WTO rules in this area, notably in the areas of the precautionary principle and labelling.

- **Will the World Trade Organisation make EU citizens eat genetically modified foods?**

According to EU legislation, genetically modified food may be placed on the market provided there are no hazards to consumers. Some foods consumed in the EU contain genetically modified material, but in each case, the product has fulfilled the requirements of the appropriate EU legislation. Of course, some consumers don't want genetically modified food, regardless of whether it is regarded as safe. The EU has thus adopted EU-wide labelling rules which require all food containing modified material (DNA or protein) to be labelled as such (unless there is less than 1% of any such product in it). The EU's approval system and our labelling regime has not been challenged in the WTO or under any other international agreement.

- **Will free trade in agriculture squeeze out specialty items such as Roquefort Cheese in order to make way for low-quality, mass-produced foods?**

The European Union has made a great effort to ensure that traditional practices in food production are identified as a source of quality and added value in WTO agriculture negotiations. The EU does not wish to see names associated with quality (such as Roquefort, Parma, Bordeaux) undermined by cheap copies.

- **How might successful imported products or services affect local producers?**

Sometimes the success of an imported product or service might encourage new local producers to compete. Of course, they may have to produce better, cheaper, more reliable products in order to meet the challenges of their competitors.



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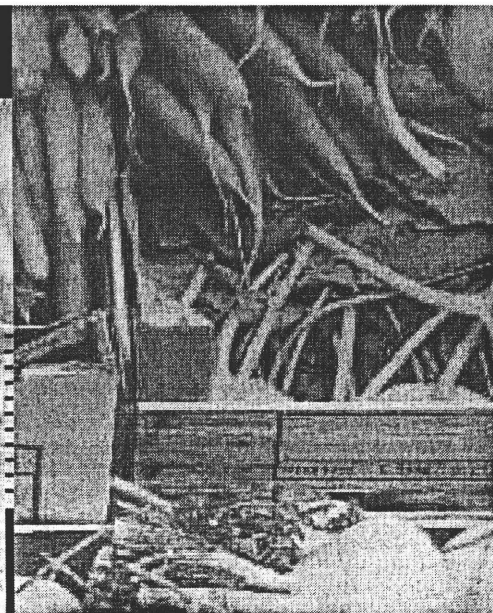
EU consumer protection: four objectives

• Ensure that food safety and quality standards are maintained at the highest possible level.

• Clarify WTO rules on the precautionary principle.

• Ensure a fair participation of all interested parties, including consumers, in the decision-making process on establishing

• Clarify WTO rules on labelling.



AGRICULTURE: CONTINUING THE REFORM

Key objectives

- **Launch comprehensive agenda at the World Trade Organisation**
- **Ensure special opportunities for developing countries**
- **Work towards World Trade Organisation discipline for all forms of export support**
- **Protect the multifunctional role of agriculture; meeting consumers' concerns**

The EU is the world's biggest importer and second biggest exporter of agricultural products. The EU has every intention of ensuring that the development of this trade is based on clear, acceptable and sustainable international trade rules. That is why it is acting on lessons learnt as a result of the failure to start a New Trade Round in Seattle in 1999.

First, at the start of the 21st century, world trade is no longer just the domain of industrialised countries. Today, 80% of WTO members are developing countries, less developed countries or countries undergoing the transition from a centralised to a market economy. They must be involved more closely in WTO decision-making. This is no more than their right.

Second, the general public is worried by the impact of globalisation on the environment, health, social standards and cultural diversity. The European model of agriculture, based on multifunctional farming, addresses these relatively new issues, and thus offers a more future-oriented perspective for agriculture than mere calls for total liberalisation of farm trade. Multifunctionality is the description for the fundamental link between sustainable agriculture, territorial balance, maintaining the landscape and the environment.

Third, the legitimacy of WTO decisions must be more clearly demonstrated and the decision-making process made easier to follow. Transparency must be improved. The EU will continue to aim for a broad-based agreement, as this will leave all WTO partners more room for manoeuvre in the context of a global package.

The Community wants to share in the expected expansion of trade in agricultural products. But progress in trade must not damage the multifunctional role of agriculture and legitimate concerns related to food safety and quality.

➤ **Launch comprehensive agenda at the WTO**

Global negotiations on agriculture began in 2000 and will continue throughout 2001. They seek to strike a balance between the long-term objective of fundamental reform, and experience gained following the implementation of the 1994 WTO agreement. The EU presented its comprehensive negotiating proposal in December 2000. It stresses that further liberalisation and expansion of trade for agricultural products are an important contribution to sustained and continued economic growth. It aims for further reductions in support and protection; balance between trade and non-trade concerns; and special treatment for developing countries.

➤ **Ensure special opportunities for developing countries**

The EU recognises the need for developing countries to benefit from the expansion of world trade and agricultural reform. The EU wants to create opportunities for increased market access for products from developing countries, while accepting that some may take time to adapt and may need to maintain some protection. The recent decision to allow duty-free and quota-free access for all products from nearly 50 least developed countries (*Everything But Arms* initiative) should give them a boost. Furthermore, trade preferences should be made stable and predictable to create conditions for further investment to develop agriculture. As for food aid,

this must not be a means of surplus disposal and should be given only in grant form.

➤ **Work towards World Trade Organisation discipline for all forms of export support**

There has to be a more level playing field in export competition, since current provisions only cover export subsidies. The understanding reached during the Uruguay Round to work towards internationally-agreed disciplines on export credits, export credit guarantees and insurance has not led to results yet. These too should be covered by specific WTO rules and disciplines. Export support through State Trading Enterprises,

cross-subsidisation, price-pooling and other unfair practices should also be disciplined. There should be a code of conduct for food aid operations to prevent abuses.

► **Protect the multifunctional role of agriculture; meeting consumers' concerns**

Agriculture has a role in sustainable development in both industrialised and in developing countries. It can contribute to protection of the environment, the sustained vitality of rural areas and poverty alleviation. The EU has proposed that measures for protecting and promoting these objectives should be included in any new agreement on agriculture. Such measures should be well-targeted, transparent and implemented in ways that minimise trade distortion.

Food safety is an equally important objective. If the precautionary principle is used, this must be done in ways that are balanced and science-based, proportionate to the risk and applied in a non-discriminatory way. Disguised restrictions on trade are not acceptable. Consumer concerns about production and processing methods must be met, and there should be provision for appropriate labelling schemes. Finally, the drive for trade liberalisation must not undermine efforts to improve animal welfare.

Frequently asked questions

• **Does membership of the WTO restrict a government's ability to establish food safety and plant and animal health laws?**

The WTO recognises the right of governments to take measures to protect human, animal and plant health, as long as these are based on science, are necessary for health protection, and do not unjustifiably discriminate against suppliers. Governments will continue to determine the food safety levels and animal and plant health protection in their countries. Neither the WTO nor any other international body will do this.

The Sanitary and Phytosanitary (SPS) Agreement does, however, encourage governments to 'harmonise' or base their national measures on international standards, guidelines and recommendations, such as those from Food and Agriculture Organisation / World Health Organisation Codex Alimentarius Commission (food safety); the Office International des Epizooties (animal health); and the FAO International Plant protection Convention (plant health).

• **Who benefits from the implementation of Sanitary and Phytosanitary (SPS) rules?**

Consumers everywhere benefit. The SPS Agreement helps ensure, and in many cases enhances, food safety and encourages the systematic use of scientific information. Consumers will get more information from governments about their food safety, animal and plant health decisions. The elimination of unnecessary trade barriers will give consumers a greater choice of safe foods, and encourage healthy international competition among producers.

Developing countries benefit from the SPS Agreement as it provides an international framework for sanitary and phytosanitary arrangements, irrespective of their political and economic strength or technological capacity. Without it, developing countries could be at a disadvantage when challenging unjustified trade restrictions. And thanks to the agreement, governments must accept imported products that meet their safety requirements, whatever the production methods. There is also technical assistance to help developing countries with food safety, and animal and plant health.

Exporters of agricultural products in all countries benefit from the elimination of unjustified barriers to their products. The SPS Agreement reduces uncertainty about the conditions for selling to a specific market. Efforts to produce safe food for another market should not be thwarted by regulations imposed for protectionist purposes under the guise of health measures.

Importers of food and other agricultural products also benefit from greater certainty regarding border measures. The SPS Agreement makes clear the basis for sanitary and phytosanitary measures which restrict trade, as well as the basis for challenging requirements. This also benefits the many processors and commercial users of imported food, animal or plant products.



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For more information on these issues, go to:

<http://europa.eu.int/comm/trade/goods/agri/ecapragr.htm>

http://europa.eu.int/comm/dgs/agriculture/index_en.htm

Common Agricultural Policy in brief

Agriculture was one of the first policy areas where EU Member States took up part of their national sovereignty for the benefit of the Community.

It was created in 1962, with the Single Convention and the 1964 agreement on the common agricultural policy.

The common agricultural policy (CAP) was established in 1962. It was the first of the Community's policies. It was designed to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture.

Specific measures (market organisation, funds, price policy) were put into place to ensure that reasonable producer prices were guaranteed, but also to ensure that farmers had a stable and adequate income. The European Community became the world's second largest farm exporter, and its biggest importer.

The pressure of structural surpluses and rising expenditure coupled with the changing scope of European agriculture led to a series of reforms. In 1992, Heads of

Governments agreed on a shift from price support to direct income payments for farmers. This process has continued and was reinforced with the agreement in 1999 on Agenda 2000 which governs EU agricultural policy to 2006. Agenda 2000 includes new initiatives on environment, rural development and competitiveness, supporting legislation on food safety and quality.

* **Objectives ex Article 39 (now 33)**

- a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- c) to stabilise the markets;
- d) to assure the availability of supplies;
- e) to ensure that supplies reach consumers at reasonable prices.

ENDING RESTRICTIONS ON TEXTILES AND CLOTHING TRADE

Key objectives

- ▶ **Challenge EU partners to match EU market opening**
- ▶ **Open up the EU market progressively**
- ▶ **Achieve full quota liberalisation from 2005**

Check the label on any item of clothing worn in the European Union's 15 Member States, and there's a one-in-three chance it won't be 'Made in the EU'. The world's exporters of textiles and clothing are very successful in the EU market. Textiles and clothing trade among World Trade Organisation (WTO) members is governed by the Agreement on Textiles and Clothing (ATC), which came into force with the WTO Agreement on 1 January 1995. This agreement means that alongside progressive application of General Agreement on Tariffs and Trade (GATT) rules, there will be progressive phasing out of quotas in the EU, US and Canada. These quotas were inherited from the Multifibre Arrangements (MFA). After a 10-year period ending on 1 January 2005, the ATC will expire and all quotas will be abolished.

So, in 2005, all WTO members will have unrestricted access to the European, American and Canadian markets. Meanwhile, the EU has also offered countries subject to quotas the possibility of increasing them, or even eliminating them, provided there is reciprocal market opening. The EU expects other countries to match this trade liberalisation, so that textiles and clothing markets world-wide are as open as the EU market will be by that date.

▶ **Challenge EU partners to match EU market opening**

The EU is the WTO's biggest exporter of textile and clothing products and its industry is eager to compete on the world market. So the EU has challenged barriers to trade in partner country markets, where these appear to be excessive. Tariff peaks, for example, abound in the sector. The EU's low tariffs and the absence of non-tariff barriers compare with average tariffs for the whole sector ranging between 14% in Indonesia and 25% in Thailand or Pakistan and 35% in India, with tariffs for many products well above these averages. In addition, high tariffs are often combined with additional taxes and frequently-changing non-tariff barriers.

The EU's main objective for a New Round of multilateral trade talks for this sector is to create an environment in which traders worldwide will face more or less the same market access conditions after 2005. The Community will work towards less prohibitive tariff

levels, as well as the elimination of non-tariff barriers to trade.

The EU has shown willingness to reciprocate for market opening by other countries. It has lifted all the quotas previously maintained with Sri Lanka and Ukraine, in exchange for tariff reductions and commitments on non-tariff barriers to trade. The EU has invited other partners that would like more access to the EU market to engage in a similar exercise.

▶ **Open the EU market progressively**

The EU is the world's largest trader in textiles and clothing products. In the year 2000, total trade amounted to € 110 billion. Since the WTO Agreement on Textiles and Clothing (ATC) entered into force in 1995, EU imports have increased at a steady pace, despite the existence of quantitative restrictions (quotas). In 2000, the value of imports amounted to € 69.5 billion, an increase of 16.6% over 1999 and of 54% over 1995.

Imports from countries subject to quotas grew even faster 1995-2000, by 62%. Nearly a third of all textiles and clothing now bought in the EU are imports (31% in 2000).

