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TRADE POLICY REVIEW

Report by the Secretariat

EUROPEAN COMMUNITIES

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

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Document WT/TPR/G/177 contains the policy statement submitted by the European Communities.

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SUMMARY OBSERVATIONS

(1) THE ECONOMIC ENVIRONMENT

1. Following the economic slowdown in 2001-03, real GDP growth in the European Communities (EC) picked up to 2.3% in 2004, 1.7% in 2005, and an estimated 2.8% in 2006, mainly driven by private investment and exports. Growth rates in the ten new Member States (NMS-10) were above the EC average, contributing to income convergence. The economic recovery has translated into a decline of unemployment, to 8.8% in 2005, and an estimated 8% in 2006, and was accompanied by strong expansion of international trade. The ratio of public debt to GDP in the 25 Member States (EC-25) increased slightly, to around 63% in 2005 and 2006; thus, although some Member States improved their budgetary situation, measures to address the long-term sustainability of the public debt would appear to remain needed.

2. The euro is the common currency of twelve EC Member States. Sweden and the NMS-10 are expected to adopt the euro at a later stage, while Denmark and the United Kingdom have opted to retain their national currencies. Despite sharply increasing energy prices, inflationary pressures remained under control; EC-25 inflation was 2.1% in 2004, 2.2% in 2005 and an estimated 2.3% in 2006. Key interest rates in the euro area remained at the historically low level of 2% during 2004 and most of 2005, but have been rising constantly since, to 3.5% in December 2006.

3. The services sector remains the backbone of the EC economy, with a share of over 77% in GDP and employment, while agriculture contributes just over 2%. The EC's share in global value-added in manufactures has been decreasing, reflecting geographical shifts in international processing activities and their vertical decomposition. The Lisbon Strategy, a ten-year plan adopted in 2000 to increase the EC's competitiveness, was reformulated in March 2005. Broad economic policy guidelines (BEPGs), mainly on the contribution of economic policies to the Lisbon Strategy, identified growth, labour market flexibility, and sustainable public finances as priorities for policy action at Member States level.

4. EC exports and imports both grew at an average annual rate of some 10% in the period 2004-06. The EC's trade account has been in persistent but sustainable deficit. The EC current account turned from a small surplus in 2002 and balance in 2003 to a slight deficit in 2004 (0.1% of GDP); the deficit widened to some 0.9% of GDP in 2005 but narrowed again to an estimated 0.5% of GDP in 2006. The EC accounts for around half of global foreign direct investment (FDI) stocks, making it the world's largest recipient and supplier of FDI.

(2) INSTITUTIONAL FRAMEWORK

5. There have been no substantive changes to the institutional framework of the EC since its previous review in October 2004. Ten countries acceded to the EC in May 2004, and Bulgaria and Romania are set to join in January 2007. Accession negotiations have started with Croatia and Turkey, and candidate status has also been granted to the Former Yugoslav Republic of Macedonia. The EC's trade policy seeks to progressively abolish or lower obstacles to international trade, contribute to sustainable development, and harness the opportunities of globalization. Trade liberalization in the EC follows several tracks: multilateral, reciprocal, and non-reciprocal.

6. At the multilateral level, the EC is a key player in the WTO and very active in the DDA negotiations. In this context, the EC seeks improvements in market access for non-agricultural products on the basis of a non-linear formula that will cut the highest tariffs most and offer flexibility for developing countries; liberalization of agriculture according to the July 2004 Framework Agreement; further liberalization of the services sector; and incorporation of development priorities. The EC also remains one of the most active Members in WTO *dispute settlement; as at November 2006, it was involved in 36 disputes, 18 as a complainant and 18 as a respondent.*

7. The EC continues to build on a wide network of regional trade agreements (RTAs). In its RTAs with developing countries, liberalization is usually undertaken asymmetrically, with the EC liberalizing at a faster speed. The EC considers that its RTAs are part of a wider policy of promoting multilateralism; it recently announced its intention to launch new preferential trade negotiations, with market access as the main criterium.

8. The EC grants at least MFN treatment to all WTO Members, and unilateral preferences through its GSP scheme and the Cotonou Agreement. The revised GSP scheme, in force since January 2006, has three different arrangements; the most far-reaching of these arrangements, the Everything But Arms (EBA) initiative, grants duty-free and quota-free access to the EC market for least-developed countries, with only a few (product) exceptions, to expire in 2008. Under the Cotonou Agreement, the EC is negotiating reciprocal Economic Partnership Agreements (EPAs) with the ACP countries; these are scheduled to enter into force in January 2008.

9. The EC's extensive network of RTAs, together with the large number of countries eligible for unilateral preferences, has confined the application of its exclusively MFN tariff to nine WTO Members, which accounted for some 30% of its total merchandise imports in 2005.

(3) TRADE POLICY INSTRUMENTS

10. The EC's MFN tariff has remained largely unchanged since its last TPR in 2004. The average applied MFN tariff has increased slightly, to 6.9% from 6.5%, due to increases in ad valorem equivalents (AVE) of non-ad valorem tariffs, as a result of a downward trend in import prices of certain agricultural products. By contrast, the average non-agricultural applied MFN tariff (excluding petroleum) is 4% (down from 4.1% in 2004). Non-ad valorem tariffs apply to some 10% of the tariff lines, mainly on agricultural goods; they comprise specific, compound, alternate, and variable duties. Applied MFN tariffs on agricultural goods (WTO definition) average 18.6% (up from 16.5% in 2004), with rates up to an AVE of 427.9%.

11. On aggregate, the EC tariff schedule shows mixed escalation, negative from the first stage of processing to semi-processed goods (because of the high tariff protection for agricultural commodities), and then positive to fully processed goods. Value-added tax and excise duties apply to imports and locally produced goods at the same rates; these rates are set by Member States and are not harmonized among the EC.

12. The EC is modernizing its customs administration through the implementation of electronic exchange systems to support the creation of a paperless customs environment. Customs controls are based on risk analysis using automated data processing techniques. Import prohibitions are generally based on international agreements, SPS regulations, or on resolutions of the United Nations Security Council. Technical regulations, standards, and sanitary and phytosanitary measures have been under continued review by the Commission; in certain areas, they have not been fully harmonized among Member States. Products placed on the market of a Member State must comply, where necessary, with both relevant national and Community-wide legislation.

13. The EC maintains import licences for surveillance, quota management, and safeguards purposes; 98 tariff lines, mostly agricultural goods, are subject to tariff quotas. The EC remains an important user of contingency trade remedies; between January 2004 and September 2006, it initiated three safeguard, 27 anti-dumping and two countervailing investigations. The EC provides export subsidies based on provisions laid down in product-specific common market organizations; such subsidies (mainly on *agricultural products) though on the decline remain relatively high. In value, export subsidies notified by the EC represent approximately 90% of all the WTO Members' notified export subsidies. Assistance to exporters is also provided at the Member State level.*

14. New EC-wide legislation on public procurement entered into force in 2004, with a view to simplifying the legal framework and adapting it to the electronic era. The EC's competition policy seeks to enforce regulations on anti-competitive practices, and enhance competition. Enforcement focuses on the elimination of cartels and abuses of dominant position. New guidelines were adopted in 2006 on regional aid provided by Member States. The EC does not have any state-trading enterprises within the meaning of GATT Article XVII; there are numerous state-owned enterprises that engage in international trade.

15. The intellectual property rights regime is governed by both EC regulation and Member States' legislation. While no major change to the IPR regime has taken place since the last TPR of the EC, the Commission launched a review of patent policy in January 2006, focusing on, inter alia, the possible introduction of an EC patent. Various measures have also been taken to ensure more effective IPR enforcement.

(4) SECTORAL POLICIES

16. Services constitute the EC's most important sector in terms of contribution to real GDP and employment. With a view to eliminating the remaining differences in regulation across Member States, the EC is taking steps to create a genuine internal market for trade in services by 2010. Since its last Review in 2004, the EC has taken measures to address some structural problems, notably the completion of the Financial Services Action Plan 1999-05; the launch of a new financial services strategy 2006-10; and the Action Plan for transport 2002-10. Further liberalization of services should improve the efficiency of other economic activities.

17. The manufacturing sector accounts for about 20% of the EC's GDP and for some three-quarters of its merchandise exports, and remains a major beneficiary of state aid. As a result of declining productivity growth in manufacturing, the Commission set out a new industrial policy in 2005, which, together with measures at Member State level, is aimed at fostering the competitiveness of the sector. Using the ISIC definition, MFN tariffs on manufactured imports average 6.8%, with rates ranging up to 427.9% (an AVE) on certain processed food products.

18. The EC is the world's largest energy importer, the second largest consumer, and is about 50% self-sufficient in energy. Faced with increasing oil prices, the EC is seeking to save 20% of its energy consumption by 2020 through, inter alia, the use of energy-efficient technologies, and has also set a target of 21% renewable electricity by 2010. Some of the key policy aims of the EC in the subsector are security of energy supply, promotion of competition, and completion of the internal market by 2007. Imports of electricity are duty free.

19. The EC is implementing the 2003 reform to its Common Agricultural Policy (CAP), mainly through the decoupling of payments from production; this has increased the exposure of farmers to world market signals. As a result, the combined share of market price support relating to output and input (those that are the most trade distorting) fell from 71.7% of support to producers in 2003 to 63.8% in 2005. The total amount spent on the CAP was 45.5% of EC expenditure in 2005. Using the ISIC definition, MFN tariffs in agriculture, hunting, forestry and fishing average 10.9%, with rates ranging up to 167.2%. Border protection and domestic support have somewhat insulated certain products from competition and helped to generate surpluses. The policy has thus made subsidies indispensable for the export of some *of the surpluses. The ongoing reforms aim to redirect this policy.*

(5) TRADE POLICY AND TRADING PARTNERS

20. The EC pursues a strategy of trade liberalization through negotiations at the multilateral, regional, and bilateral levels. It considers the DDA as a key priority, having been fundamental in its launch and having made a large number of proposals in various areas. The EC's continuing commitment to the WTO will be essential to the successful completion of the DDA. Nonetheless, the decision by the EC to launch new PTA negotiations could further complicate its trade regime, and divert interest from the multilateral trading system.