EU quotas inherited from the Multifibre Arrangement (MFA)* are being phased out in a 10-year staged reduction plan that started on 1 January 1995. Quotas that have not been lifted in one of the three stages of liberalisation increased significantly year by year, creating new opportunities for exporters. Between 1995, the first year of the Agreement on Textiles and Clothing, and 2005, the volume of quotas for WTO countries will have doubled. In addition, imports under quota represent less than a third of total textiles and clothing imports. For many quotas, the low take-up still leaves the countries concerned plenty of scope for boosting their exports.

EU tariffs (MFN: most favoured nation rates) for textile and clothing imports are low and will go down further thanks to the EU's commitments in the WTO.

However, these rates are applied only to a small share of the EU's textile and clothing imports, because of EU commitments under the Generalised System of Preferences (GSP) and the Lomé Convention with the African, Caribbean and Pacific States.

► **Achieve full quota liberalisation from 2005**

The EU has faithfully implemented all its obligations under the ATC, which requires it to gradually liberalise its trade regime in the run-up to 2005. At the beginning of the first stage of integration under the ATC (1995-1997), it has put 16.2% of its 1990 imports under the (quota-free) GATT umbrella. The second stage (1998-2002) saw a further 17.1% added to this. For the third stage, the EU has already adopted a list of liberalisation covering 18% of imports.

Finally, on 1 January 2005 the fourth stage will start. The remainder of trade will be integrated, resulting in the removal of all EU quotas. From this date onward, there will be free competition for all suppliers of textile and clothing products to the EU. They will all be on the same footing.

* *Quotas currently apply to imports of textile and clothing products from the following WTO Members: Argentina, Brazil, Hong Kong, Macao, South Korea, Singapore, India, Pakistan, Thailand, Indonesia, Malaysia, Peru and The Philippines.*

Frequently asked questions

• **How do quotas affect exports of textiles and clothing products to the EU?**

Protection under the ATC is necessary to enable the EU's industry to restructure in anticipation of full liberalisation in 2005. But there is still scope for suppliers to increase their exports under the system. Many of the quotas are not being used to the full: only a tenth of EU quotas applied to imports from WTO countries are currently used at a rate higher than 95%.

• **How does the EU address the concerns of developing countries on textiles?**

The EU makes a distinction between least developed countries (LDCs) and other developing countries. There are no quotas on textiles and clothing imports from LDCs. Moreover, these countries usually benefit from zero duties arising either from preferences under the Generalised System of Preferences (GSP) or under the Lomé Convention. This includes garment suppliers such as Bangladesh, which is now the EU's fifth supplier of textiles and clothing products.

• **What is the aim of the EU's bilateral textiles initiative?**

The Commission has carried out analyses and studies which show that the EU's trading partners have some way to go in opening their markets. There are still significant tariff and non-tariff trade barriers.

The EU applies average textiles tariffs of 9%. Countries such as Argentina, Brazil, Pakistan or Thailand apply tariffs of between 20% and 25%. For India, the rate is 39%. The rates are even higher for clothing. This difference is greater for clothing, as applied tariffs are rarely lower than 20%, and as high as 34% for Pakistan and 40% for Thailand and India. Average tariffs for the sector bound in the WTO are even higher: while the end-rates bound by the EU for 2005 average 7.9%, in other countries these range between 25% and 30% (Chile, The Philippines, Thailand), and over 35% in Colombia or Indonesia. WTO Members India and Pakistan have bound their textile tariffs at levels either exceeding 35% or not bound them at all for a number of products.

The EU's textile and clothing industry has undergone substantial restructuring. Now the EU is dedicated to opening markets further, but it does not want to compete for third markets on a level playing field. So the Commission wants help create conditions that are fair, and expects other countries to be interested in improving their access to the EU ahead of 2005. This has been the case of Sri Lanka, which bound its tariffs in the WTO in exchange for better access. Other partners may follow.



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For more information, visit our website at:

http://europa.eu.int/comm/trade/goods/textile/index_en.htm

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TOWARDS FREER, FAIRER TRADE IN INDUSTRIAL PRODUCTS

Key objectives

- Free access to external markets
- Fair competition
- Respect of World Trade Organisation commitments

The EU is among the biggest producers in the world for several industrial products. Steel, automobiles, chemicals, as well as ships and machinery are of enormous economic importance for Europe. Most of the Community's largest industries produce goods of high quality at competitive prices, and they are highly export-orientated. Thus, free access to the external markets, fair trading conditions and the respect of World Trade Organisation commitments by all trading partners are key points for our strategy.

➤ Free access to external markets

EU tariffs for industrial products are among the lowest on an international level and most of them will disappear in 2004, in line with the Community's commitments in the Uruguay Round.

On the other hand, imports from many of the EU's suppliers of industrial products enter the Community at preferential rates under the terms of bilateral agreements, the Generalised System of Preference (GSP) or tariff suspension regimes. For example, more than 50% of finished steel products are imported from countries with which the EU has association agreements in Central and Eastern Europe. These enter at zero duty, in line with the bilateral Europe Agreements. Steel imports from Mediterranean countries, linked to the Community through bilateral Cooperation Agreements or Euro-Mediterranean Agreements, also enter at zero duty.

It is of strategic importance to the EU that all trading partners reduce and possibly eliminate their import duties for industrial products and remove any other non-tariff barriers. For instance, some of the main obstacles that EU producers face when exporting to third countries concern onerous customs procedures as well as standards, certification and technical regulations. Even if these measures

conform with the WTO Technical Barriers to Trade Agreement (TBT), they can nevertheless hinder commercial exchanges. They are, in effect, significant non-tariff barriers.

➤ Fair competition

In some key sectors, such as shipbuilding, despite fierce competition, the Union has been able to maintain its market share (about 20% in volume) over recent years. Meanwhile, its two main competitors from the Far East, Japan and South Korea, had a joint market share of about 60% in the late 1990s.

Since ships are generally not internationally traded in the traditional sense, i.e. imported or exported, the anti-subsidies or anti-dumping GATT provisions on subsidies or dumping have never been applied in the shipbuilding sector (Agreement on Subsidies and Countervailing Measures, or the Anti-dumping Code). Instead, the OECD Agreement provides for the elimination of all measures specific to shipbuilding except those related to research and development, and social cost of closures. It provides for a level playing field in home and export credits for new commissions, in accordance with the Understanding on Export Credit for ships. This also sets out an effective

binding dispute settlement where disciplines are not respected.

Another major part of the Agreement is the Injurious Pricing Instrument (IPI) to prevent predatory pricing practices that could be an impediment to international trade. It is based on the 'shipbuilder principle', which means that the shipbuilder and not the importer has to pay the so-called injurious pricing charge, i.e. the anti-dumping charge. If the shipbuilder does not pay it, countermeasures such as a ban on on-loading and off-loading for future ships built in the yard are possible.

➤ Respect of World Trade Organisation commitments

The EU market is generally very open for all industrial products with comparatively low tariffs and non-tariff barriers. By contrast, European exporters face a number of obstacles, including complex standards and technical regulations, weak Intellectual Property Right protection and unnecessary or burdensome and costly registration, licensing and certification procedures, possibly in addition to high tariffs.

The solutions to these problems lie in a number of directions that the EU is exploring. The WTO accession process

should provide a good opportunity to extend existing tariff commitments to applicants such as China and Russia. There are already Mutual Recognition Agreements with a number of countries, and others are being negotiated.

Frequently asked questions

• *What's the situation in steel?*

From a large surplus, the EU had a minor deficit in 1999 and 2000. Imports as a share of EU iron and steel consumption have risen over the last decade from around 8% in 1988 to 14.6% in 2000 because of cuts in production capacity, and pressure from Eastern European steel-makers. The latter have not only competed in third markets with EU producers, but have also taken an enlarged share of the EU market. EU tariffs for steel products are relatively low, averaging around 2% in 2000. All tariffs will disappear in 2004, in line with the Community's commitments in the Uruguay Round. Imports from many EU suppliers enter at preferential rates under the terms of bilateral agreements, the Generalised System of Preference (GSP) or tariff suspension regimes. For example, more than 50% of finished steel products are imported from countries with Association Agreements in Central and Eastern Europe at zero duty, in line with the bilateral Europe Agreements. Steel imports from Mediterranean countries, linked to the Community through bilateral Cooperation Agreements or Euro-Mediterranean Agreements, also enter at zero duty.

• *What's the situation in the car industry?*

European carmakers had a turnover of € 307 billion in 1999. They produced almost 17 million vehicles. The industry generates an estimated 2 million direct and indirect jobs in the EU. In 1999, according to Eurostat, EU imports of cars, light commercial vehicles and components were worth € 46.58 billion, 16 per cent more than in 1998. During the same period, the EU exported the equivalent of € 61.35 billion, a one per cent increase on 1998. The resulting net trade surplus for the EU with the rest of the world amounted to € 14.8 billion in 1999 as compared to € 20.3 billion in 1998. Since 1 January 2000, there have been no quantitative restrictions on car imports to the Union from third countries.

• *What about chemicals?*

The EU is the world's largest producer of chemicals, pharmaceuticals and cosmetics. The EU market is generally very open, with comparatively low tariffs and non-tariff barriers. By contrast, European exporters face a number of obstacles, including complex standards and technical regulations governing chemicals, weak Intellectual Property Right protection and unnecessary or burdensome and costly registration, licensing and certification procedures for pharmaceuticals and high tariffs on cosmetics. In many Far Eastern countries, the distribution system remains a major obstacle to penetrating the local market dominated by domestic producers. The solutions lie in a number of directions that the EU is exploring. The WTO accession process should provide a good opportunity to extend existing tariff commitments under the WTO Chemical Harmonisation Tariff Agreement to applicants such as China, Russia, and Saudi Arabia. There are already Mutual Recognition Agreements with a number of countries, in a number of areas, and negotiations for others are underway.

• *What about the machine manufacturing sector?*

Machine manufacturing, which supplies the means of production for all parts of the economy, is one of the most important and largest industrial sectors in the European Union. Germany, Italy, United Kingdom and France are the main players. Machinery is a very wide and diverse sector with important subsectors such as machine tools, agricultural machinery, construction machinery, textile and other manufacturing machinery and domestic appliances. Recently, despite a decrease in both imports and exports, the machinery sector (excluding electronics) has shown a considerable surplus in the trade balance. The development of EU exports of machinery (and especially capital goods) to third countries is strongly linked to growth in investment. For instance, the need for modernisation in Eastern European countries in transition has meant new sales opportunities for EU machinery producers. Trade in the machinery sector is fully subject to general WTO rules. The Uruguay Round brought some agreements whereby participants undertake to fully and mutually liberalise imports to their markets by the end of a transitional period. In the machinery sector, there are at present three such Agreements.

The Community applies very low import duties (the average is 2-3%). However, some important emerging markets for EU exports i. e. China, Russia, still maintain high tariffs (15%-40%). But non-tariff barriers are generally more of a problem in this sector, especially when exporting to developing countries. Customs procedures as well as standards and technical regulations may be WTO-compatible, but they are significant barriers all the same. Many developing countries use certification requirements or packaging and labelling regulations in a protectionist way.



SERVICES: TOWARDS LIBERALISING THE WORLD'S MOST DYNAMIC SECTOR

Key objectives

- **Establish comprehensive negotiations**
- **Improve market access commitments**
- **Finalise work on unfinished business**
- **Facilitate the participation of developing countries**

The services sector contributes more to worldwide economic growth and job creation than any other. It is central to the future of the world economy and an increasingly important competitive tool for EU businesses, even for the manufacturing sector. The EU is the world leader in this field, largely due to its openness to competition. The EU services market is one of the most open in the world. The EU therefore leads in the drive to liberalise trade in services worldwide and to remove barriers to a truly global market in services.

Since January 1995, world trade in services has come under a basic framework of rules, the General Agreement on Trade in Services (GATS), one of the fruits of the Uruguay Round. So the basic rules and principles for the liberalisation of trade in services have been agreed, and implementation is on-going. But much remains to be done. GATS was a breakthrough in bringing services within the scope of the world trading system, but World Trade Organisation Members have already committed themselves to negotiations to bring about further market opening. The EU is convinced that a comprehensive New Round would give a significant boost to services negotiations.

➤ **Establish comprehensive negotiations**

During the GATS 2000 negotiations, WTO Members must be open to addressing all issues falling within the scope of the Treaty without exception. So any country can raise any issue during the negotiations. This is important, as it gives all countries the right to intervene in areas where they consider they may have an interest. Only with open, broad, substantive negotiations can the interests of all participants be promoted and an overall balance of rights and obligations achieved.