21. The EC is the world's leading exporter and the second-largest importer of goods, and its economy has continued to support global growth by maintaining its market open. Nevertheless, trade barriers remain substantial in a few but important areas, notably agriculture. Reduction/elimination of export subsidies and tariffs on agricultural imports would benefit EC consumers, improve resource allocation, and significantly contribute to the promotion of the world economy.

22. The EC remains the world's leading exporter and importer of commercial services. The Services Directive builds on the so-called "fundamental freedoms" of the EC Treaty, including the freedom of establishment and the free-movement of services. However, significant barriers to trade in services remain both at the intra-EC level and vis-à-vis third countries; these include monopolies and differences in regulation across Member States. Addressing these distortions would boost the overall competitiveness of the economy.

I. ECONOMIC ENVIRONMENT

(1) MAIN CHARACTERISTICS

1. The 25 Member States of the European Communities (EC-25) cover a land area of 3.9 million km² and have a combined population of 459.5 million, of which 68% resides in the euro area. Germany is the most populated country, followed by France and the United Kingdom; France is the biggest in surface, followed by Spain and Sweden; and Malta is the smallest in both area and population. In 2005, the EC-25 had a GDP of €10,844 billion, while its per capita income in nominal terms amounted to €23,500. In terms of per capita income, Luxembourg ranks first, followed by Ireland and Denmark (Table I.1).[1]

Table I.1
Selected indicators, 2005

	Area	Population	GDP per capita		Share in gross value added (2004) (per cent)			Share of agricultural employment
	('000 km²)	(million)	Euro	PPS[a]	Agriculture, hunting, forestry and fishing	Industry[b]	Services	% of civilian working population[c] (2004)
EC (25)	3,894.3	459.5	23,500.8	23,500.8	2.1	26.5	71.5	5.0
EC (15)	3,154.0	385.4	26,584.1	25,468.1	2.0	26.2	71.8	4.0
Euro-zone	2,458.0	310.9	25,666.4	25,012.2	2.2	26.6	71.1	..
Austria	84.0	8.2	30,033.0	28,691.5	1.9	30.3	67.8	5.5
Belgium	31.0	10.4	28,545.2	27,544.6	1.0	24.8	74.3	2.2
Cyprus	9.0	0.7	17,909.1	19,549.8	3.1	20.3	76.6	5.1
Czech Republic	79.0	10.2	9,629.3	17,142.4	3.3	37.9	58.8	4.4
Denmark	43.0	5.4	38,475.5	28,873.8	1.9	24.0	74.0	3.3
Estonia	45.0	1.3	7,824.9	13,048.6	4.3	28.9	66.9	5.5
Finland	305.0	5.2	29,660.5	26,374.4	3.1	30.2	66.7	5.3
France	544.0	60.6	28,236.3	26,341.8	2.5	21.3	76.3	4.3
Germany	357.0	82.5	27,240.9	25,279.9	1.1	29.1	69.8	2.4
Greece	132.0	11.1	16,350.0	19,565.5	5.7	21.2	73.1	12.6
Hungary	93.0	10.1	8,697.8	14,381.5	3.9	30.8	65.2	5.3
Ireland	70.0	4.1	39,015.4	32,649.9	2.5	37.5	60.0	6.4
Italy	301.0	58.5	24,241.9	24,246.4	2.5	27.3	70.2	4.2
Latvia	65.0	2.3	5,545.0	10,901.1	4.1	22.6	73.3	14.6
Lithuania	65.0	3.4	6,010.4	11,883.8	5.9	32.7	61.5	16.3
Luxembourg	3.0	0.5	64,449.5	56,987.0	0.6	16.8	82.8	2.1
Malta	0.3	0.4	11,131.6	16,292.5	2.5	23.7	73.6	2.3
Netherlands	34.0	16.3	30,782.3	28,940.2	2.1	23.9	74.0	2.7
Poland	313.0	38.2	6,301.2	11,620.8	5.1	31.0	64.0	17.6
Portugal	92.0	10.5	13,984.7	16,691.1	3.3	25.1	71.7	12.1
Slovak Republic	49.0	5.4	6,927.1	12,949.3	3.9	35.1	60.9	5.1
Slovenia	20.0	2.0	13,702.9	18,938.0	2.5	35.2	62.2	9.7
Spain	505.0	43.0	21,012.2	23,068.4	3.5	29.1	67.3	5.5
Sweden	411.0	9.0	31,957.0	27,736.7	1.8	27.7	70.5	2.5
United Kingdom	244.0	60.0	29,458.9	27,181.8	1.0	24.1	75.0	1.3

a In euros, measured on the basis of purchasing power standards (PPS).
b Including construction.
c Employment in agriculture, hunting, fishing, and forestry.

Source: Eurostat (2005) *Yearbook*. Viewed online at: http://epp.eurostat.cec.eu.int; and DG Agriculture (2005), *Key Agricultural Statistics*, Table 2.0.1.2, Brussels.

[1] If measured in purchasing power standards, the Netherlands ranks third.

2. Services (including construction) is by far the most important sector in terms of contribution to gross value added (GVA) and employment in the EC. In 2005, the sector accounted for 77.7% of the EC-25's GVA and employed 77.1% of its labour force; in the euro area, the corresponding figures were 77.6% and 77.9%. The share of services in GVA tends to rise significantly with Member States' level of income, ranging from 58.7% in the Czech Republic to 89.2% in Luxembourg.[2] Manufacturing contributed 20.4% to the EC-25's GVA in 2005, and employed 17.8% of the population. The EC's share in world manufactures value added has been declining, reflecting the redistribution of international manufacturing activities and particularly the vertical decomposition of manufacturing processes.[3] This reduction is not a recent phenomenon but an on-going process, implying deeper structural changes in light of the intensity of international competition. Agriculture, hunting, forestry, and fishing accounted for 1.9% of GVA in 2005, but employed 5.0% of the labour force. The contribution of mining and quarrying to GVA is marginal.

3. Twelve EC Member States have the euro (€) as their common currency (the "Euro area").[4] The Maastricht convergence criteria for adopting the euro are: price stability (i.e. the average inflation rate should not exceed by more than 1.5 percentage point that of, at most, the three best performing Member States); sustainable fiscal position (public deficit not exceeding 3% of GDP or close to that limit, and the ratio of general government debt to GDP not over 60% or declining at a "sufficient pace" towards that level); exchange rate stability through participation in the Exchange Rate Mechanism II (ERM II)[5], respecting the normal fluctuation margins without severe tensions for at least two years; and low interest rates (the average nominal long-term interest rate should not exceed by more than two percentage points that of, at most, the three best performing Member States). On 21 December 2005, the regulations on the introduction of the euro were amended to enable countries to join the euro zone in subsequent phases. Apart from a number of technical adaptations, the amendment allows for different changeover scenarios for individual countries.[6] The common monetary policy is managed by the Eurosystem, which consists of the independent European Central Bank (ECB) and the National Central Banks (NCBs) of the Member States that have adopted the euro.

4. Sweden and the ten new Member States (NMS-10),which have a derogation, are expected to adopt the euro, after fulfilling the Maastricht convergence criteria[7], while Denmark and the United Kingdom retained their national currencies through an "opt-out clause". Slovenia plans to join the

[2] European Commission (2006a).

[3] EC enlargement has enhanced this process through the delocalization of industries based on comparative advantages.

[4] The twelve countries where the euro is currently legal tender are: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain. See Council Regulation (EC) No 974/98 on the introduction of the euro in the eleven Member States establishing the euro area on 1 January 1999; Council Decision 2000/427/EC on the introduction of the euro in Greece in 2001; and Council Regulations (EC) 974/98, 1103/97 and 2866/98, and their amendments.

[5] The ERM provides the framework for coordination of exchange rate policies. It was formed in 1979 in an attempt to create a zone of exchange rate stability, a prerequisite to the introduction of the euro. A new exchange rate mechanism (ERM II) came into force on 1 January 1999, aimed at ensuring that Member States outside the euro area, but participating in the mechanism, align their policies towards stability and foster convergence, which should help them in their efforts to adopt the euro. At the same time, the mechanism is intended to help protect the Member States adopting the euro from unwarranted pressures in the foreign exchange market.

[6] Council Regulation (EC) 2169/2005.

[7] Unlike Demark and the United Kingdom, Sweden does not have an opt-out clause and is therefore expected to adopt the euro at a later stage. Having a derogation means that a Member State is exempt from some, but not all, of the provisions relating to price stability, sound public finances, and eventual adoption of the euro.

euro zone on 1 January 2007[8]; Cyprus, Estonia, Latvia, and Malta no later than 1 January 2008; Slovakia on 1 January 2009; and the Czech Republic and Hungary in 2010. However, Latvia and Hungary are currently reconsidering these target dates. Poland and Sweden have not set target dates.[9] Meanwhile, the Baltic states, Cyprus, Malta, Slovenia, and Slovakia joined ERM II between June 2004 and November 2005.[10]

5. The Economic and Monetary Union (EMU) is a unique policy framework. It has a centralized monetary policy framework, but decentralized fiscal policies, left to the national authorities of each Member State, on the basis of the Stability and Growth Pact (SGP). Adopted in 1997, the SGP is aimed at ensuring sound fiscal policies as a means to strengthen the conditions for price stability and for robust and sustainable growth conducive to employment creation. It consists of three elements: a political commitment to the full and timely implementation of the budget surveillance process; preventive elements to deter budget deficits beyond the 3% reference level; and dissuasive elements for Member States to take corrective actions.[11] The SGP was reformed in 2005, with changes to both its preventative and corrective elements.[12] The emphasis on the fundamentals of fiscal sustainability in setting medium-term budgetary objectives strengthened the preventative arm, whilst changes to the corrective arm relate to defining "excessive deficits" and the modalities for their correction. To this end, the changes allow for a more comprehensive economic assessment of budgetary developments in the implementation of the excess deficit procedure (EDP). The reformed SGP also provides for a set of "other relevant factors" that the Commission and Council may take into account when deciding on the EDP. These factors include developments in the medium-term economic position (potential growth, cyclical conditions, and policy implementation) and developments in the medium-term budgetary position (public investment, quality of public finances, fiscal consolidation in "good times", and debt sustainability). In particular, a one-year deadline for corrective measures can be extended by an additional year (based on other relevant factors) and steps in the EDP can be repeated if effective action has been taken by the Member State concerned in compliance with the initial recommendations.

(2) RECENT ECONOMIC DEVELOPMENTS

6. Economic performance in the EC has been positive, despite an increase in oil prices by almost 45% in euro terms. Annual output growth was 2.4% in 2004 and 1.7% in 2005 in the EC-25, and 1.9% and 1.4%, respectively, in the euro area. In 2006 (on a quarter-to-quarter basis), real GDP growth accelerated to 0.8% in the first quarter and 0.9% in the second quarter in both the EC and the euro area. However, performance at the national level was relatively dispersed. Denmark, Greece, Ireland, Luxembourg, Spain, and all new Member States, except Malta, had growth rates over 3% in 2005, while output growth in Germany, Italy, and Portugal was below 1% (Table I.2). Against the

[8] Estonia and Lithuania originally also planned to join the euro area in January 2007. While Estonia, due to its high inflation rate, did not apply for admission to the euro area, Lithuania's application to join was rejected, also on grounds of a too high inflation rate. While Estonia has set 2008 as a new target date for euro adoption, Lithuania still has to decide.

[9] EC document COM(2005) 545.

[10] European Commission (2006f).

[11] The SGP aims to enforce fiscal disciplines as a permanent feature of the EMU. It specifies the procedure to be followed in case a Member State breaches the 3% public deficit limit, on the basis of the Excessive Deficit Procedure (EDP), as laid down in the EU Treaty. The EDP includes a possibility for the Council to impose a penalty, which initially would take the form of a non-interest-bearing deposit with the Communities, but it could also be converted into a fine if the excessive deficit is not corrected within two years.

[12] Council Regulation 1055/2005 amended Regulation (EC) 1466/97, and Council Regulation 1056/2005 amended Regulation (EC) 1467/97. The new Code of Conduct on the content and format of the stability and convergence programmes, endorsed by the ECOFIN Council on 11 October 2005, also provides guidelines for Member States in drawing up their programmes and facilitating the examinations.

backdrop of income losses caused by negative terms of trade, mainly resulting from oil price increases, growth-supporting domestic factors gained the upper hand, most notably improved financing conditions and wider profit margins.[13]

Table I.2
Key macroeconomic indicators, 2004-05

Country	Real GDP growth rate		Inflation rate (HICP annual change)		General government debt (% of GDP)		General government balance (% of GDP)		External current account (% of GDP)		Unemployment (% of labour force)	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
EC-25	2.4	1.7	2.1	2.2	62.4	63.4	-2.6	-2.3	0.1	0.0	9.1	8.7
EC-15	2.2	1.5	2.0	2.1	63.4	64.6	-2.6	-2.3	0.5	0.4	8.1	7.9
Euro area	1.9	1.4	..	..	..	..	-2.8	-2.4	0.8	0.3	8.9	8.6
Austria	2.4	1.9	2.0	2.1	63.6	62.9	-1.1	-1.5	0.3	-0.5	4.8	5.2
Belgium	2.6	1.2	1.9	2.5	94.7	93.3	0.0	0.1	9.3	7.6	8.4	8.4
Cyprus	3.9	3.8	1.9	2.0	71.7	70.3	-4.1	-2.4	-4.5	-3.5	4.7	5.3
Czech Republic	4.7	6.0	2.6	1.6	30.6	30.5	-2.9	-2.6	-5.7	-6.1	8.3	7.9
Denmark	1.9	3.1	0.9	1.7	42.6	35.8	2.7	4.9	2.0	2.7	5.5	4.8
Estonia	7.8	9.8	3.0	4.1	5.4	4.8	1.5	1.6	-10.2	-13.2	9.7	7.9
Finland	3.6	2.1	0.1	0.8	44.3	41.1	2.3	2.6	7.6	4.2	8.8	8.4
France	2.3	1.2	2.3	1.9	64.4	66.8	-3.7	-2.9	1.0	0.3	9.6	9.5
Germany	1.6	1.0	1.8	1.9	65.5	67.7	-3.7	-3.3	2.2	2.3	9.5	9.5
Greece	4.7	3.7	3.0	3.5	108.5	107.5	-6.9	-4.5	-7.3	-6.4	10.5	9.8
Hungary	5.2	3.6	6.8	3.5	57.1	58.4	-5.4	-6.1	-7.2	-9.0	6.1	7.2
Ireland	4.5	4.7	2.3	2.2	29.4	27.6	1.5	1.0	-1.3	-1.4	4.5	4.3
Italy	1.1	0.0	2.3	2.2	103.8	106.4	-3.4	-4.1	-0.8	-1.4	8.0	7.7
Latvia	8.5	10.2	6.2	6.9	14.6	11.9	-0.9	0.2	-6.6	-8.2	10.4	8.9
Lithuania	7.0	7.5	1.2	2.7	19.5	18.7	-1.5	-0.5	-5.2	-6.9	11.4	8.3
Luxembourg	4.2	4.0	3.2	3.8	6.6	6.2	-1.1	-1.9	11.8	8.2	5.1	4.5
Malta	-1.5	2.5	2.7	2.5	76.2	74.7	-5.1	-3.3	-2.0	-5.7	7.3	7.3
Netherlands	1.7	1.1	1.4	1.5	52.6	52.9	-1.9	-0.3	2.9	3.3	4.6	4.7
Poland	5.3	3.2	3.6	2.2	41.9	42.5	-3.9	-2.5	-2.7	-2.0	19.0	17.7
Portugal	1.1	0.3	2.5	2.1	58.7	63.9	-3.2	-6.0	-7.3	-5.7	6.7	7.6
Slovakia	5.5	6.0	7.5	2.8	41.6	34.5	-3.0	-2.9	-8.0	-0.9	18.2	16.3
Slovenia	4.2	3.9	3.7	2.5	29.5	29.1	-2.3	-1.8	1.4	-0.4	6.3	6.5
Spain	3.1	3.4	3.1	3.4	46.4	43.2	-0.1	1.1	-2.4	-2.8	10.6	9.2
Sweden	3.7	2.7	1.0	0.8	50.5	50.3	1.8	2.9	5.3	6.4	6.3	7.8
United Kingdom	3.1	1.8	1.3	2.1	40.8	42.8	-3.3	-3.6	-1.7	-1.7	4.7	4.7

.. Not available.

Source: Eurostat online information. Viewed at: http://epp.eurostat.cec.eu.int.

7. Among domestic demand components, private investment revealed the most unambiguous signs of a strong upturn, growing by 4.2% in 2004 and 3.0% in 2005. However, consumer spending was less encouraging, with annual growth declining from 2.0% in 2004 to 1.5% in 2005. The sluggish expansion in private consumption has to be viewed in the context of continued slow growth

[13] DG Economic and Financial Affairs (2006b).

in disposable incomes, the key determining factor to household spending. On external demand, EC-25's exports benefited from buoyant world trade; their growth rate peaked at 7.1% in 2004 and was 5.1% in 2005 (Table I.3).

Table I.3
Growth in real GDP and expenditure components, 2001-05
(Percentage changes; base year: 1995)

	2001	2002	2003	2004	2005
EC-25:					
GDP	2.0	1.2	1.3	2.3	1.7
Domestic demand	1.5	1.0	1.8	2.3	1.8
Household	2.2	1.5	1.7	2.0	1.5
Government	2.1	2.6	2.2	1.5	1.6
Gross fixed capital formation	-1.0	-2.1	1.8	4.2	3.0
Exports	3.6	1.8	1.7	7.1	5.1
Imports	2.2	1.3	3.3	7.2	5.6
EC-15:					
GDP	1.9	1.1	1.1	2.2	1.5
Domestic demand	1.5	0.9	1.7	2.2	1.8
Household	2.1	1.4	1.5	1.9	1.4
Government	2.0	2.5	2.0	1.5	1.6
Gross fixed capital formation	-0.8	-2.1	1.9	3.7	3.1
Exports	3.4	1.6	1.2	6.6	4.7
Imports	2.1	1.1	2.9	6.7	5.5
Euro area:					
GDP	1.9	0.9	0.8	1.9	1.4
Domestic demand	1.2	0.4	1.5	1.8	1.7
Household	2.0	0.8	1.2	1.5	1.3
Government	2.0	2.4	1.8	1.2	1.4
Gross fixed capital formation	-1.5	-2.9	2.0	3.3	2.9
Exports	3.7	1.7	1.1	6.8	4.2
Imports	1.8	0.3	3.1	6.7	5.3

Note: Seasonally adjusted data.

Source: Eurostat online information. Viewed at: http://epp.eurostat.cec.eu.int.

8. There has been a trend to income convergence between the EC-15 and NMS-10. Growth rates in the NMS-10 have been higher than in the EC-15, although more volatile. Thus, per capita incomes in NMS-10 and EC-15 are now much closer than they were in the late 1990s, NMS-10 income increased to more than 50% of the EC-15 level, on average, in 2005, from 44.3% in 1997, when enlargement prospects crystallized in the Commission's Agenda 2000. The catch-up process, which is led by the manufacturing and services sectors, is particularly impressive in the Baltic states, but also in Hungary and Slovenia.[14]

9. The labour market in both the euro area and the EC-15 proved relatively resilient during the economic slowdown in 2001-03. Specifically, employment growth accelerated to 0.6% in 2004, from 0.4% in 2003, and increased to 0.7% in 2005[15], owing to structural reforms in both the product and labour markets over the last decade, including more employment-friendly wage development and improved matching. The reforms also resulted in lower long-term unemployment rates and shorter average duration of unemployment spells.[16] Unemployment in the EC-25 peaked at 9.1% in 2004 before decreasing to 8.8% in 2005. The unemployment rate in the euro area also fell, from 8.9% in 2004 to 8.6% in 2005. Yet, new and some old Member States still experience high unemployment.