➤ **Improve market access commitments**

Overall, the EU believes it is necessary and possible to increase both the quality and the quantity of commitments across countries, service sectors and modes of supply with a view to reaching comprehensive coverage of services trade in GATS. There is certainly scope for improving

New sector proposals to WTO

EU submission

Proposal to discuss the following sectors which are seen as important for stock-taking: Professional services, Business services (other than professional services), Telecommunications, Construction and related engineering services, Distribution, Environmental services, Financial services (banking, insurance, securities, other), Tourism, Transport (air, maritime, land, other), Energy services, Postal and Courier services.

the quality, clarity, transparency and coherence of commitments undertaken.

Along with a push for further market opening, regulatory disciplines should be developed where necessary. The aim is to achieve real, meaningful liberalisation. This requires the development of a transparent and predictable domestic regulatory environment which can

provide legal certainty and confidence to service suppliers, investors, users and consumers.

➤ **Finalise work on unfinished business**

There are several subjects which have been on the agenda of GATS since the Treaty entered into force, but which have not yet become part of the negotiations. For example, safeguards and public procurement are among the horizontal questions which have been discussed at technical level over the past few years. Transport is a sector that should also be included. The EU strongly supports the resumption of maritime transport negotiations and multilateral negotiations on air transport.

➤ **Facilitate the participation of developing countries**

GATS 2000 negotiations must make more of an effort to take into account the interests of developing countries. This would help these countries to attract stable long-term investment



and to improve the infrastructure (transport, telecoms, financial services) that can foster long-term growth and competitiveness.

The EU supports measures to assist developing countries in their efforts to take part in the negotiations with a view to seeing their interests taken into account. The EU also sees the need for appropriate mechanisms to help developing countries implement their GATS obligations.

Frequently asked questions

- **What is the next step in the European Union's drive to remove barriers to global trade in services?**

The EU is pressing ahead with its GATS 2000 initiative, which is meant to help set the agenda for the services negotiations which started in January 2000 as part of the WTO's built-in agenda. The EU seeks to bring about a deeper and broader package of improved commitments from all WTO members to market access and national treatment. It also advocates the development of GATS disciplines aimed at ensuring a transparent and predictable regulatory environment.

- **What services sectors will be addressed in the new round of GATS negotiations?**

The agenda for the New Round of GATS negotiations has not yet been completed. However, it is expected that WTO Members will follow up on their commitment to reduce obstacles to trade in services still further, in line with the principle of progressive liberalisation. The EU has submitted proposals for the agenda, which are meant to bring about a deeper and broader package of improved commitments from all WTO Members to market access and national treatment.

- **Should e-commerce be part of the GATS negotiation?**

The European Union believes that all electronic deliveries are services, and therefore that the GATS principles should apply to the regulation of electronic commerce. Within the WTO programme on e-commerce, the European Commission has promoted a balanced package of trade principles that would ensure that no market access barriers could be raised against the electronic provision of services and that e-commerce infrastructure is accessible to all on reasonable and non-discriminatory terms.

- **Why should the audio-visual sector get special treatment and exemptions from GATT rules?**

Audio-visual services are markedly different from other services to the extent that they are a medium for the expression of cultural diversity. It is essential to ensure that international trade agreements respect the diversity of cultural products. One of the EU's main objectives in the New Round of WTO negotiations will be the defence of cultural diversity. To that end, the European Union insists that EU Member States will maintain their freedom to regulate audio-visual services, and to subsidise their producers and distributors, where appropriate.

- **Are European public services at risk?**

No. EU member states will be able to safeguard the quality of their public services. The GATS Treaty cannot be interpreted as requiring governments to privatise or to deregulate public services.

WTO Members may legitimately regulate economic and non-economic activities within their territory to guarantee the achievement of public objectives. This applies even in sectors where GATS members have taken commitments to open their market to foreign suppliers. Thus, all WTO Members may establish specific rules for the organisation of sectors identified as public service sectors.



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For more information on the EU and trade in services, go to:
http://europa.eu.int/comm/trade/services/index_en.htm

For regular updates on specific issues related to trade in services, register for the Commission's Services Information System. Go to:
<http://europa.eu.int/comm/trade/misc/register.htm>

General Agreement on Trade in Services (Article IV)

Increasing participation of developing countries

I. The increasing participation of developing country Members in world trade shall be facilitated through negotiated specific commitments, by different Members pursuant to Parts III and IV of this Agreement, relating to:

a) the strengthening of their domestic services capacity and its efficiency and

competitiveness, *inter alia* through access to technology on a commercial basis;

b) the improvement of their access to distribution channels and information networks; and

c) the liberalization of market access in sectors and modes of supply of export interest to them.

... BETTER ACCESS
... WORLD MARKETS

Key objectives

- **Serve Europe's exporters through practical operational measures**
- **Keep a comprehensive and interactive public record in order to scrutinise obstacles to trade in goods and services**
- **Eliminate trade barriers and ensure that our partners comply with their international commitments**

The EU launched a new market access strategy in February 1996. This initiative gave EU trade policy a more proactive stance, in tune with the real needs of European exporters in an increasingly interdependent global economy. Today, we are striving to improve the service we provide, through very practical assistance, available free of charge to all who require it.

➤ **Serve Europe's exporters through practical operational measures**

The EU market access strategy created mechanisms and provisions to serve Europe's exporters. In practical terms, the main tool deployed is a market access database, available via the Internet. This provides basic information of interest to EU exporters, such as an exporter's guide, the rates of customs and internal taxes in key export markets, import licensing requirements and special customs clearance formalities.

The database currently contains five main sections:

1. Sectoral and trade barriers

This section is an overview of the general trading conditions in a given country for a given industrial or services sector. It lists all the specific barriers to trade of which the EU is aware.

2. Applied tariffs

This allows the user to select an export market and to obtain the customs duty and internal taxes applied for a particular product.

3. WTO bound tariffs

This part provides exporters with information on the maximum rates of duties which WTO Member

Success Stories

Thanks to the market access strategy, the Commission has solved more than 150 cases of obstacles to trade in third country markets. It has performed particularly well against high tariffs, technical barriers to trade and burdensome customs procedures. It has focused primarily on barriers with a cross-sectoral effect on trade. But there were also good results in agriculture, automobiles, ferrous and non-ferrous metals, telecoms, textiles and financial services. These results are spread across a wide spectrum of countries which have agreed to dismantle trade barriers after consultations with the EC.

countries can charge, allowing a direct comparison between bound rates and the applied rates.

4. Exporters' guide to import formalities

This is a new section that provides exporters with an on-line list of the customs documents or other import formalities required for particular products in particular countries. Its current scope covers some 46 countries and the plan is to extend this to 70 countries by the end of 2001.

5. Info-point on world trade in services (GATS info-point section)

This is designed to help European

service operators to provide their services around the world. This section lists each WTO Member's obligations under the General Agreement on Trade in Services (GATS) and also contains a complete guide to the GATS, news about world trade in services, and other information on barriers or restrictions to trade in services.

➤ **Keep a comprehensive and interactive public record in order to scrutinise obstacles to trade in goods and services**

In its *Sectoral and Trade Barriers* section, the Market Access Database is designed to list all trade barriers affecting EU exports by sector and by country. It helps to ensure appropriate follow-up to every specific trade barrier brought to the attention of the European authorities. The European Commission ensures that every problem mentioned in the market access database and every new issue raised undergoes in-depth analysis.

The market access strategy has introduced new procedures to strengthen co-ordination between those involved in trade policy in the European Commission, Member States and European business.



Thus, the strategy has improved the flow of information on specific barriers. It therefore contributes to the identification and elimination of barriers. We actively encourage all with an interest to contribute to this process. So companies, associations, chambers of commerce, law firms and other interested parties are invited to submit their comments on the accuracy of the data, to ask for more information and to signal in total confidentiality whatever problems they might have in exporting. This enables everyone to take full advantage of this interactive means of communication, allowing an exchange of information on-line. The database is widely used throughout the EU and testifies to the extent of active involvement on the part of European business. The database receives an impressive number of 'hits' per day and has information on a large number of trade barriers varying from the non-actionable, such as high bound tariffs, to potential violations of provisions of a WTO agreement. And it has led to results in terms of improving market access.

➤ **Eliminate trade barriers and ensure that our partners comply with their international commitments**

The European Commission approved a guidelines communication entitled 'Serving Europe's exporters in the 21st century: the next phase of the EU market access strategy' (April 1999). This paper identifies the EU's main objective as concentrating resources on removing a number of specific barriers on which we can reasonably expect to achieve early results.

These would result in the greatest possible economic benefit to the EU. With this in mind, the Commission has now established a standard procedure to identify priority barriers with a view to removing them by:

- making use of the WTO dispute settlement mechanism;
- improving implementation by trading partners of their obligations under bilateral agreements with the EU, including where appropriate, use of the dispute settlement mechanism;
- organising bilateral consultations targeting major non-WTO issues with key trading partners;

- carrying out bilateral consultations on market access issues with a view to implementing mutually beneficial market access packages;
- addressing market access problems during the negotiation of new bilateral agreements (e.g. the proposed free trade area with Mercosur);
- preparing for the new WTO round: the market access database will be used to help set the agenda in areas such as tariffs, non-tariff barriers, services, investment, government procurement, intellectual property, trade facilitation.

CASE STUDIES

Removing specific barriers

Elimination of balance of payments restrictions in India

India has applied Balance of Payments Restrictions since 1960 to a wide range of consumer goods. Following complaints by EU industry and a subsequent request for a WTO panel, India agreed with the Commission to progressively eliminate these restrictions between 2000 and 2003. The expected additional turnover for EU business is around €2 billion.

Elimination of discriminatory fees on pharmaceuticals in Ukraine

Ukraine set up fees for the registration of imported pharmaceutical products at 100 times the level applicable for domestic products. This system effectively hindered market access for EU industry and was also detrimental to Ukraine's health policy. Following high-level consultations and the initiation of a dispute settlement procedure, the discriminatory fees were eventually removed in March 2000.



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The EU's market access database can be accessed at the following website address:
<http://mkacddb.eu.int>.

For more information on the market access strategy:

http://europa.eu.int/comm/trade/mk_access/index_en.htm



TRADE FACILITATION:
TOWARDS BETTER PROCEDURES

Key objectives

- **Simplify, harmonise and automate import, export and customs procedures**
- **Create a set of World Trade Organisation commitments**
- **Address concerns of developing countries on capacity building and technical assistance**

Import and export procedures can snarl up trade. In fact, red tape in all its forms can be a significant non-tariff barrier to trade. The EU is convinced that everyone would benefit from a push to simplify trade procedures, cutting out unnecessary bureaucracy via modern methods. It needs to be done through WTO commitments that could integrate and build on best practices established by other organisations. Traders both big and small would enjoy reduced costs and fewer delays, which means more competitive terms of trade. Governments would enjoy better controls, higher revenue intakes and more efficient management, as well as a more stable climate for inward investment. The gains would be particularly beneficial for small and medium-sized companies and traders in developing countries. The costs of compliance with trade procedures are proportionately higher for them, since they are fixed overheads. Simplified procedures can help to ensure that the benefits of tariff-cutting are not undermined by bureaucratic delays.

➤ **Simplify, harmonise and automate import, export and customs procedures**

Import and export procedures can be significant non-tariff barriers to trade, and United Nations Conference on Trade and Development (UNCTAD) studies have suggested that they can add up to 10% to overall product costs. Industry and business have called for action to simplify, harmonise and automate procedures; reduce border and transport red tape and documentation; and improve pre-shipment inspection, customs procedures and licensing rules.

Problems can include unnecessary and excessive data and documentation requirements, multiple submission of data to different agencies, and lack of harmonisation of import and export data, both as regards content and format.

At customs and border crossings, problems include lack of transparency, lack of rapid legal redress, excessive clearance times at customs, absence of co-ordination between customs and other inspection agencies, lack of

modern customs techniques based on risk assessment, unavailability of pre-arrival processing and company audit, and insufficient use of information technology by customs.

➤ **Create a set of World Trade Organisation rules**

Various organisations and regional groups have made piecemeal efforts to reduce and rationalise trade procedures, with only partial success. The WTO has a natural role to play in co-ordinating those efforts and in developing a set of commitments on trade facilitation.

The EU proposes reducing import and export procedures to an absolute minimum, provided that legitimate controls are applied. It also supports wider adoption of harmonised international standards in the trade transaction process. For instance, datasets could be reduced and harmonised, and there could be single-window and one-time only submission of information to importing and exporting administrations. Paper-based procedures could be replaced by automation and the introduction of

'under customs' techniques and Electronic Data Interchange (EDI) based systems.

Improvements to existing, relevant WTO agreements (e.g. Import licensing, Pre-shipment Inspection) should also be considered, as should measures to improve and modernise WTO rules on goods in transit. Specific WTO commitments on trade facilitation should be underpinned by key WTO principles of transparency, non-discrimination and proportionality. Special efforts should be made to design rules in a way that will benefit small and medium-sized enterprises.