[14] European Commission (2006g).
[15] European Commission (2006g).
[16] DG Economic and Financial Affairs (2006a).

In 2005, the highest unemployment rate was recorded in Poland (17.7%), followed by Slovakia (16.3%), and Greece (9.8%). Ireland and Luxembourg recorded the lowest unemployment rates in 2005, at 4.3% and 4.5%, respectively (Table I.2). However, the Commission concluded that the EC was unlikely to attain the Lisbon and Stockholm employment targets[17], except for female employment, unless all Member States urgently pursue comprehensive labour market reforms. Reforms to enhance productivity also need to be stepped up as the growth in hourly labour productivity has slowed down in many countries since 2000, with negative rates being recorded in Italy, the Netherlands, and Portugal in 2003.[18]

10. The primary objective of the ECB is to maintain price stability in the euro area (defined as year-on-year increases in the euro area Harmonized Index of Consumer Prices (HICP), below but close to 2%).[19] Influenced by increasing energy prices, inflationary pressures intensified during most of 2005 in the EC and in the euro zone. EC-25 inflation, as measured by the HICP, rose from 2.1% in 2004 to 2.2% in 2005[20]; the highest rate of 6.9% was recorded in Latvia, and the lowest in Finland and Sweden (0.8%). Seven EC-25 countries had rates below the 2% reference value in 2005 (Table I.2).[21]

11. After the interest rate cut in mid-2003, the ECB kept its key interest rates at the historically low level of 2% during 2004 and most of 2005. It raised key interest rates to 2.25% on 6 December 2005, 2.50% on 8 March 2006, 2.75% on 15 June 2006, 3.0% on 9 August 2006, and further to 3.25% on 11 October 2006, and further to 3.5% on 7 December 2006.[22] The average long-term interest rate in the euro area was 3.4% in 2005 and 3.8% in October 2006.

12. Between 2000 and 2004, the euro appreciated significantly against major currencies, in both nominal and real effective exchange rates terms, reaching the peak in 2004. The nominal effective exchange rate appreciated by 4.1% in 2004, then depreciated by 1.4% in 2005. A similar trend was observed with the real effective exchange rate, which appreciated by 3.74% then depreciated by 1.80%. In particular, the euro appreciated against the U.S. dollar almost continuously in 2004, to US$1.2439, and to US$1.2441 in 2005 (Table I.4).[23]

13. Although some Member States made progress in improving their budgetary situation, debt ratios have remained high and long-term sustainability in the EC is not yet secured. Fiscal deficit to GDP in the EC-25 fell from 2.6% in 2004 to 2.3% in 2005, and from 2.8% to 2.4% in the euro zone. Excessive deficits were identified by the Commission in 2002 for Portugal, and in 2003 for Germany and France. Eight more countries were added in 2004: Greece and the Netherlands, as well as the Czech Republic, Cyprus, Hungary, Malta, Poland, and Slovakia after their accession.[24] In 2005, the

[17] The Lisbon and Stockholm Councils in 2000 and 2001 set a series of specific employment and social policy targets to be met by 2010.

[18] During 2000-03, hourly labour productivity and the total number of hours worked increased in the EC-15. However, at the national level, the total number of hours worked declined in Denmark, France, Germany, the Netherlands, and Sweden; it increased in Belgium, Italy, Luxembourg, and Portugal, but productivity declined (European Commission, 2005), Second Report on the Implementation of the 2003-05 BEPGs.

[19] European Central Bank (2004).

[20] In the context of a modest recovery and lingering weakness in labour markets, core inflation was expected to fall close to 1.5% over the medium term, with the ECB seeing a modest acceleration beginning in 2007. Headline inflation would still be around 2% in 2005 and moderate to 1.75% in 2006 (IMF, 2005).

[21] The Czech Republic, Denmark, Finland, France, Germany, the Netherlands, and Sweden.

[22] Key interest rates refer to those on main refinancing operations (MRO). ECB online information. Viewed at: http://www.ecb.int/stats/monetary/rates/html/index.en.html

[23] The euro effective exchange rates take into account a broad group of 42 countries (EER-42).

[24] DG Economic and Financial Affairs (2005a).

fiscal deficit to GDP ratio exceeded the 3% limit in four euro area countries (Germany, Greece, Italy, and Portugal), and in the United Kingdom and Malta; it exceeded 5% in Hungary (Table I.2).

Table I.4
Euro exchange rates, 1998-05
(Period averages)

	Effective exchange rate (EER) of the euro[a] (1999 Q1=100)				ECU or euro exchange rate[b]
	EER-23		EER-42		(U.S. dollar)
	Nominal	Real	Nominal	Real	
1998	100.7	101.0	96.7	99.3	1.1211
1999	95.9	95.9	96.5	95.8	1.0658
2000	86.1	86.0	87.9	85.8	0.9236
2001	86.7	86.8	90.4	87.0	0.8956
2002	89.2	90.4	94.8	90.9	0.9456
2003	99.9	101.7	106.6	101.6	1.1312
2004	103.8	105.9	111.0	105.4	1.2439
2005	102.9	105.2	109.5	103.5	1.2441

a The nominal and real effective exchange rate indices of the euro are based on weighted averages of bilateral euro exchange rates. The weights capture third-market effects and are based on trade in manufactured goods with the trading partners in the periods 1995-97 and 1999-01, with the indices being linked at the beginning of 1999. The EER-23 group of trading partners comprises the 13 non-euro area EC Member States; plus Australia; Canada; China; Hong Kong, China; Japan; Norway; Singapore; Republic of Korea; Switzerland; and the United States. The EER-42 includes 19 additional countries and covers about 90% of extra-euro area trade in manufactured goods. Real rates are obtained by deflating the nominal rate by consumer price indices (HICP for EC countries, CPI elsewhere). For more information, see the ECB *Monthly Bulletin*, September 2004 (Box 10), and ECB Occasional Paper No. 2.
b Until December 1998, rates for the ECU; from January 1999, rates for the euro.

Note: A positive change denotes an appreciation of the euro.

Source: ECB (2004), *Statistics Pocket Book*, May 2006. Viewed at: http://www.ecb.int/pub/pdf/stapobo/spb200605en.pdf.

14. The ratio of government debt to GDP in the EC-25 increased by one percentage point in 2004, to 63.4% in 2005, while in EC-15 it rose by 1.2 percentage points to 64.6% over the same period. In 2005, public debt remained above 60% of GDP in Austria, Belgium, Cyprus, France, Germany, Greece, Italy, Malta, and Portugal. The Commission indicates that the persistent high debt resulted from many Member States giving low priority to budgetary consolidation, notably in pension and healthcare reforms.[25] Another cause has been weak economic growth, and the ongoing transition process in the NMS-10. Several Member States (Austria, France, Germany, Italy, and Sweden) have reformed their pension systems in recent years and reduced the projected increase in future pension expenditure.[26] Nevertheless, efforts to address concerns about long-term fiscal sustainability are still required in the majority of Member States.[27]

15. The EC's Lisbon Strategy was reformulated in March 2005.[28] More focus on growth and employment, and national ownership via national action plans are the key elements to relaunch the

[25] The pressures on fiscal deficits are also associated with ageing populations. The old-age dependency ratio (persons aged 65 or above to the persons in working age 15-64) is forecast to more than double, from 25% in 2003 to over 50% in 2050. This in turn will put a heavy burden on age-related public spending, e.g. pensions, healthcare, and long-term care. The Council decided that a three-pronged strategy should be followed to address the economic and budgetary consequences of ageing: increasing employment rates, reducing public debts, and reforming pension and healthcare systems (DG Economic and Financial Affairs, 2005a).

[26] DG Economic and Financial Affairs (2006c).

[27] DG Economic and Financial Affairs (2005a).

[28] In March 2000, the Council, in Lisbon, set out a ten-year strategy to make the EC "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with

Lisbon reforms agenda. Broad economic policy guidelines (BEPGs) focus on the contribution of economic policies to the Lisbon strategy, through both sound macroeconomic policies and vigorous economic reforms.[29] The guidelines identified three main priorities for policy action: growth; labour market flexibility; and sustainable public finances. The second report on the BEPGs indicates that Member States show mixed progress in implementing the guidelines.[30] Relatively good follow-up of the country-specific recommendations has been noticed in Belgium, Denmark, Ireland, the Netherlands, Finland, and the United Kingdom, while progress is considered limited in other Members. Implementation in the NMS-10 is going in the right direction, albeit at a different pace.

16. The reforms appear to have improved the overall business environment and enhanced competition within the EC. On the other hand, reforms are considered limited in the transition to a knowledge-based economy, as demonstrated by a substantive and persistent gap between the EC and the United States. The speed of internal market integration has also slowed down, with limited progress on the transposition of internal market directives and a high level of infringement cases.

(3) TRADE PERFORMANCE AND INVESTMENT

17. EC merchandise trade and services imports grew less than the global average in 2004, while services exports grew slightly more than the world average. EC external trade growth remained moderate in nominal terms due to the marked depreciation of the U.S. dollar against the euro and partly due to the already high level of its internal trade.[31] The EC's current account turned from a surplus in 2002 (0.1% of GDP) and a balance in 2003 to a deficit in 2004 (0.1% of GDP), following its enlargement. Preliminary data show that the external current account deficit increased further, to nearly 0.9% of GDP, in 2005. The current account deficit in the euro area was equivalent to 0.3% of GDP in 2005. In percentage of GDP, Luxembourg had the largest current account surplus in 2005 (8.9%), followed by the Netherlands (6.5%), Sweden (6.1%), and Germany (4.1%). The largest deficits in the same year were registered in Malta (13.2% of GDP), followed by Latvia (12.5%), Estonia (10.9%), and Portugal (9.3%).[32] The services account surplus in the EC-25 increased slightly, from €42.7 billion in 2004 to €47.8 billion in 2005.[33] The EC is the world's biggest recipient and supplier of foreign direct investment (FDI), accounting for around half of global FDI stocks (inward and outward). It is also a net investor in the rest of the world.