➤ **Address concerns of developing countries on capacity-building and technical assistance**

The benefits of simpler trade procedures are clear. But some developing countries will need time and resources to introduce them. The EU has proposed that any future WTO agreement on trade facilitation should include measures to build capacity in developing countries. It should allow a reasonable time period for



implementing improvements. Such capacity-building should be carried out in parallel with negotiations, so that developing countries can participate actively, and be better placed to implement results.

WTO Members should agree to implement a programme of coordinated capacity building, in cooperation with other multilateral agencies, to address developing countries' capacity shortcomings. The programme should be an integral part of the process of negotiating and implementing any agreed rules.

Frequently asked questions

• *What are the EU's objectives on Trade Facilitation?*

These can be summed up as follows: The EU aims to **launch negotiations on trade facilitation in the New Round** to get agreement on simplified trade procedures covering at least the following issues:

- Application of basic GATT/WTO principles to trade procedures.
- Simplification of import and export procedures, including information and data.
- Rules on customs and administrative processing of consignments, including modern customs techniques, automation and convergence of controls.
- Measures in cooperation (with the World Bank, UNCTAD etc) to build capacity in developing countries.

• *What would the benefits be?*

First, **reduced costs and delays for traders**, especially for small and medium size enterprises, who are deterred from exporting by red tape. Just-in-time manufacturing and distribution also needs rapid customs clearance and streamlined procedures. There's a need to act rapidly to develop simpler procedures to cope with modern business methods like e-commerce. Trade volumes are growing rapidly, but face bottlenecks if we don't cut red tape, simplify documents and data, automate and streamline import and export. This can reduce costs of trade by several percentage points and ensure that the benefits of any tariff-cutting we may gain in a New Round are not negated by bureaucratic delays.

Second, to **encourage inward investment**. When investors decide where to place their capital, a key factor is the ease and transparency of the export/import procedures, whether for export of goods or for bringing in inputs. Trade facilitation rules will help to create the climate investors want.

Third, **better controls and bigger receipts for governments**. It has been proven time and time again that simple, modern procedures enhance border control and fraud prevention, and lead to higher revenue intakes. Developing countries with limited resources who depend on customs duties can only benefit.

• *Why do we need WTO rules on trade facilitation?*

Technically, countries can carry out the necessary measures autonomously, and some are already being pursued by other international organisations. There are plenty of examples of non-binding recommendations for better procedures, but **they have not been fully implemented**. The main benefit of the WTO system is that it is rules-based. Rule-making is the only way to guarantee long-term predictability for business, and the only way to ensure high-level commitment on the part of governments. Only if you have rules can you guarantee that all members will adopt the same basic standards for global trade. The business community has also made it clear that it will support capacity-building provided the aim is to implement clear rules.

• *Is WTO the only institution dealing with trade facilitation?*

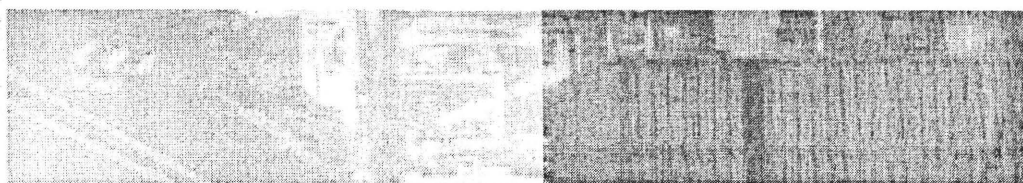
Among other **international organisations** that have already defined standards on trade facilitation are the World Customs Organisation, the UN, the International Maritime Organisation and the International Civil Aviation Organisation. And several regional groupings are also working on trade facilitation. But without a single, commonly-applied framework of WTO rules, such autonomous or regional initiatives may diverge, thus fragmenting rather than helping global trade. The best thing for business is a single set of harmonised commitments, since this minimises costs and barriers. A framework of WTO rules will bring predictability and ensure that different regional initiatives as well as national efforts are consistent.



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TOWARDS REMOVING
TECHNICAL BARRIERS TO TRADE

Key objectives

- **Further facilitate the conduct of international trade**
- **Clarify and strengthen World Trade Organisation rules on technical barriers to trade**
- **Help harness globalisation**
- **Extend benefits of the Technical Barriers to Trade (TBT) Agreement to developing countries**

All governments have the right to take measures to ensure that public policy objectives such as protecting health, safety, and the environment are met. But exporters can encounter problems with such legislation. The aim of the WTO Agreement on Technical Barriers to Trade (TBT Agreement) is to ensure that mandatory technical regulations, voluntary standards, and procedures for assessing conformity with technical regulations and standards do not create unnecessary obstacles to international trade. The TBT Agreement requires that these measures are not prepared, adopted or applied in a manner that would unjustifiably discriminate between countries, or result in a disguised or arbitrary restriction on trade.

The TBT Agreement has proved a useful tool in tackling unnecessary technical barriers to trade. But there is more to be done in improving the ways in which its provisions are interpreted and implemented. For instance, more international standardisation would help reduce unnecessary differences among national conformity assessment procedures. We also need to reinforce multilateral efforts to enhance best regulatory practice and co-operation, and to enhance technical assistance for developing countries. It would also be helpful to clarify TBT provisions in relation to a number of consumer, health and environmental issues. This could in part be achieved via clearer multilateral guidance on labelling, and by clarifying the position of the precautionary principle in WTO rules.

➤ **Further facilitate the conduct of international trade**

The Uruguay Round was a 'quality leap' in tackling tariffs and non-tariff barriers. But the impact of technical barriers on trade, investment flows and indeed economic activity in general has become more apparent.

To apply international standards consistently and fairly, there must be a common understanding on definitions. That is why the EU has made the promotion of international standards an important issue on its agenda for a New Round.

For similar reasons, the EU would also like to promote the international harmonisation of conformity assessment procedures wherever appropriate. This would help eliminate duplication of efforts and simplify procedures. Greater coordination and cooperation is a priority.

Benefits of aligning conformity assessment procedures

In several sectors, such as that of electrical equipment and domestic appliances, technological development and consumer awareness have permitted public regulators around the world to reduce the extent of pre-marketing third-party testing and certification in favour of self-certification by manufacturers backed up by post-market surveillance and control. In some countries, however, third-party certification in these sectors is still mandatory, and may impose disproportionately high costs on suppliers to this market.

public policy objectives. But there seems to be a growing concern over the potential for labelling to act as a trade barrier. Sometimes labelling requirements seem to be excessive or unnecessary because of over-regulation. The rules on labelling in the TBT Agreement are not clear, even though the topic is explicitly covered by the text. So all WTO members would benefit from clearer guidance on the use of labels, including eco-labelling. Clarification in the New Round would help us to use this tool effectively without suspicion of protectionism. This could help to avoid unnecessary disputes.

There should also be more explicit guidance in the TBT agreement on good regulatory practice. This guidance could develop the principle of limiting the scope of regulations to essential requirements, while encouraging manufacturers to use international standards as a means to meet essential requirements.

➤ **Clarify and strengthen the TBT Agreement**

Labelling is an area of particular concern. Both mandatory and voluntary labelling are likely to be used more frequently in future to achieve

► Help harness globalisation

Measures to protect health and the environment based on the precautionary principle are not necessarily incompatible with WTO provisions. But it would help to clarify the rules of the game. Clarification would reduce the risk of precaution being abused and leading to arbitrary trade barriers adopted for protectionist purposes. Even if a regulator is confident of the WTO compatibility of a measure based on precaution, it takes no great stretch of imagination to envisage, in the absence of any consensus on precaution, a dispute over such initiatives. Such disputes could be a source of serious trade frictions, either in or out of the WTO dispute settlement system. Clarification would also promote predictable and trade-friendly regulation. It would also help minimise the impact on trade of differences between WTO Members' chosen levels of health or environment protection, given that each country has the inalienable right to maintain its own views of acceptable levels of risk.

► Extend the benefits of the TBT Agreement to developing countries

Developing countries have encountered difficulties in implementing and operating the TBT Agreement. They are particularly concerned about complying with standards and product requirements. As a result, the WTO's TBT Committee has agreed to develop a demand-driven technical co-operation programme to which the EU is actively contributing. The EU would like to take this further in a New Round. This would mean making available appropriate technical assistance to help developing countries meet TBT requirements.

Technical assistance should include raising awareness of technical barriers to trade and the need to reduce them; building up necessary institutions and other facilities; preparing regional or other agreements to address common concerns relating to standardisation and conformity assessment; and enhancing participation in the international standardisation process.

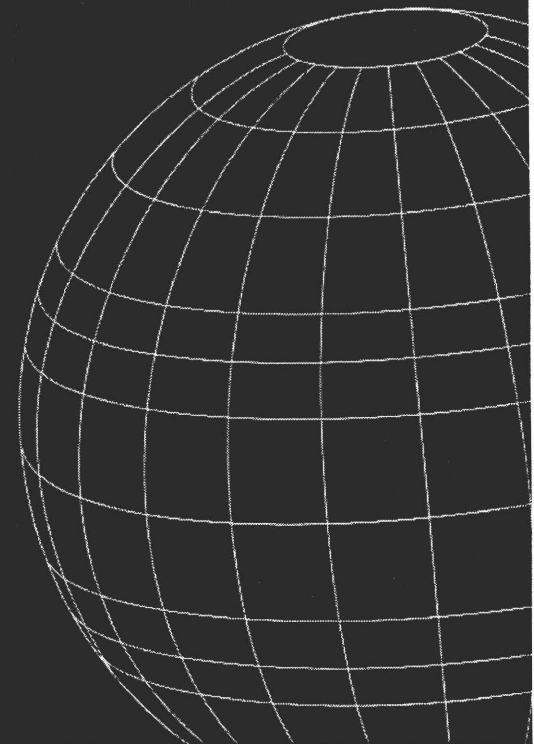
Frequently asked questions

• Why should technical barriers to trade feature as a topic in the next round?

The EU tried to improve the agreement during two Triennial Reviews of the TBT Agreement (1997 and 2000) undertaken in the WTO TBT Committee. The Second Review led to some useful results. But the EU strongly believes there are still problems to be resolved. Many WTO Members would benefit from further improvements. A New Round could provide the strong political commitment which has hitherto been lacking in the WTO's existing institutional set-up. That would help to achieve progress on issues that have yet to be unresolved.

• Why should developing countries take an interest in labelling and precaution while developed countries use such measures to protect their markets?

All WTO Members, both developed and developing, have an interest in ensuring that differences in labelling practices are not used as arbitrary trade barriers. Likewise, the use of precaution in risk management is widespread. All would benefit from clearer rules that take into account the needs and interests of developing countries. Labelling can generally be seen as a 'trade friendly' approach to regulation, tending to be less restrictive to trade than many other regulatory measures.



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Technical barriers to trade come in many forms

Issues concerning technical barriers to trade arise through all sectors of trade, from aerosol cans to fishing boat engines, and from pharmaceutical requirements to food labelling.

Concerns arising from TBT may often be the result of requirements that provide excessively detailed information, or that

going beyond what is necessary to achieve the public policy objective being pursued. Such concerns may arise across a wide number of sectors, including textiles and clothes, food and beverages, the automotive sector, and general product safety legislation. Different countries have different ideas about their names.

TOWARDS BETTER RECOGNITION OF INTELLECTUAL PROPERTY RIGHTS

Key objectives

- **Reach full implementation of the TRIPs Agreement**
- **Improve protection for geographical indications**
- **Make intellectual property and biodiversity mutually supportive**
- **Update the TRIPs Agreement in line with recent developments in other specialised agencies**

Film producers, recording artists, pharmaceutical giants – what do they have in common? They (and many other individuals and industries) depend on intellectual property rights (IPRs) for a living, for a return on investment, and, crucially, for future investment. Such rights protect property of an artistic or commercial nature. Without the return on investment that these rights provide, much of this activity would cease. That is the price of piracy and counterfeiting. So it stands to reason that consumers as well as business have an interest in protecting IPRs. The World Trade Organisation (WTO) Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPs) requires all WTO Members to respect a comprehensive set of minimum standards of protection for IPRs. It also covers their enforcement.

➤ **Reach full implementation of the TRIPs Agreement**

The TRIPs Agreement sets minimum standards of protection for intellectual property right-holders which each WTO Member must provide for each category of rights. Each of the main elements of protection is defined: the subject matter to be protected, the rights to be conferred and permissible exceptions to those rights, as well as the minimum duration of protection.

These standards also call for **adequate enforcement mechanisms** concerning the civil, administrative and criminal procedures needed to control and deter piracy or counterfeiting.

Nevertheless, the Agreement allows WTO Members a good deal of scope in the way they implement it, so that they can address their own particular social and economic welfare concerns and defend themselves against any abuse of IPRs by right-holders.

The TRIPs Agreement entered into force in 1996. Developing country members had until 1 January 2000 to implement it, but least developed

Some categories of rights

Copyright and Related Rights, Trademarks, Geographical Indications, Industrial Designs, Patents, Layout-Designs, Protection of Undisclosed Information and Control of Anti-competitive Practices in Contractual Licenses.

country members have an extended period of transition, until 2006, before they have to apply the Agreement's provisions in full. The EU continues to encourage full implementation of the TRIPs Agreement in line with this timetable.

The EU is currently assisting a number of developing countries to introduce or strengthen intellectual property laws. This will help to increase direct investment flows and facilitate the transfer of technology from the developed to the developing world.

➤ **Improve protection for geographical indications**

Champagne, Parma Ham, Stilton Cheese – labelling products as unique

because of the place they come from and the way they are made gives them special added value. The protection of geographical indications ensures better consumer protection and fair competition. The TRIPs Agreement already provides for enhanced protection for wines and spirits. The EU believes such protection could be further improved with a multilateral system of notification and registration. The EU also belongs to a group of WTO Members – including several developing countries – which would be ready to extend this type of protection to agricultural products and foodstuffs. The EU has indicated that it is prepared to enter into negotiations, without prejudice to their outcome.

➤ **Make intellectual property and biodiversity mutually supportive**

Concerning the protection of biodiversity, the EU has issued a communication that analyses the relationship between intellectual property and biodiversity-related matters (April 2001). It is prepared to examine and recommend ways to implement the TRIPs Agreement in a

manner supportive of other non-WTO agreements, such as the Convention on Biological Diversity.

► **Update the TRIPs Agreement in line with recent developments in other specialised agencies**

There is now international consensus on some new developments in intellectual property. This has been reached outside the WTO, so TRIPs needs to be updated in the light of such developments. For example, new treaties relating to copyright in the context of the Information Society have been recently negotiated in the World Intellectual Property Organisation (WIPO).

Frequently asked questions

• **Surely lack of access to medicines in poor countries proves that TRIPs is too tilted in favour of big business?**

Lack of drugs in poor developing countries is not tied to the existence of TRIPs. Health systems in these countries are massively under-resourced, and the sick can not afford the cost of medicines. They need cheaper drugs and development aid.

The EU's *Programme for accelerated action on HIV/AIDS, malaria, and tuberculosis in the context of poverty reduction* defines the EU response and work programme, over the period 2001-2006, to this global emergency, which mostly affects the poorest populations and undermines health and development efforts.

In parallel, the EU is convinced that the TRIPs Agreement can be implemented in ways that meet WTO Members' public health objectives as well as the rights of pharmaceutical companies. That is why the EU will continue to address this issue within international organisations and, in particular, the WTO.

• **Does TRIPs allow countries to restrict or prevent the patenting of living organisms?**

Yes. The rules on this are flexible. Plants and animals can be excluded from patentability. For plant varieties, TRIPs does permit countries the option to either introduce patents or an alternative *sui generis* system of intellectual property protection. Moreover, it allows countries to exclude from patentability inventions contrary to public order, or those which endanger human life or the environment. The farmers' privilege, i.e. the right of farmers to use the product of his harvest for propagation by him on his own farm by derogation from the protection conferred by a patent, is an established principle in EC law.

• **Does TRIPs really prevent countries from making their own policy on biotechnology?**

No. TRIPs only obliges Members not to exclude from patentability micro-organisms and non-biological and microbiological processes for the production of plants and animals. Plants, animals and essentially biological processes for production of plants or animals can so be excluded. This gives members leeway.

• **How can the TRIPs agreement be used to increase protection for traditional knowledge?**

Although TRIPs is silent on this issue, it does not prevent Members setting up national protection regimes for traditional knowledge. Traditional knowledge and the means to protect it are, however, on the agenda of the World Intellectual Property Organisation (WIPO) at the moment. The European Community has made clear that it is very open to developing country requests to include traditional knowledge on the agenda of a New Round.



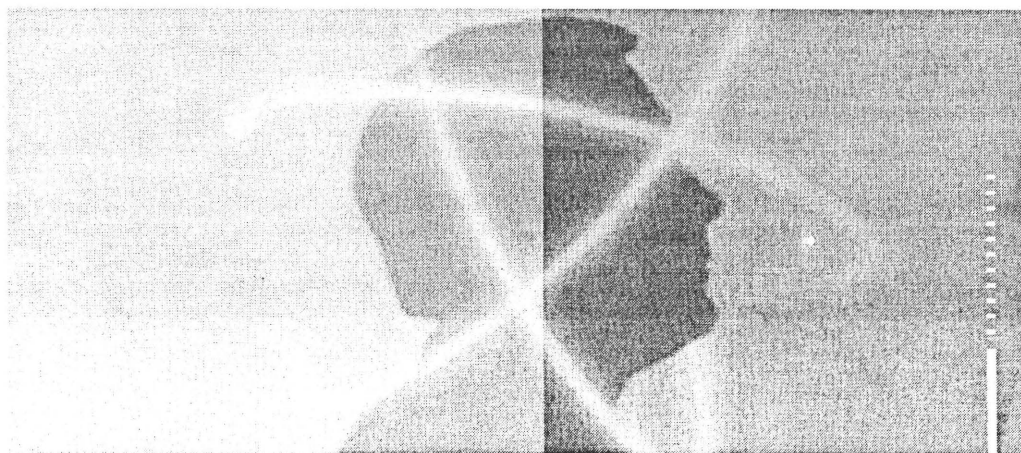
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COMMERCIAL POLICY INSTRUMENTS:
A SAFEGUARD FOR UNFAIR PRACTICES

Key objectives

- **Keep markets open**
- **Ensure fair trade**
- **Enforce the legislation objectively and transparently**
- **Ensure trade partners respect World Trade Organisation legislation**
- **Promote improvements to the system**

Open markets are not enough if our trade partners do not abide by agreed disciplines and rules. Clearly defined measures are needed to correct abuses, restore confidence and to make the market work properly. WTO principles underpin EU policy in this field. Opening markets – and keeping them open without discrimination – must be supported by the application of common rules and a general acceptance that certain types of behaviour are unfair. The EU legislation and procedures are in line with applicable WTO and other international agreements on unfair trading practices. We are therefore determined to see that our own business and industry are not disadvantaged by unfair and injurious practices by other trading partners.

➤ **Keep markets open**

The **Trade Barriers Regulation (TBR)** is unique among the Community's commercial policy instruments as it is an offensive rather than a defensive instrument. It gives industry the opportunity to lodge a complaint with the Commission when there is reason to believe that companies are encountering trade barriers that restrict their access to third country markets.

➤ **Ensure fair trade**

The EU has two main trade defence instruments at its disposal to ensure fair trade: **anti-dumping and anti-subsidy measures**. These restore fair international competition and ensure a level playing field for all producers on the EU market. In addition, the safeguard instrument works as a safety valve in response to sudden import surge.

Dumping is the most common unfair trade distorting practice. It occurs when manufacturers from a non-EU country sell goods in the EU below the sales price in their domestic market, or below the cost of production. There

are many reasons for dumping goods, the most injurious being 'predatory pricing'. Manufacturers accept losses at first to undercut competitors, either to boost their market share or to drive the competition off the market.

This is generally only possible when the export market is protected to a significant extent. Anti-dumping is the trade defence instrument the EU uses most often. Yet its impact on EU trade should not be exaggerated. Anti-dumping measures only cover approximately 0.5% of our total imports.

Subsidies made available to manufacturers by governments or other public authorities are another problem, since they help to reduce production costs and/or cut the prices of exports to the EU unfairly. This can help manufacturers to increase their market share in other countries and cause injury to competitors.

➤ **Enforce the legislation objectively and transparently**

The European Commission has a clear procedure for dealing with cases. All

parties concerned have an opportunity to state their case, and there is a right of appeal. If an EU industry considers that dumped or subsidised imports are causing it 'material injury', it may submit a complaint to the European Commission, providing evidence of:

- **Standing:** the complainant must represent a major proportion of the EU industry in question.
- **Dumping or subsidisation:**
 - *dumping:* the complainant must show that the sales price of the imported product on the EU market is either lower than on the manufacturer's domestic market; or is below production costs;
 - *subsidisation:* the complainant must show that a product has benefited from a specific subsidy in its country of origin.
- **Injury:** the complainant must show that they have suffered or may suffer material injury as a result of dumping or subsidisation.

If the Commission decides that the complaint merits a detailed investigation, it must work to a strict timetable. It must reach conclusions within 15 months for an anti-dumping



case, and within 13 months for an anti-subsidy case.

The Commission investigates the importers, exporters and Community producers participating in the investigation. They are also given a full opportunity to comment. Other groups, such as domestic users and consumers, are consulted to ensure that any action under consideration meets the wider EU interest ('Community Interest'). In anti-subsidy cases, the Commission must also offer to consult the non-EU country concerned.

If the investigation confirms the existence of injurious dumping or injurious subsidisation and if the Community interest test is positive, the Commission can, after consultation with Member States, impose provisional measures. Subsequently, the Commission responds to comments by interested parties and discloses information underlying its conclusions. If after disclosures and verifications, the initial findings are confirmed, the Commission will propose definitive measures to the EU Council of Ministers. If not, the proceeding will be terminated without the adoption of any definitive measures. Measures usually apply for five years, unless a review due to changed circumstances is initiated at an earlier stage.

The European Court of First Instance deals with any disputes arising in implementation of the commercial defence instruments. Final appeal on points of law can be made to the European Court of Justice. In addition, the WTO dispute settlement mechanism is open to the WTO signatories.

► Ensure trade partners respect World Trade Organisation legislation

As well as applying Trade Policy Instruments, the EU faces a growing number of cases against it. The number of investigations concerning Community exports and the number of countries using commercial defence instruments worldwide are both increasing.

The European Commission is there to help Member States and EU industries as required. It plays a direct role in anti-subsidy cases where Community subsidies are involved and in all cases (anti-dumping, anti-subsidy, safeguards), where imports from the whole of the EC are concerned. In addition, the Commission monitors all third country commercial defence investigations, gives advice to Member States to defend their cases, and ensures that third countries comply with their

obligations. Action under this heading is taken in discussion in bilateral meetings, in consultations under the relevant WTO agreements, and in WTO dispute settlement procedures.

► Promote improvements to the system

Overall, the current WTO Agreements on anti-dumping and anti-subsidy work well. The EU's Regulations are in many respects more advantageous for those wishing to export to the EU than those prescribed by WTO. Nevertheless, the EU is open to discussion of these rules in the WTO in order to address concerns voiced by some third countries. The idea in doing so is to improve the system and to prevent abuse, provided the basic instruments remain in place in an efficient manner. Further clarifications on existing rules would also be welcome, to ensure that measures are applied consistently.

Trade barrier regulation in action

Trade Barrier Regulation procedures have helped to address a wide variety of obstacles to trade. In many cases, there have been amicable solutions – for instance, when the US changed rules of origin applying to silk scarves made from fabrics coming from China, but which were dyed and printed in the EC, transforming them into high-quality products; or on access to Chilean ports for Community vessels catching swordfish on the high seas. In other instances, the EU had to resort to the WTO dispute settlement procedure, which proved successful. This was the case as regards the US Anti-dumping Act of 1916; and in the case of measures that Argentina applied to imports of leather products and exports of hides and skins.



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For more information on the legislation and related issues:

<http://europa.eu.int/comm/trade/policy/instruments.htm>

<http://europa.eu.int/comm/trade/policy/dumping/antidumping.htm>

<http://europa.eu.int/comm/trade/policy/subsidy/antisubsidy.htm>

CASE STUDY

Farmed salmon from Norway

Currently, anti-dumping and anti-subsidy measures apply to imports of farmed Atlantic salmon originating in Norway. These measures are particularly timely, as they have helped to maintain a

thorough investigation, during which all aspects of the matter were taken into account. These measures put some order into a very volatile market without any noticeable impact on consumers. They also helped to maintain a traditional industry, notably in Ireland and Scotland, which would otherwise probably have disappeared.

DISPUTE SETTLEMENT:
A CORNERSTONE OF THE WTO

Key objectives

- **Resolve trade disputes among World Trade Organisation Members**
- **Ensure respect of rights deriving from World Trade Organisation agreements**
- **Improve the system in the light of experience**

The dispute settlement mechanism which came into being with the World Trade Organisation (WTO) in 1995 is one of the cornerstones of the organisation. It gives all 142 Members of the WTO confidence that the commitments and obligations negotiated and agreed will be respected. It does not impose new obligations, but it does enforce those already agreed. Overall, the EU considers that the system is functioning well and has helped to ensure real market-opening. And it compares extremely well with other international dispute settlement systems in terms of speed and efficiency. By providing a multilateral forum for settling disputes, the mechanism protects weaker Members against unilateral action by the strongest. But there is room for improvement. Discussions on amendments of the Dispute Settlement Understanding (DSU) are in progress, based on experience gained via individual cases. The EU is fully committed to working with its partners in the WTO to make the system even more effective, predictable and transparent.