(i) Trade in goods

18. The EC's merchandise trade growth was strong at the turn of the millennium. However, there was only slight growth in merchandise exports, and a small decrease in imports during 2000-03. Exports expanded by 20.3% in 2004 and 10.3% in 2005, while imports grew by 20.1% and 14.2%. The EC's trade account has been in persistent deficit, generally considered to be at a sustainable level. The deficit amounted to €75.6 billion in 2004 and €134.4 billion in 2005. The EC had a considerable trade deficit with Asian countries, while its largest trade surpluses were registered with North America.

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more and better jobs and greater social cohesion". The Lisbon Strategy sets certain broader objectives to be attained by 2010.

[29] In 2004, the BEPGs were updated to accommodate EC enlargement. In 2005, the EC adopted BEPG for 2005-08 (DG Economic and Financial Affairs, 2005b).

[30] DG Economic and Financial Affairs (2005a).

[31] WTO (2005). Trade between EC-15 Member States increased only slowly throughout the 1990s but this has been more than outweighed by strong trade growth among the EC-25.

[32] Eurostat (2006b).

[33] Eurostat News Release, *Euro-indicators*, March 2006.

19. The EC remains the world's leading trader, accounting for 18% of world merchandise trade in 2004.[34] It was the largest merchandise exporter and second largest importer, with extra-EC exports and imports of €969 billion and €1,032 billion, respectively. Individually, Germany ranks first in global merchandise exports, France fifth, the Netherlands sixth, Italy seventh, the United Kingdom eighth, and Belgium tenth. Germany is the world's second largest goods importer, France fourth, the United Kingdom fifth, Italy seventh, the Netherlands eighth, and Belgium ninth. Among the NMS-10, Poland is the largest merchandise trader, ranking 31st in world exports, followed by the Czech Republic and Hungary; Poland, the Czech Republic, and Hungary are also the three largest importers among the NMS-10.[35]

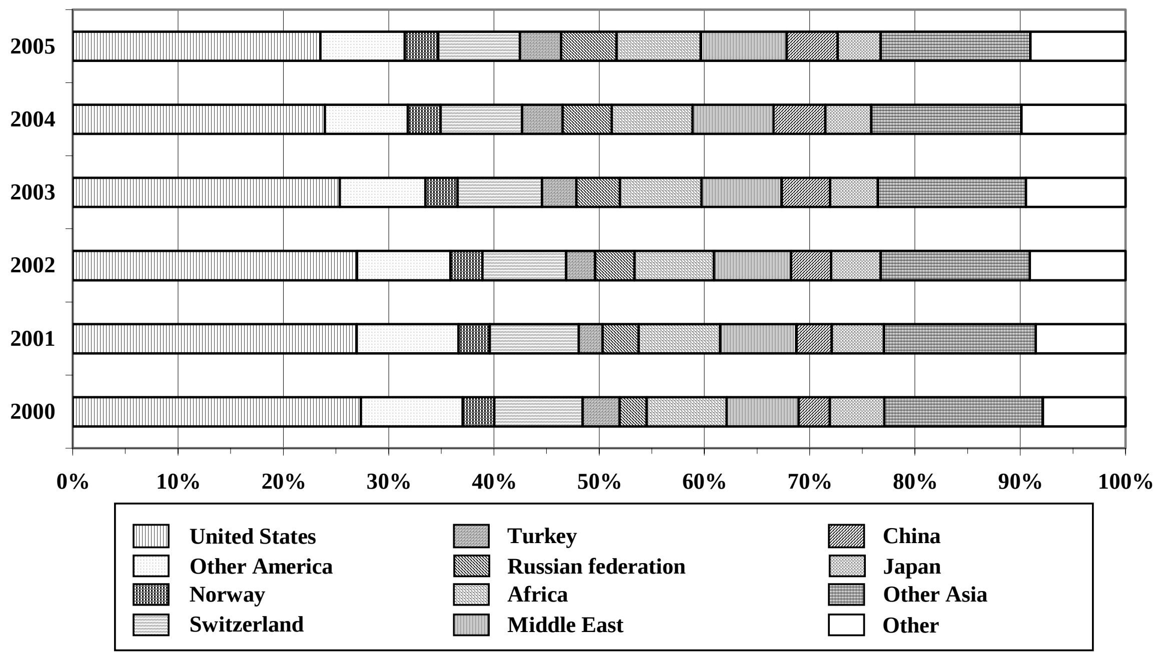
20. The United States has traditionally been the EC's most important trading partner, but its significance has declined over the years. In 2005, the share of EC-25 goods exports to the United States fell to 23.5% (down from 27.4% in 2000[36]), and its share of goods imports to 13.9% compared with 20.4% in 2000 (Chart I.1, and Tables AI.1 and AI.2). During the same period, the EC's trade surplus with the United States grew steadily to €91 billion. Switzerland is the second most important destination of EC merchandise exports (7.8% of the total in 2005), and China remains the second most important source of EC goods imports (13.4% of the total in 2005, up from 7.4% in 2000). While Japan's share in both exports and imports of goods has weakened somewhat, the importance of the Russian Federation as an EC trading partner has increased steadily. Since 2000, the EC's largest trade deficits have been with China, Russia, Japan, and Norway. By region, the main destination for exports from the EC-25 was North America with a 25.7% share in 2005, followed by Asia and other European countries. In the same year, 35% of the EC's imports were sourced from Asia, while imports from other European countries accounted for 17%. Imports from and exports to Africa and the Middle East have increased in absolute and relative terms.

21. The bulk of EC-25 merchandise exports in 2005 was machinery and transport equipment (44.4% of total exports, down from 46.6% in 2000), followed by chemical products (14.9%), and other consumer goods (9.6%) (Chart I.2 and Table AI.3). Import patterns have changed slightly in recent years, with the share of primary products rising and that of manufactured goods declining, mainly due to the rapid growth of energy product imports. In 2005, EC-25 merchandise imports consisted primarily of machinery and transport equipment (31.8% of total imports, down from 37.3% in 2000), mining (25.2%, including fuels), and other consumer goods (9.4%) (Table AI.4).

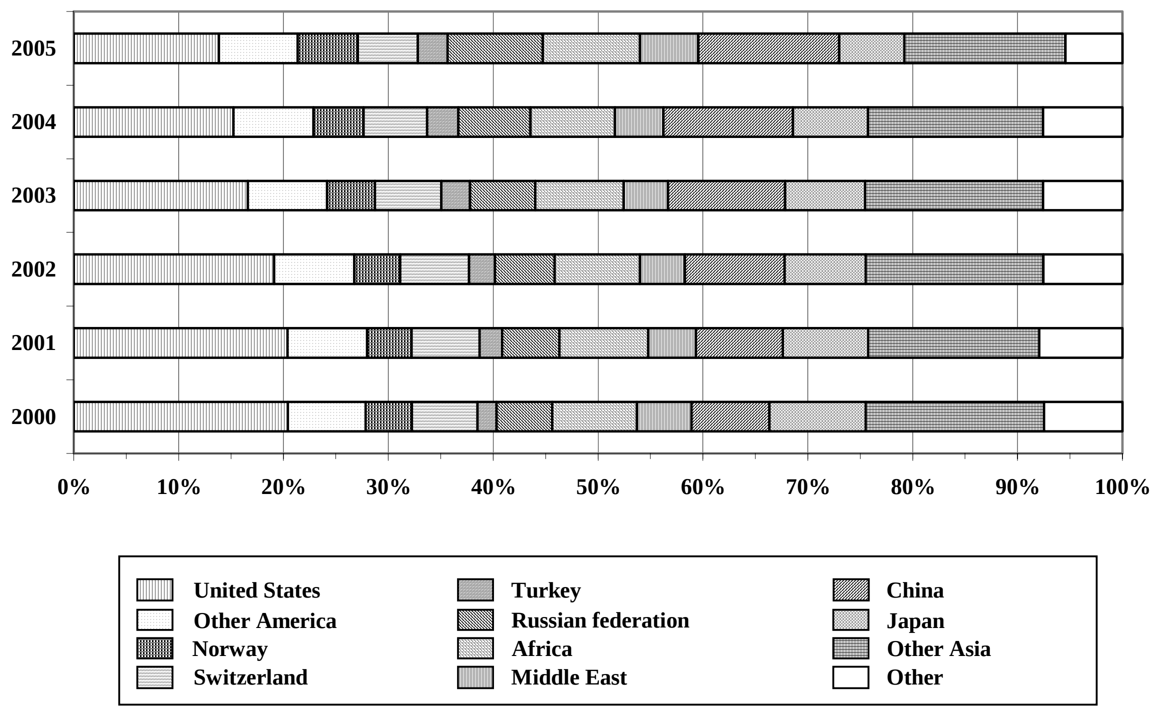
[34] The United States ranked second with 17%, followed by China (9%), Japan (8%), and Canada (4%).
[35] WTO (2005).
[36] In order to ensure comparability, trade data for 2000 in this and the following paragraph include NMS-10 extra-EC-trade.