➤ **Resolve trade disputes among World Trade Organisation Members**

The rationale behind the Dispute Settlement Understanding of the WTO is to provide Members with a clear legal framework for solving disputes which may arise in the course of implementing WTO agreements. Clearly, agreed solutions between Members are the most desirable way of solving disputes. If this is not possible, Members can ask for panels and (possibly) appeal procedures where the WTO, by interpreting the rules, solves the dispute.

➤ **Ensure respect of rights deriving from World Trade Organisation agreements**

The WTO dispute settlement mechanism gives Members the assurance that commitments and obligations negotiated and agreed upon will be respected and enforced. This is why Members, including the EU, are increasingly making use of the mechanism. However, the EU never initiates a dispute settlement case before exhausting all other ways of finding solutions.

WTO dispute settlement: key facts

The Dispute Settlement Understanding (DSU) is a horizontal WTO agreement. It sets up procedures for solving disputes which may arise among WTO Members in the implementation of the different WTO Agreements (GATT, other agreements related to trade in goods, GATS, TRIPs).

The Dispute Settlement Body (DSB) is responsible for the management of the DSU. It includes representatives of all WTO Members. The DSB is empowered to establish panels of experts to examine a case, adopt panel and Appellate Body reports, monitor the implementation of panel recommendations and authorise the suspension of concessions when a country does not comply with a ruling.

If a Member does not comply with WTO recommendations on bringing its practice in line with WTO rules, then trade compensation or sanctions in the form of a suspension of concessions or obligations may follow.

➤ **Improve the system in the light of experience**

Experience gained in dispute settlement proceedings has shown the need for some improvements. So the EU is considering fresh proposals for the Dispute Settlement Understanding that cover issues such as:

- Introduction of a system of more permanent panellists
- Clarification of the DSU provisions on implementation. This covers notably the sequencing issue (ie the steps which need to be taken, and their order, before determining that the losing party has not complied correctly with the DSB recommendations and reacting accordingly), the arbitration procedure on the level of suspension of concessions, and the establishment of a procedure to lift suspension of concessions once a losing party has implemented changes
- Improvement of the provisions on trade compensation to make it a more attractive option before moving on to suspension of concessions

- Elements related to the handling of confidential information in individual disputes
- Speeding up the process whenever this is feasible and justified
- Greater transparency. Trade disputes can involve issues of concern to society at large and are increasingly the subject of public interest. Greater transparency is needed to secure continued public support and confidence in the WTO system while preserving its intergovernmental character.

The EU is also concerned about the constraints developing countries face as the WTO becomes more legalistic. It has supported the creation of a unit within the WTO secretariat with the task of providing developing countries with legal assistance.

Standard timetable for a WTO procedure

Consultations	60 days
Panel set up and panellists appointment	45 days
Final report to the parties	6 months
Final panel report to WTO members	3 weeks
Dispute Settlement Body adopts report (if no appeal)	60 days
Total	1 year (without appeal)

Appellate Body report	60-90 days
Dispute Settlement Body adopts Appellate Body report	30 days
Total	1 year 3 months (with appeal)

The parties can of course settle their dispute themselves at any stage.

Frequently asked questions

- **How has the WTO dispute settlement system worked so far?**

After six years, the answer is that it is working rather well. Here are some interesting trends:

- WTO Members are increasingly making use of the mechanism to resolve trade disputes, which shows they trust the system.
- Cases are no longer just between the big trading partners: developing countries have initiated cases against major trading partners and among themselves, which strengthens the basic WTO principles of respect of mutual benefits and obligations.
- With the working procedures now codified, the system has become much more efficient, automatic and transparent than was the case under the General Agreement on Tariffs and Trade (GATT). The WTO system can deal with complex cases involving an assessment of many different provisions contained in several Agreements.
- In most cases that led to Dispute Settlement Body recommendations, the losing party has complied. This shows Members' commitment to abide by the rules.
- A significant number of cases have been amicably settled at the consultation stage. This shows that Members prefer to seek a solution rather than running the risk of a negative WTO panel finding.

- **Has the system been efficient in resolving major disputes involving the EU?**

Yes, in several cases. Among the most recent are:

- **Bananas:** a long-running dispute brought to an end after eight years.
- **US Foreign Sales Corporation (FSC) legislation,** where WTO rules proved flexible enough to accommodate the EU concern to de-escalate the conflict while safeguarding our rights.
- **Asbestos:** in a case brought by Canada, the WTO ruling upholding a French ban on the material on health grounds showed that the system and the rules can duly take into account civil society's concerns.
- **Swordfish:** an amicable solution to a dispute with Chile was found, striking a balance between WTO rules on transit, and the duty to manage swordfish stocks in the south-eastern Pacific in a responsible way.

- **Can the WTO dispute settlement system take into account public policy objectives?**

The WTO agreements are trade agreements, so they do not seek to set standards on public policy objectives such as health and environment. However, this does not exclude all non-trade concerns. The rules explicitly recognise the right of WTO Members to adopt all necessary measures in response to legitimate objectives such as the protection of health, the environment or consumers. The GATT provides for General Exceptions that permit WTO Members to adopt and enforce trade-restrictive measures for public policy reasons. However, these must not involve arbitrary or unjustifiable discrimination, or be disguised restrictions of international trade.



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For more information on this and related topics, visit our website on:

http://europa.eu.int/comm/trade/miti/dispute/index_en.htm

For information on cases brought before the WTO, visit the WTO website:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp1_e.htm

Statistics on WTO dispute settlement cases 1995-2000

Requests for consultations notified to WTO

Year	EU complainant	EU defendant	EU third party	Total WTO
1995	2	0	2	25
1996	7	0	11	48
1997	16	0	11	30
1998	15	15	0	41
1999	6	4	4	30
2000	8	3	5	34
Total	55	45	33	219

Panels established by the Dispute Settlement Body (DSB)

Year	EU complainant	EU defendant	EU third party	Total WTO
1995	0	0	1	5
1996	0	0	3	10
1997	0	0	4	16
1998	2	0	2	12
1999	1	0	8	20
2000	0	0	8	11
Total	3	0	26	77

**WORLDWIDE INVESTMENT
TO SET A BASIC FRAMEWORK
FOR FOREIGN DIRECT INVESTMENT**

Key objectives

- **Improve the legal framework for Foreign Direct Investment world-wide**
- **Reduce the risk of investing abroad, thus enhance investment flows**
- **Establish a level playing field among host countries and among investors**
- **Respect the interests of home and host countries, in particular developing countries**

Foreign Direct Investment (FDI) is now recognised as one of the key factors in economic growth and wealth. Investment flows benefit everyone, creating opportunities for investors and helping developing countries to achieve sustainable development. For developing countries, FDI is particularly important. It does not create debt obligations, and it represents long-term commitment and lasting assets. But such investment needs the stable, transparent, predictable and non-discriminatory business climate that multilateral rules can provide. There are no such rules at present. The EU supports the launch of negotiations intended to set up a coherent basic framework of multilateral rules on Foreign Direct Investment as part of the next round of WTO multilateral trade negotiations. The EU believe that it is in the interest of all countries, developed and developing, to create a more stable and transparent climate for FDI world-wide. Non-discrimination, transparency and predictability of domestic laws applicable to FDI should be the guiding principles for the framework the EU would like to negotiate.

➤ **Improve the legal framework for Foreign Direct Investment world-wide**

WTO rules on investment will help create an investment-friendly legal and administrative environment for all investors. To do this, the rules must secure stability and predictability for foreign and domestic investors.

Treatment of foreign investors should be based on WTO principles of non-discrimination (Most Favoured Nation and National Treatment), if necessary subject to limited, negotiated exceptions. These principles would preserve the right of host countries to regulate investors' activities in their territory in a non-discriminatory manner.

Transparency of domestic investment regimes is also crucial to enable investors to assess their predictability. It would also assist countries with their efforts to attract investment via promotion of opportunities.

➤ **Reduce the risk of investing abroad, thus enhance investment flows**

Businesses are wary of the risks, whether real or imagined, of investing abroad. This applies particularly to developing countries and can undermine their domestic policies to attract FDI.

Reducing uncertainty and risks may not *guarantee* a country will get more FDI. But multilateral investment rules would increase overall FDI flows by reducing the marginal risk associated with each new venture abroad. It would help developing countries to attract a fairer share of whatever FDI is available.

➤ **Establish a level playing field among host countries and among investors**

The EU believes that international rules on FDI should be based on the fundamental WTO principles of non-discrimination, the 'level playing

field', as well as transparency and openness.

The current patchwork of investment rules established at regional and bilateral* level is not satisfactory. Investors see it as very inefficient and non-transparent, given the variations in treatment among different countries. As a result, FDI is not always placed in countries where it could be most efficient. Moreover, the production activities of many companies today are spread over different countries. That is why we need a basic, common framework of rules for FDI.

For Small and Medium Enterprises (SMEs) with the potential to invest abroad, the situation is particularly unsatisfactory. They do not have the means to monitor and adapt to ever-changing conditions in countries that would like to attract FDI. So they tend to avoid the risk of investing in countries in which the legal framework is uncertain. SMEs would have much to gain from clear multilateral investment rules.



► **Respect the interests of home and host countries, in particular developing countries**

Governments need to preserve the right to regulate economic activity within their territory, as regards development, environment and social conditions among others. Developing countries need assurances that they would not lose policy control over investment decisions, and that they may pursue their development objectives.

The scope of the rules we need must be realistic. Negotiations should focus only on FDI, not on short-term capital movements. Every government should maintain its ability to regulate short-term capital movements, whose sudden outflows (or inflows) can be harmful in countries that do not have an adequate regulatory and financial infrastructure.

Moreover, WTO Members must preserve their flexibility in deciding which sectors can be open to foreign investors. In other words, no multilateral rule should force any country to liberalise any given sector. The question of market access should be addressed in a way which allows each country to absorb FDI in a manner and at a rhythm compatible with its domestic policies (that is, a 'bottom-up' approach). Developing countries would be free to decide which sectors of their economy they wish to open up to FDI.

The Dispute Settlement mechanism should be that of the WTO. Investor-to-State arbitration does not fit in the WTO framework, though it is appropriate for bilateral agreements.

* **More than 1800 Bilateral Investment Treaties had been concluded at the end of 1999.**

Frequently asked questions

• **Why do we need multilateral rules on FDI?**

Consistency and transparency

Current international instruments vary in their geographic scope and coverage, specific content and legal nature. Even taken together, they do not add up to a coherent and complete international framework for FDI. In any case, 7,500 or so Bilateral Investment Treaties (BITs) would be needed to link all WTO member countries. The patchwork, with its overlaps, gaps and inconsistencies, is unhelpful for multinational enterprises. Moreover, the production and distribution processes of companies today often involve more than two countries at the same time. A basic set of investment principles, agreed at multilateral level, would consolidate all the principles enshrined in BITs and build up on the basic non-discriminatory WTO principles on trade.

Complementing trade rules

Trade and investment are inextricably linked. So they should be dealt with in a more integrated way. FDI is a major vehicle for international trade. It accounts for at least a third of world trade flows. From a policy perspective, open trade regimes favour FDI inflows with the highest level of technology. Open investment policies in a country favour open, competitive markets. GATS, TRIMs and TRIPs agreements partially cover certain investment issues, but we now need comprehensive rules on investment in all sectors.

• **But FDI is thriving already. So what would the value-added of a multilateral agreement be?**

True, such rules would not guarantee increased FDI flows. But they would improve the allocation of capital, therefore increasing global welfare. Rules would reduce distortions caused by discriminatory practices, subsidies/incentives races, legal uncertainty and lack of transparency. For example, businesses would appreciate lower costs in risk insurance, currently high because of uncertainties over the legal environment in many potential host countries. In 1999, foreign companies generated US\$3 trillion in host countries. If, thanks to new rules, distortions and inefficiencies boosted gross product by just 5%, that would mean US\$150 billion of extra world output and resources – surely worth having.

A rules-based system could assist us in developing an agenda for 'harnessed globalisation' international investment could be dealt with in parallel with policies on competition, labour conditions and environmental protection, to which the behaviour of investors is closely linked.

• **Are developing countries ready for multilateral rules on investment?**

Yes – and the EU would help. Developing countries would not have to make radical changes to normal domestic policies to comply with such rules, and it would not be costly. The idea is to consolidate 'best practices'. The rules would be flexible enough to further development aims, and would have to be based on non-discrimination, like most current bilateral treaties.

Rules would increase transparency and stability of conditions governing investment world-wide, and lead to an improved allocation of capital. Many developing countries would find it easier to attract investment, along with the capital and technology it brings. And rules would help least developed countries to join the ranks of those attractive to FDI flows.

• **What about investors' obligations? Should the WTO deal with this issue?**

WTO rules deal with the behaviour of governments and our basic approach boils down to asking governments to regulate their internal economic activity, including investment, in a non-discriminatory manner. It is up to host countries to establish the obligations of investors, including foreign investors, who must abide by the law of the country in which they are established. On the other hand, WTO rules should not unduly limit a host country's ability to regulate.

However, the EU is developing voluntary principles and standards of behaviour that would require companies to behave responsibly in fields as diverse as environmental protection, labour relations, development concerns, transparency and corruption.



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For more information on this topic, visit our website on:

http://www.europa.eu.int/comm/trade/miti/invest/index_en.htm

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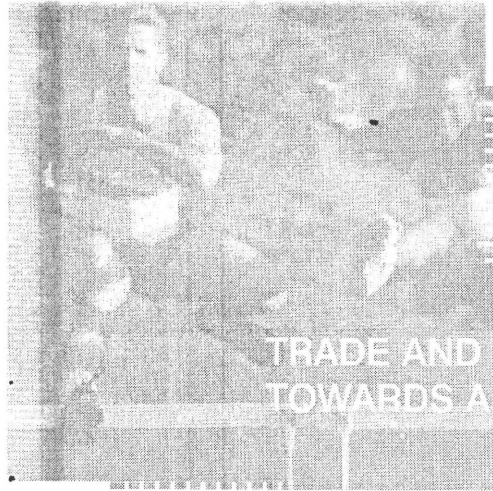
<http://europa.eu.int/comm/trade/misc/register.htm>

Facts and Figures

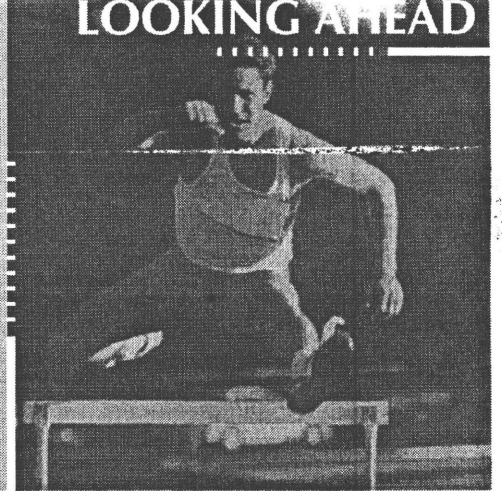
Developing countries received 24% of world inflows, while FDI outflows from developing countries were 8% of the total (compared to only 3% in 1980). The stock of FDI, a broad measure of the capital component of international production, stood at \$5 trillion in 1999, compared to \$2 trillion in 1980. A major factor in the increase of FDI is the growth of global sales of foreign

affiliates alone were about twice as high as global exports in 1999, compared to almost parity about two decades ago. The sum of world inward and outward FDI stocks, calculated as a percentage of world GDP, has risen from 10% to 31% over this period.

Source: UNCTAD World Investment Report 2000



TRADE AND COMPETITION: TOWARDS A GLOBAL RESPONSE



Key objectives

- **Agree on core principles to be reflected in domestic competition laws**
- **Agree on a ban on hard-core cartels**
- **Establish a flexible framework for international cooperation**
- **Make sure the needs of developing countries are taken into account**

Widespread trade liberalisation and regulatory reform have led to increased business opportunities and globalisation in the market-place. But in some instances, governmental barriers to trade are being replaced by private barriers such as anti-competitive practices. These practices include running hard-core cartels that engage in price-fixing or bid-rigging, or abuse of a dominant position. The adverse impact on international trade is felt particularly strongly in developing countries which often lack capacity and experience in dealing with such anti-competitive practices. The response should be global. The European Union is arguing that the issue should be taken up at the World Trade Organisation.

➤ **Agree on core principles to be reflected in domestic competition laws**

The EU believes that the WTO agenda should include negotiations on a binding framework agreement on competition. Such an agreement could lay out core principles for inclusion in domestic competition laws. They would cover non-discrimination and transparency, and an undertaking to treat hard-core cartels as a serious breach of competition law. Although some WTO Agreements such as GATS and TRIPs already contain provisions relating to competition, the EU believes there is a compelling need for some horizontal competition principles. A WTO competition agreement could be based on the following elements:

- A legislative framework to be based on the principle of non-discrimination
- Transparency, including guidelines for the application of the law
- Guarantees of 'due process' in competition investigations (including protection of confidential information) and the right of petition to competition authorities and/or the judiciary
- Administrative competition decisions subject to judicial review

- Agreement to treat hard-core cartels as serious breaches of competition law.

➤ **Agree on a ban on hard-core cartels**

Hard-core cartels – typically, groups of powerful multinational companies – cost consumers world-wide literally billions of dollars as they keep prices for their goods and services artificially high. (See box overleaf for an example.) But penetrating the cloak of secrecy under which they operate in order to expose their illegal and even criminal behaviour is notoriously difficult. The European Union supports international efforts under the auspices of the Organisation for Economic Cooperation and Development (OECD) and the WTO to step up international cooperation to put an end to hard-core cartel activity.

➤ **Establish a flexible framework for international cooperation**

Action could include setting up an 'information clearing house' on domestic laws, practices and developments; case-specific cooperation; consultations and exchanges of views

on competition policy issues that affect the interests of other members; setting up a WTO Competition Policy Committee as a forum for the exchange of views and multilateral discussions on competition policy issues of common concern, as well as to facilitate exchange of information on competition policy developments in the jurisdictions of WTO members.

➤ **Make sure the needs of developing countries are taken into account**

Any multilateral framework agreement in the WTO must take into account the specific needs of developing countries. There must be flexibility in the ways they cooperate, and they must be allowed to introduce a competition agreement step-by-step in realistic transition periods. Competition authorities in developing countries must benefit from better coordinated technical assistance and capacity-building activities. Partnerships between them and the providers, e.g. UNCTAD, the World Bank, regional organisations and individual countries would help to achieve this.

Frequently asked questions

- **Why the need for negotiations on competition?**

Because governmental barriers are often replaced by private barriers. To safeguard the benefits of trade liberalisation and regulatory reform, there is a need for effective enforcement of competition laws and policy. However, domestic laws and policy often come to nought when faced with anti-competitive practices with an international dimension. Some abuses may originate in one jurisdiction, but have their harmful effects in another. Such practices are best addressed through coordinated cooperative efforts from all relevant competition authorities. At the moment, bilateral cooperation agreements only exist between industrialised countries such as the EU and the US. Cooperation needs to be extended to include developing countries, as they are increasingly the object of anti-competitive practices.

- **Wouldn't this require harmonisation of domestic competition laws?**

No. The EU proposal only calls for binding core principles regarding non-discrimination, transparency and – as a substantive area – a ban on hard-core cartels. These are the basic elements that should be part and parcel of domestic competition laws. Such principles would also be of importance for WTO members who have yet to adopt a competition law or who may be amending existing laws. Together, these principles ensure the equal and predictable treatment of all firms, regardless of their corporate nationality.

- **Would co-operation provisions only apply to cases of hard-core cartels?**

No. That is the only substantive area the EC would like covered as a binding core principle. But international cooperation under a WTO agreement could be invoked in areas such as abuse of a dominant position or merger control, in cases where a WTO Member's interests are affected significantly.

- **Could domestic competition decisions be overruled by dispute settlement panels in the WTO?**

No. Dispute settlement should only apply to the overall obligation for WTO Members to have a competition law based on core principles. Individual decisions would not be the subject of dispute settlement within the WTO. Members who find problems with the way in which another Member applies the law could raise the issue in a so-called 'peer review' outside the dispute settlement system.

- **Why involve the WTO at all?**

The WTO has now reached a near-global membership, with major economies such as China and Russia in the process of joining the organisation. The WTO has a proven track record of negotiating and enforcing international rules. It is the organisation best placed for such negotiations.



October 2001

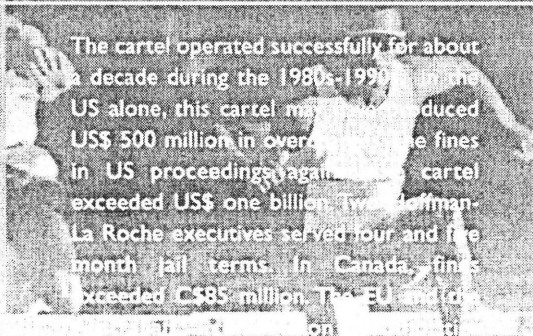
For more information on this topic, including all EU submissions to the WTO Working Group on Trade and Competition, visit our web site on:

http://europa.eu.int/comm/trade/miti/compet/index_en.htm

CASE STUDY

Global Vitamins Cartel: one of the biggest-ever hard-core cases

One of the biggest global hard-core cartels was the vitamins cartel. The companies involved included Hoffman-La Roche, BASF and Rhône-Poulenc, and they spent millions of dollars and thousands of employee hours to implement and hide the cartel. The cartel operated successfully for about a decade during the 1980s-1990s. In the US alone, this cartel may have produced US\$ 500 million in overcharges. The fines in US proceedings against the cartel exceeded US\$ one billion. Two Hoffman-La Roche executives served four and five month jail terms. In Canada, fines exceeded C\$85 million. The EU and the Commission imposed fines on 11 companies.



conducted separate investigations of the vitamins cartel and its harmful effects within their respective jurisdictions. Closer co-operation between national competition authorities could have made it easier to detect the cartel and the extent of its activities earlier. That could have enabled investigators to make more accurate estimates of the world-wide impact on consumers, leading to appropriate fines.

TRADE AND EU ENLARGEMENT:
TOWARDS MORE TRADE IN AN
ENLARGED UNION

Key objectives

- **Extend a zone of stability and prosperity on the European Continent**
- **Create a free-trade area between the Union and its future members**
- **Increase the dynamism of the enlarged Union's economy**

The European Union is about to face its biggest challenge since the foundation of the European Economic Community in 1957. The challenge is to integrate the countries which have applied to join the EU and which can meet our criteria. The EU was built on the principle that economic forces must be harnessed to achieve stability and prosperity. It is now offering other European partners the opportunity to benefit from its model of integration. To date, 13 countries are candidates, and accession negotiations have started with all of them except Turkey. These countries are: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, Slovenia and Turkey. The gains from this unprecedented enlargement will be substantial, both for the acceding countries and current member states.

➤ **Extend a zone of stability and prosperity on the European Continent**

The strong trade relations that Central and Eastern European countries have enjoyed with the European Union since the fall of the Berlin wall have contributed significantly to the development of their national economies. Ties were established as early as 1989, when the European Community granted trade concessions to countries of the former Soviet bloc. These concessions included the removal of long-standing import quotas on a number of products, and an extension of the Generalised System of Preferences (GSP). Over the next few years, the conclusion of Europe Agreements followed with Bulgaria, the Czech and the Slovak Republics, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovenia. Accession is the next step in enhancing the relationship between the EU's current membership of 15 and the candidates.

➤ **Create progressively a free-trade area between the Union and its future members**

The Europe Agreements cover a large number of issues, focusing not only on

trade liberalisation and other trade-related issues, but also on political dialogue, legal approximation and other areas of co-operation, in the area of industry, environment, transport and customs. Progressively, the Agreements aim to establish a free-trade area between the EU and the associated countries, on the basis of reciprocity but in an asymmetric manner. In other words, liberalisation will be more rapid on the EU side than on the side of the associated countries. As a result of this process, industrial products from the associated countries have had virtually free access to the EU since the beginning of 1995, with restrictions in some sensitive sectors, such as agriculture and textiles.

As well as liberalising trade, the Europe Agreements also contain provisions regarding the free movement of services, payments and capital in respect of trade and investments, and the free movement of workers. When establishing and operating in the territory of the other party, enterprises must receive treatment not less favourable than national enterprises.

The Association Agreements with Cyprus and Malta cover similar fields

(except political dialogue), while the Agreement with Turkey progressively establishes a Customs Union.

➤ **Increase the dynamism of the enlarged Union's economy**

Trade and investment, both within the enlarged Union and with our external partners, will greatly benefit from an extra 105 million consumers and a 34% increase in area. Some candidate countries' links with their neighbours in the former Soviet Union will enable EU-based firms to engage in increased trade and investment in the new Member States.

In addition, a single set of trade rules, a single tariff, and a single set of administrative procedures will apply not only across the existing Member States but across the Single Market of the enlarged Union. This will simplify dealings for third-country operators within Europe, thus facilitating investment and trade. Indeed, the Common External Tariff of the EU, which will be applied by acceding countries, is on average lower than national tariffs presently applied. Developing countries, enjoying preferential access to the EU, will find new markets in the acceding countries.