Chart I.1
Direction of merchandise trade, 2000-05

(a) Exports



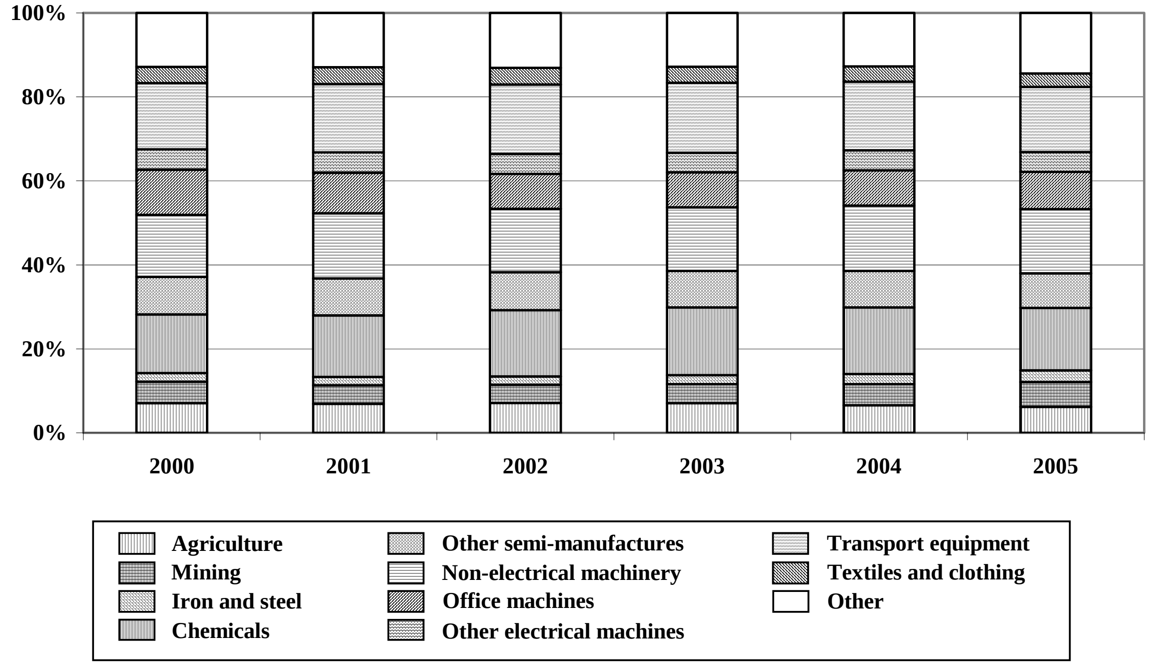
(b) Imports



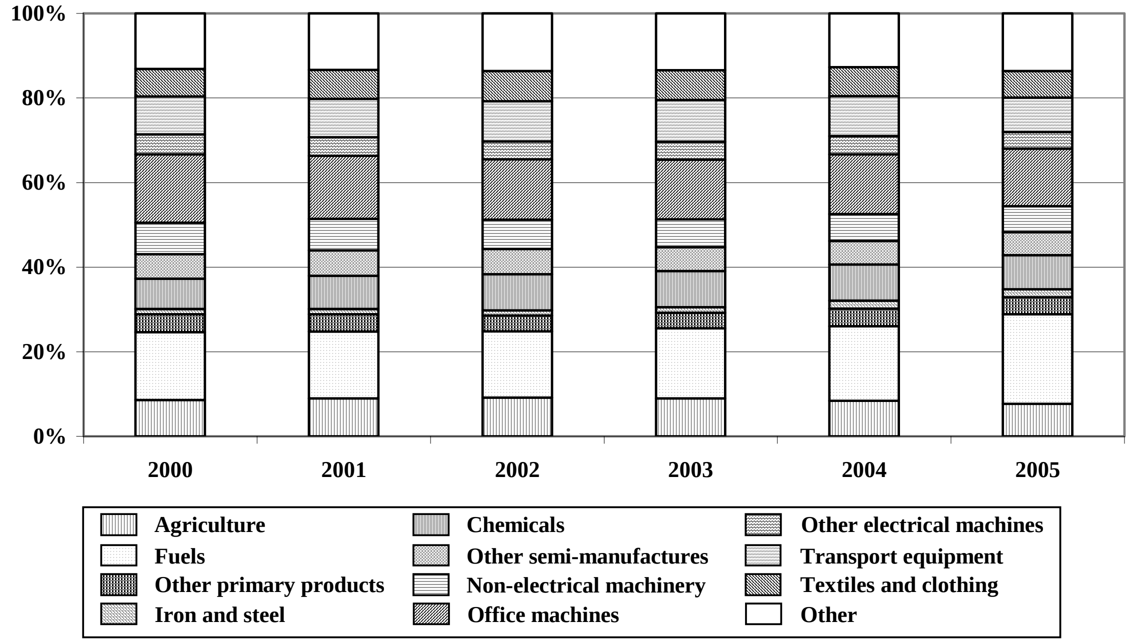
Source: WTO Secretariat calculations, based on UNSD, Comtrade database (SITC Rev.3).

Chart I.2
Structure of merchandise trade, 2000-05

(a) Exports



(b) Imports



Source: WTO Secretariat calculations, based on UNSD, Comtrade database (SITC Rev.3).

(ii) Trade in services

22. The EC-25 is the world's leading services trader; in 2004, it accounted for 27.8% of global services exports and 24.5% of imports.[37] EC-25 services exports were valued at €396,864 billion in 2005, an increase of 9.4% over 2004, and imported services were worth €349,106 billion, up by 9.1% from 2004 (Table I.5). Individually, the United Kingdom is the world's second largest exporter of services, followed by Germany and France. In terms of services imports, Germany ranks second in the world, the United Kingdom third and France fifth. Among the NMS-10, Poland is the largest trader in services (ranking 34th in the world's exports and imports in 2004), followed by Hungary and the Czech Republic.[38]

Table I.5
Trade in services, 2003-05
(€ million)

	EC-25 Exports			EC-25 Imports		
	2003	**2004**	**2005[a]**	**2003**	**2004**	**2005[a]**
Total (extra-EU)	**333,392**	**362,681**	**396,864**	**296,387**	**319,908**	**349,106**
Transportation	78,134	92,255	100,914	71,179	78,813	84,589
Sea transport	39,358	49,451	:	34,680	39,138	:
Air transport	28,495	32,047	:	25,676	28,277	:
Other transport	10,282	10,756	:	10,825	11,399	:
Travel	61,916	67,011	71,331	75,361	79,890	86,468
Other services	190,851	200,544	221,577	146,921	158,085	174,855
Communication services	..	6,298,721	6,992,206	..	6,983,032	7,456,017
Construction services	..	9,525,647	11,654,972	..	6,002,772	6,473,526
Financial services (excl. insurance)	..	25,483,473	30,975,374	..	11,115,635	14,479,876
Computer and information services	..	17,620,509	17,620,279	..	7,938,310	8,552,565
Royalties and licence fees	..	19,438,355	23,099,338	..	28,367,934	30,058,587
Other business services	..	95,479,992	109,889,136	..	77,423,670	87,645,272
Services not allocated	2,491	2,870	3,041	2,927	3,121	3,194
Main trading partners						
United States	110,596	116,284	122,103	101,109	105,110	113,070
Switzerland	43,781	43,934	48,365	33,047	34,013	35,772
Japan	16,678	18,927	19,487	10,114	10,328	11,657
Norway	11,374	12,961	..	8,390	9,164	..
China	6,843	8,786	..	4,999	7,264	..
Russian Federation	7,530	8,222	..	5,829	6,650	..
Canada	7,221	8,062	8,580	6,705	7,225	7,734
Singapore	5,884	7,257	..	4,226	4,499	..
Hong Kong , China	6,204	7,177	..	4,410	5,171	..
Australia	5,374	7,026	..	4,814	5,096	..
Korea (Republic of)	4,344	5,623	..	2,729	3,288	..
South Africa	3,795	4,223	..	3,890	3,939	..

Table I.5 (cont'd)

[37] It was followed by the United States (19.6%), Japan (7.2%), China (4.1%) and Canada (3.2%).
[38] WTO (2005).

	EC-25 Exports			EC-25 Imports		
	2003	**2004**	**2005[a]**	**2003**	**2004**	**2005[a]**
Turkey	3,202	3,875	..	8,410	9,517	..
Brazil	3,378	3,737	..	3,444	3,415	..
Mexico	3,495	3,507	..	2,974	2,725	..
India	2,842	3,433	..	3,033	3,813	..

a Provisional

.. Not available.

Source: Eurostat online information. Viewed at: http://epp.eurostat.cec.eu.int.

(iii) Foreign direct investment

23. The EC-25 is the world's largest recipient and supplier of FDI. In 2004, it accounted for 45.2% of inward FDI stock, up from 37.6% in 2000. Similarly, it accounted for 53.3% of global outward FDI stock in 2004, up from 49.5% in 2000.[39] It is a net investor in the rest of the world. In 2005, EC-25 FDI outflows and inflows were equivalent to 1.2% and 0.7% of its GDP, respectively. Between 2003 and 2005, the United Kingdom, France, and the Netherlands were the main single net investors, while most of the NMS-10 were net FDI recipients (Table I.6). Foreign direct investment inflows to the NMS-10 have been particularly vibrant, motivated both by access to expanded markets and comparative advantages.[40]

24. After a decline in 2004, FDI inflows and outflows increased strongly in 2005, by 23% and 18% respectively.[41] As a result, the EC-25's net FDI increased from €20.1 billion in 2003 to €82.8 billion in 2005 (Table I.6).

Table I.6
FDI inflows and outflows, 2003-05
(€ million)

	2003		2004		2005[a]	
	Outward flows	**Inward flows**	**Outward flows**	**Inward flows**	**Outward flows**	**Inward flows**
EC-25	**135,512**	**115,366**	**128,935**	**56,854**	**152,541**	**69,789**
Austria	916	2,268	3,019	516	3,827	855
Belgium	..	..	2,768	8,985	9,562	8,598
Cyprus	124	203	216	..	183	417
Czech Republic	-16	1,051	583	779	519	522
Denmark	-1,778	-1,666	..	..	1,605	1,774
Estonia	22	116	24	157	175	29
Finland	-1,715	741	644	223	-2,247	464
France	14,562	10,646	2,376	990	19,381	12,526
Germany	2,085	6,928	-1,033	553	11,293	2,431
Greece	..	..	192	154	674	51
Hungary	950	-687	303	1,631	697	482

Table I.6 (cont'd)

[39] UNCTAD (2005).
[40] European Commission (2006g).
[41] The 2004 downturn could partly be explained by a change in the system of compilation of balance-of-payments statistics introduced in April 2003 (UNCTAD, 2005).

	2003		2004		2005[a]	
	Outward flows	Inward flows	Outward flows	Inward flows	Outward flows	Inward flows
Ireland	1,120	-1,270	5,987	-11,977	1,930	-4,652
Italy	2,030	1,273	519	2,485	6,067	1,616
Latvia	23	119	72	167	75	238
Lithuania	19	81	33	169	143	245
Luxembourg	31,034	36,764	6,857	20,236	16,034	13,955
Malta	..	..	..	..	..	..
Netherlands	20,114	-1,119	5,556	-6,511	10,029	6,109
Poland	101	1,064	297	552	376	1,450
Portugal	4,179	5,803	1,049	2,163	-742	-447
Slovakia	..	25	1	25	65	280
Slovenia	99	618	120	62	464	-48
Spain	6,717	7,174	11,633	2,151	10,523	2,882
Sweden	..	..	6,115	4,688	15,644	10,697
United Kingdom	41,097	6,895	59,227	8,704	55,516	16,939

a Provisional

.. Not available.

Source: Eurostat online information. Viewed at: http://epp.eurostat.cec.eu.int.

(4) OUTLOOK

25. In November 2006, the Commission's forecasts indicated an increase in the 2006 GDP growth rate to 2.8% in the EC-25 and 2.6% in the euro area, up from 1.7% and 1.4% in 2005.[42] However, economic growth is expected to decline slightly to 2.4% in 2007 and 2008 in the EC-25, and to 2.1% and 2.2% in the euro area.[43] Overall, recovery in the EC since the downturn in 2001-03 will be underpinned by the strengthening of domestic demand, notably an increase in investment in equipment and private consumption. External demand will also be spurred by the expansion of the world economy, with world output growth expected at more than 5% in 2006, while global growth is set to ease somewhat in 2007-08.

26. According to the Commission's autumn forecast, the EC-25's unemployment rate is to reach 8.0% in 2006, before edging downwards to 7.6% in 2007 and 7.3% in 2008. Expected unemployment rates in the euro area are 8.0% in 2006, 7.7% in 2007, and 7.4% in 2008. Employment growth is expected to reach 1.4% in 2006, generating some 1.9 million new jobs in the EC-25, and should remain robust at a yearly rate of close to 1% in 2007 and 2008. The Commission predicts price stability in the EC-25, with gradually declining inflation rates; it anticipates a 2.3% HICP inflation rate in 2006, 2.3% in 2007, and 2.0% in 2008. Inflation rates in the euro area are forecast to be slightly lower, at 2.2% in 2006, 2.1% in 2007, and 1.9% in 2008.

27. Upside and downside risks to the short-term growth outlook for the EC-25 and euro area in the Commission's forecast seem to be fairly balanced. In particular, the importance of external factors

[42] DG Economic and Financial Affairs (2006b).

[43] The expected slowdown in 2007 has to be seen in the context of slower global GDP growth and the planned budgetary operations in Germany, which will increase the standard VAT by 3 percentage points on 1 January 2007. The latter could bring forward substantial household consumption and housing investment from 2007 to 2006 (DG Economic and Financial Affairs, 2006b).

clearly increases over time. In 2006, the risks appear slightly tilted to the upside, as the forecast may underestimate the current momentum of growth, both inside the EC and in the rest of the world. In 2007, the risks are more skewed to the downside.[44]

[44] DG Economic and Financial Affairs (2006b).

II. TRADE AND INVESTMENT REGIMES

(1) INSTITUTIONAL FRAMEWORK

1. There have been no substantive changes to the institutional framework of the European Communities in the period under review.[1] The main decision-making bodies remain: the Council of the European Union (commonly called the Council)[2], the European Parliament (EP), and the Commission of the European Communities (commonly called the European Commission). The Commission is the executive body of the EC and in this capacity, proposes legislation to Parliament and the Council; manages and implements EC policies and budget; enforces EC law (together with the Court of Justice); and represents the EC in negotiations on trade and cooperation agreements. The Council passes EC laws; approves the EC's budget (jointly with Parliament); takes decisions concerning common foreign and security policy; adopts measures on police and judicial cooperation in criminal matters; coordinates broad economic policies among Member States; and concludes international agreements to which the EC is a party. Meanwhile, Parliament exercises supervision over all EC institutions, and shares (with the Council) the power to legislate and approve the EC budget.[3]

2. These three institutions are complemented by the European Court of Justice; the European Ombudsman, and the European Court of Auditors. The Court of Justice adjudicates on issues under EC law. It settles legal disputes between Member States, institutions, businesses, and individuals, and gives rulings on cases brought before it. Most of the cases fall into one of four classes: references for a preliminary ruling; actions for failure to fulfil an obligation; actions for annulment; and actions for failure to act. The Ombudsman receives complaints from EC citizens, or from natural or legal persons residing or having their legal domicile in a Member State, and helps uncover maladministration in EC institutions and bodies. The Ombudsman carries out investigations following a complaint or on his own initiative, independently and impartially. The Court of Auditors ensures the reliability of the revenue and expenditure accounts of the EC, and the legality and regularity of the underlying transactions; it reports annually to Parliament and the Council.[4] To carry out its tasks, the Court investigates the paperwork of any person or organization handling EC income or expenditure and carries out on-the-spot checks. The Court presents any problems to the Commission and member governments through reports. Other key functions are annual audit reports, and opinions on proposals for EC financial legislation and for EC action to fight fraud.

3. The financial bodies of the EC are the European Central Bank and the European Investment Bank. For the twelve EC members that have introduced the euro, the Central Bank frames and implements the monetary policy, conducts foreign exchange operations, and manages the payment

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[1] Under the Treaty on the European Union (the Maastricht Treaty, OJ C 325, 24.12.2002), the EU is based on three main pillars. The first pillar continues integration under the Treaties establishing the European Community (OJ C 325, 24.12.2002); it also deals with matters formerly covered by the European Coal and Steel Community (23 July 1952-23 July 2002), and the European Atomic Energy Community. It addresses: citizenship of the European Union; freedom of movement; and the Economic and Monetary Union. The second and third pillars of integration, introduced by the EU Treaty in 1993, address foreign and security policies, and justice and home affairs, respectively. The Treaty of Nice (OJ C80 of 10.03.2001), which entered into force on 1 February 2003, geared the workings of the European institutions to the arrival of new members.

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

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

[4] Articles 246-248, Treaty establishing the European Community. Viewed at: http://www.eca.europa.eu
/eca/treaty/docs/disp_cdc_en.pdf.

system. The Investment Bank lends money for projects of European interest, such as rail and road links, airports or environmental schemes. It also provides credit for investment by small businesses.

4. The EC has two advisory bodies, the Committee of Regions (CoR) and the European Economic and Social Committee (EESC). The CoR is composed of representatives of Europe's regional and local authorities and must be consulted before decisions are taken on matters concerning regional policy, the environment, education, and transport. The EESC represents interests and views of organized civil society vis-à-vis the functions of the Commission, the Council, and the European Parliament. It consists of employers, trade unions, farmers, consumers, and other interest groups. The role of the office of the European Data Protection Supervisor is to make sure that all institutions and bodies respect people's right to privacy when processing personal data. Also, there are three inter-institutional bodies, the Office for Official Publications, which is responsible for producing and distributing all official EC publications; the EC Personnel Selection Office, responsible for recruiting staff to work in EC institutions; and the European Administrative School which provides training in specific areas for members of EC staff.

5. A number of specialized and decentralized EC agencies have been established to support EC Member States and their citizens. These agencies are designed to cope with new tasks of a legal, technical and/or scientific nature. As of June 2006, there were 25 such agencies and an additional seven were under preparation.[5] The agencies are grouped into four different categories: Community agencies[6]; Common foreign and security policy agencies; police and judicial cooperation against organized international crime; and executive agencies[7], set up for a fixed period and located at the seat of the EC.

6. Institutional changes were expected to take place with the adoption of the Constitutional Treaty of the EC, prepared by the Convention on the Future of Europe.[8] The draft Constitution was proposed to clarify the roles and functions of the various European institutions, and to amend the basic institutional structure with a view to streamlining and simplifying decision-making. However, following the rejection of the Constitution by two members (France and the Netherlands), these changes are on hold; EC Members are carrying out additional negotiations.

(2) POLICY FORMULATION AND IMPLEMENTATION

7. The EC's trade policy is formulated and implemented by two kinds of legislation. Under primary legislation, i.e. treaties and other agreements of similar status, the EC concludes and implements international agreements including the Common Commercial Policy (CCP), which covers trade in goods[9], all aspects of trade in services, and commercial aspects of intellectual property as

[5] These include: Community Fisheries Control Agency (CFCA); European Chemicals Agency (ECHA); European Fundamental Rights Agency (EFRA); European GNSS Supervisory Authority (EGSA); European Police College (CEPOL); Education, Audiovisual and Culture Executive Agency; and Executive Agency for the Public Health Programme.

[6] A Community agency is a body governed by European public law and is distinct from the Community institutions. It is set up by an act of secondary legislation so as to accomplish a specific technical, scientific or managerial task in the framework of the EC's first pillar.

[7] These organizations are established in accordance with Council Regulation (EC) No. 58/2003 (OJ L 11, 16.1.2003) and are entrusted with certain tasks relating to the management of Community programmes.

[8] The Convention comporised 105 representatives of national governments and parliaments from Member States and candidate countries, the European Parliament, and the European Commission. Consultations were also held with civil society.

[9] The exclusive competence of the Community in trade in goods has been made clear in a series of judgements by the European Court of Justice. For instance, in Opinion 1/75, [1975] ECR 1355, on the

extended under the Nice Treaty. Within the internal market, goods, services, labour and capital are, in principle, allowed to move freely.[10] The secondary legislation, comprises: regulations (with general application) that are binding and directly applicable in all Member States; directives (requiring transposition into national law and practice); decisions (binding upon their addressees); and recommendations and opinions based on the treaties, but with no binding force.