And new members will also improve their access to the markets of developing countries through economic and trade co-operation.

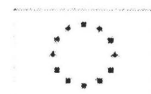
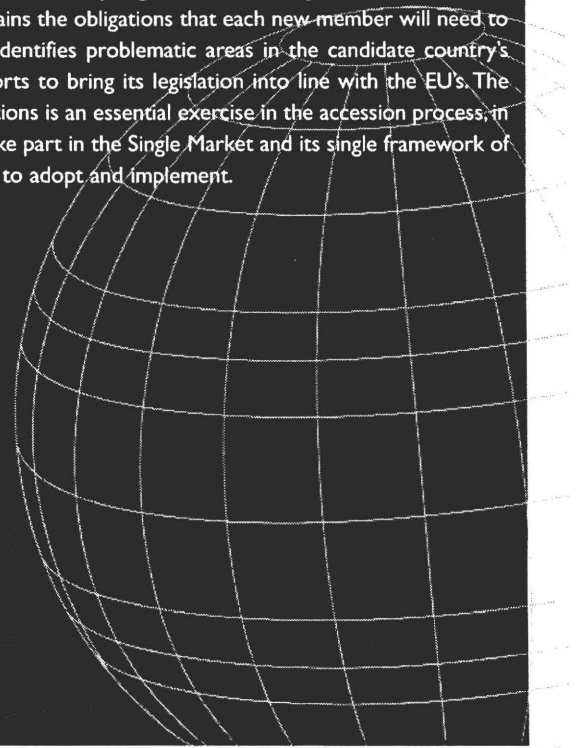
Finally, this unprecedented enlargement is likely to have a strong positive effect on inward foreign direct investment in the acceding countries. This should also boost investment flows into the enlarged Union.

Frequently asked question

- **What is the Commission's role in assisting candidate countries to align their legislation to the EU's?**

The Europe Agreements provide for regular and institutionalised meetings between the European Union and representatives from the candidate countries. Association Sub-committees tackle most of the trade-related issues which arise from the implementation of the Agreements. The Association Council, the higher instance of the institutional structure, is conducted jointly by the European Commissioner responsible for Enlargement, Guenter Verheugen, and the Minister of Foreign Affairs of the member state holding the EU Presidency.

Moreover, in the framework of accession negotiations, technical discussions are held regularly at expert level. The Commission presents the Community legislation stemming from the Common Commercial Policy to the candidates, and explains the obligations that each new-member will need to meet upon accession. The Commission also identifies problematic areas in the candidate country's legislation, and guides the candidate in its efforts to bring its legislation into line with the EU's. The adoption of the Community's rules and regulations is an essential exercise in the accession process, in order for new member states to be able to take part in the Single Market and its single framework of rules, which all member states of the EU have to adopt and implement.



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For country-specific information on bilateral trade relations with candidate countries visit:
http://europa.eu.int/comm/trade/bilateral/index_en.htm

For issues related to enlargement, visit:

<http://europa.eu.int/comm/enlargement/index.htm>

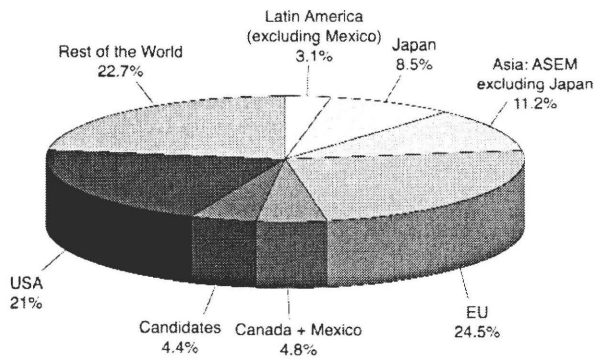
Technical background: trade patterns between the EU and candidate countries

The 26% increase in our trade with the 13 candidate countries in the first half of 2000 confirms the trend which had been observed in 1999. The EU trade surplus with the candidates increased in the same proportions (26%), rising to €14.652 billion in the first half of 2000. During these six months, EU exports to the candidate countries rose from €55.5 billion to €70 billion, while imports rose from €43.9 billion to €55.4 billion. Exports mainly consisted of machinery and electrical equipment (33%), transport equipment (8%), chemical products (10%), textiles

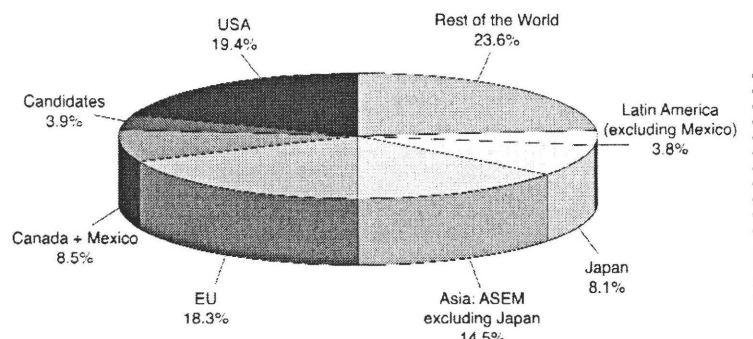
(8%) and base metals and articles (7%), while imports consisted of machinery and electrical equipment (26%), textiles (16%), transport equipment (13%), base metals and articles (11%) and agricultural products (5%). In a pattern similar to that of 1999, the EU's main trading partner among candidate countries in 2000 was Poland (accounting for 23.2% of EU exports to the region and 19.6% of EU imports), while Latvia remained the smallest importer of EU products (1.3% of EU exports). Cyprus and Malta were the smallest exporters (each accounting for 0.9% of total imports).

Share of world trade 1999 (imports and exports)

Commercial services

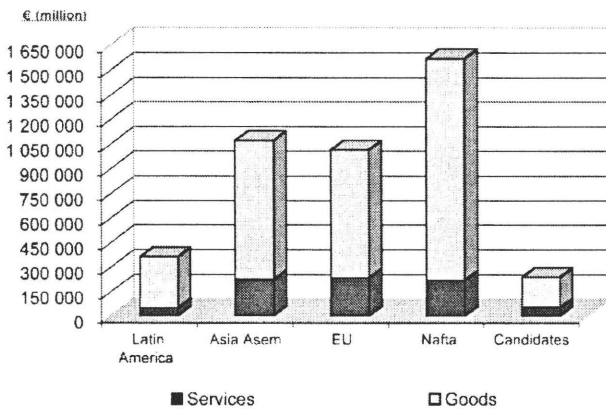


Goods

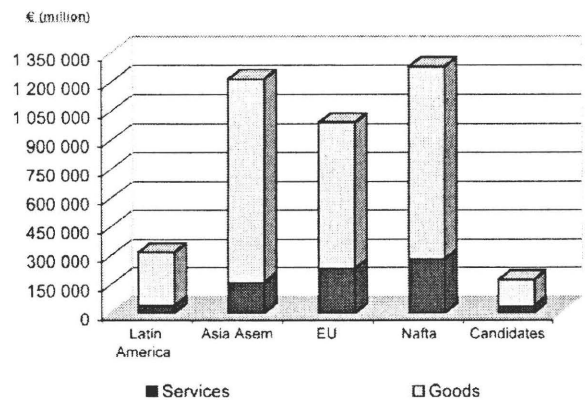


Trade in goods and services 1999

Imports from the world

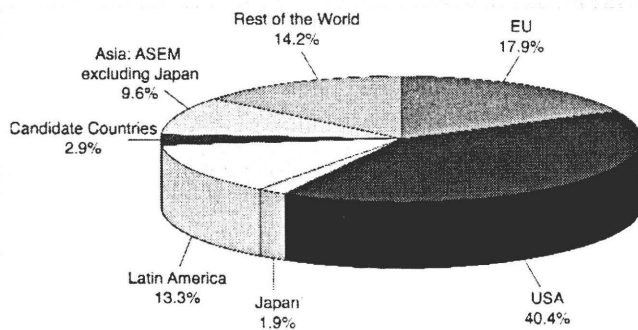


Exports to the world

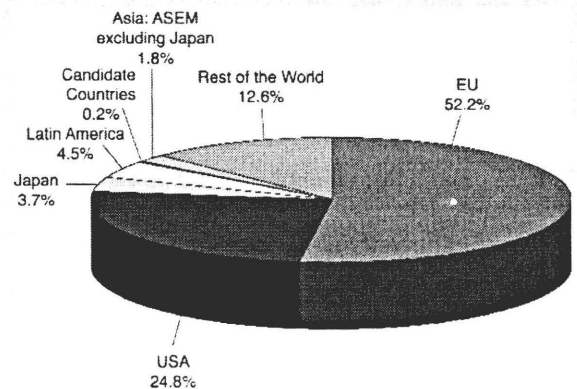


Share in world foreign direct investment flows 1999

Inflows



Outflows



EU trade in goods 2000

The major import partners

Rank	Partners	€ (million)	%
	World*	1 025 556	100.0
1	USA	197 363	19.2
2	Japan	85 511	8.3
3	China	69 673	6.8
4	Switzerland	58 478	5.7
5	Norway	45 671	4.5

The major export partners

Rank	Partners	€ (million)	%
	World*	936 781	100.0
1	USA	231 072	24.7
2	Switzerland	70 324	7.5
3	Japan	44 750	4.8
4	Poland	33 716	3.6
5	Turkey	29 744	3.2

The major import products

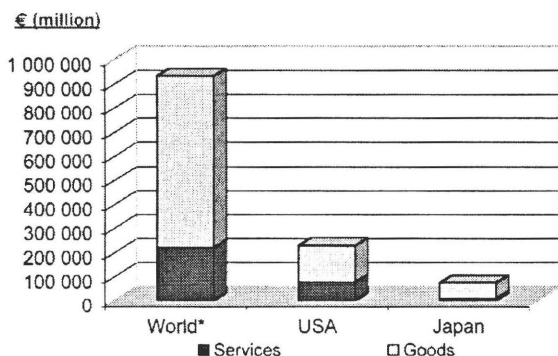
Rank	Products	€ (million)	%
	TOTAL	1 025 556	100.0
	of which		
1	Oil	120 125	11.7
2	Electrical machinery	90 029	8.8
3	Office machines (PC)	70 255	6.9
4	Articles of clothing	50 786	5.0
5	Road vehicles	47 693	4.7

The major export products

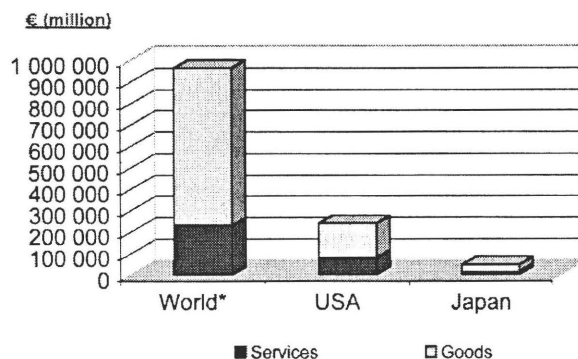
Rank	Products	€ (million)	%
	TOTAL	936 781	100.0
	of which		
1	Road vehicles	87 313	9.3
2	Electrical machinery	73 960	7.9
3	General industrial machinery	51 943	5.5
4	Other transport equipment	50 890	5.4
5	Specialised machinery	48 112	5.1

Trade in goods and services 1999

EU imports from ...

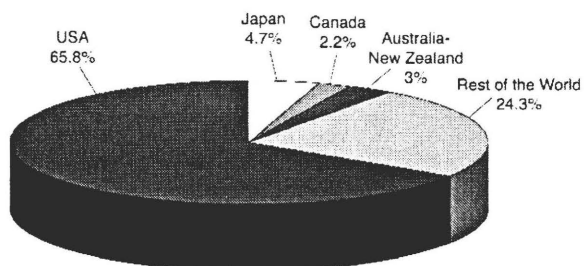


EU exports to ...

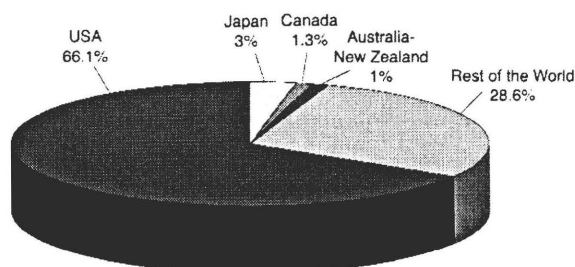


EU foreign direct investment flows 1999

Inflows



Outflows



Notes:

* World is calculated excluding Intra-UE flows

Asia: ASEM excluding Japan – China, South Korea, Vietnam, Thailand, Indonesia, The Philippines, Malaysia, Singapore, Brunei

Sources:

GOODS: Eurostat (Comext) and IMF (DOTS)
 SERVICES: Eurostat (New Cronos) and WTO
 FDI: UNCTAD (WIR 2000)