8. Various institutions are involved in decision-making, in particular the European Commission, the Parliament and the Council. New legislation is proposed by the Commission and, depending on the type of Act and the issue, the final decision is taken by the Council often acting with the Parliament, and may involve the financial and advisory bodies. In addition, the Commission oversees the implementation of Community acts both at the Community level and at Member State level. The Council can amend proposed acts before adopting them, in some cases, with Parliamentary approval. Whereas Parliament makes most decisions by absolute majority of the votes cast, most Council decisions are taken by qualified majority vote (QMV).[11] The exception relates to sensitive areas, for instance taxation, where adoption of a decision requires unanimity. Alternatively, the Council or Parliament may delegate powers to the Commission to take decisions, assisted by a committee composed of representatives from Member States (comitology)[12] operating under the advisory, management, regulatory, or safeguard procedure.[13] The Commission used comitology procedures in 2,625 cases in 2004 and 2,654 in 2005. The comitology agenda for 2006 is expected to address issues relating to packaging waste, food contact materials, GMOs, and pesticides. The use of comitology procedures is expected to increase in the future.[14]

9. Three decision-making processes are used: co-decision, assent or consultation. The co-decision procedure is used for most EC law-making. Under this procedure, Parliament shares legislative power equally with the Council. However, if the two institutions cannot agree on the proposed legislation, it is put before a conciliation committee composed of equal numbers of representatives from the two institutions. After the committee reaches an agreement, the text is sent back to Parliament and the Council so that they can adopt it as law. This procedure covers issues affecting the internal market such as free movement of workers, customs cooperation, services, education, health, trans-European networks, right of establishment, environment, culture, and research. Under the assent procedure, the Council has to obtain Parliament's assent before certain

Understanding of Local Cost Standard, the Court ruled that the Common Commercial Policy was conceived in the Treaty "in the context of the operation of the common market, for the defence of common interests of the Community", and that any claim of concurrent power on the part of Member States would entail the risk of "compromising the effective defence" of those interests.

[10] Other issues partially covered by the CCP include: indirect taxation, standards and other technical regulations, community patents, and enforcement of intellectual property rights. However, non-harmonization of all trade-related policy measures in these areas, and implementation challenges for harmonized legislation, hinder trade amongst Member States.

[11] Areas requiring QMV include: changes in tariff rates; conclusion of tariff and trade agreements (on goods and services) and commercial aspects of intellectual property (with some exceptions for services and intellectual property); achievement of uniformity in liberalization measures; export policy; and trade defence measures such as anti-dumping and countervailing duties.

[12] See http://www.eurim.org/EURGUIDE.html#Diff_kinds. The role of the committee, meeting behind closed doors and without publishing minutes, has long been a bone of contention between the Parliament, the Commission and the Council. According to critics, this procedure is opaque and fails to provide stakeholders with current information.

[13] The committee considers the draft of the measures to be taken and delivers its opinion by majority as laid down in Article 205(2) of the Treaty (See Council Decision 1999/468/EC, 28 June 1999).

[14] To address the comitology shortcomings, the Commission has proposed to launch a European Transparency Initiative to strengthen ethics rules for EC policy-makers, some 15,000 lobbyists, NGOs, and other pressure groups. A Green Paper is expected in 2006 to officially kick-start the public debate.

decisions are taken. The procedure is the same as that of consultation, except that Parliament cannot amend a proposal; it must either accept or reject it. Acceptance requires an absolute majority of the votes cast. The procedure is applicable to decisions concerning accession of new Member States, association agreements, other "fundamental" agreements with third countries, and structural and cohesion funds. Under the consultation procedure, Council consults Parliament as well as the EESC and the CoR before the Act is adopted. Parliament may approve the proposal; reject it; or request amendments.[15] However, the Council is not bound by Parliament's position.

10. The Commission must have prior authorization from the Council before it commences negotiations on international agreements.[16] Moreover, Parliament must give its assent for the conclusion of agreements that are beyond the scope of the CCP, including Association and Cooperation Agreements. Other agreements requiring approval, also by the Member States individually, are those that go beyond the Community's internal powers as conferred by the Treaty of Nice, or what is necessary for the achievement of Community objectives.[17] With an enlarged EU, the approval requirements of both the Community and Member States could delay the conclusion of such agreements. Enlargement has also sparked debate over how big the EC should be.[18] There has been a call for most decisions to be taken by qualified majority voting (QVM). In 1999, the Commission introduced a structured dialogue with civil society with a view to making its trade policy formulation more transparent and participative. Organizations involved include business associations, chambers of commerce, trade unions, and other NGOs.

11. The Commission uses trade sustainability impact assessments (Trade SIAs) to analyse the economic, environmental, and social impact of trade agreements, both in the EC itself and in its trading partners.[19] As a result of Trade SIAs (carried out by independent consultants with a wide consultation process), complementary policy measures may be proposed to enhance the positive impacts and to minimize any possible negative effects of the agreement under negotiation. The initial work on methodology was applied to the Doha Round negotiations, and later to regional and bilateral negotiations, including those with Chile, the Mediterranean countries, MERCOSUR, ACP and GCC countries. The Commission indicates that new Trade SIAs are being prepared for the agreements with China and Ukraine.

(3) TRADE POLICY OBJECTIVES

12. The EC Treaty establishes the overall objectives of its trade policy. Under Article 131 of the Treaty of Nice, the EC common policy aims to "contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers"; Article 133 sets out the scope, instruments and decision-making procedures. This objective underscores the general aims of the Treaty, i.e. "to promote, throughout the Community, a harmonious, balanced and sustainable development of economic activities, a high

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[15] If Parliament suggests amendments, the Commission must consider all the changes; if it accepts the suggestions it sends an amended proposal to the Council. The Council examines the amended proposal and either adopts it or amends it further; if it decides to amend the proposal, it must do so unanimously.

[16] The negotiations are conducted under directives from the Council, and in consultation with a special committee appointed by the Council in accordance with Article 133 (3) of the EC Treaty. This special committee (sometimes referred to as the 133 committee) consists of experts from Member States and functions as a permanent regulator to the Commission (OJ C 325, 24 December 2002).

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

[18] Economist Intelligence Unit (2005).

[19] For additional information, see http://ec.europa.eu/comm/trade/issues/global/sia/index_en.htm.

level of employment and social protection, equality between men and women, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States".[20]

13. More particularly, the EC's trade policy seeks to contribute to sustainable development by integrating more countries in world trade.[21] It aims to promote European interests (in open markets and clear regulatory frameworks), and defend values on democracy, rule of law, environment, social rights, public services, cultural diversity, and food security. It seeks to open world markets through progressive abolition or lowering of obstacles to international trade. In addition, the policy is aimed at harnessing globalization by agreeing on a set of rules to regulate markets, and ensuring compatibility of trade opening with other societal values.[22] This will be achieved at the multilateral level in the framework of the WTO, through which the EC prioritizes the liberalization of its trade regime; through bilateral agreements[23], and specific trade policies with third countries and regional areas; and through unilateral measures in the interests of development or political stability in line with its political priorities.[24]

14. Through its Internal Market Strategy 2003-06, the EC seeks to improve the free movement of goods, services, capital, and labour within the Community, via a wide range of regulatory measures and actions. The regulatory measures cover: indirect taxation, mutual recognition, standardization, harmonization of national rules governing unfair commercial practices, air traffic control management, railways, procedures for the elimination of double taxation, public procurement, Community patent, enforcement of intellectual property rights, and corporate governance.[25] In addition, the Commission seeks to ensure that these measures are transposed into national law on time and properly applied. According to the Internal Market Scoreboard of 21 February 2006, on average, only 1.6% of directives for which the implementation deadline had passed had not been written into national law. This is close to the 1.5% interim target agreed by Heads of State.[26] The EC also seeks to give businesses and citizens a quick and effective means of redress through the SOLVIT network.[27]

15. In spite of its achievements, the internal market faces a number of challenges. In particular, it is not a reality in all areas: for example, markets are still fragmented in retail financial services, public procurement, transport, energy, and telecommunication.[28] In addition, further action is necessary to enable small and medium-sized enterprises (SMEs) and consumers to trade or purchase

[20] Treaty of Nice, Article 2.

[21] The EC's renewed sustainable development strategy, formulated in June 2006, includes the operational target to "promote sustainable development in the context of the WTO negotiations". For more information, see http://register.consilium.europa.eu/pdf/en/06/st10/st10117.en06.pdf [13 October 2006].

[22] See Presentation, "The European Union Trade Policy", May 2005. Viewed at: http:// ec.europa.eu/ comm/trade/gentools/ourwork.ppt.

[23] The rationale for EU bilateral agreements includes: trade expansion and rules making ("WTO +"); fostering development; promoting regional development; and neighbourhood policy.

[24] For example, the EU implements the Generalized System of Preferences (GSP); the Everything But Arms Initiative (EBA); and asymmetrical preferences, e.g. for the Balkans and Moldova, with the aim of ensuring peace, stability, freedom and economic prosperity in the region.

[25] COM (2003) 238 final.

[26] Internal Market Scoreboard. Viewed at: http://ec.europa.eu/internal_market/score/index_en.htm [December 2005].

[27] SOLVIT is an online problem solving network in which Member States work together to solve, without legal proceedings, problems caused by the misapplication of Internal Market law by public authorities.

[28] Copenhagen Economics (2005); European Commission (2005h); and McKinsey Germany (2005). The Commission is also conducting a mid-term review of the White Paper on the European transport sector and conducted extensive consultations at the end of 2005.

across borders easily. Public consultations, aimed at stimulating a public debate on the future of internal market policy, ended on 15 June 2006. They resulted in an initial assessment of where the internal market stands and possible directions for future policy.[29]

(4) TRADE REGULATIONS AND BUSINESS ENVIRONMENT

16. The basis for enterprise policy is Article 157 of the EC Treaty. It is shaped by work in three key areas: SMEs; innovation; and competitiveness, including single market opportunities and benefits. The policy on SMEs is geared towards creating a more coherent, pragmatic and horizontal framework for enterprises.[30] It proposes action in five key areas: promoting entrepreneurship and skills; improving SMEs' access to markets; cutting red tape by simplifying the regulatory and administrative constraints on SMEs; improving SMEs growth potential; and strengthening dialogue and consultation with SME stakeholders.

17. The focus is to encourage and facilitate the creation of new businesses; foster the growth and innovation capability of all businesses by establishing a dynamic enterprise environment; and ensure that businesses have effective access to markets for their goods and services. The EC uses various policy instruments to achieve these objectives, including seminars, conferences and peer reviews through the BEST procedure. Financing for enterprise policy is from various community sources but mainly the 2001-06 Multi-annual Programme on Enterprise and Entrepreneurship, whereas innovation-related activities are largely supported by the Innovation Programme. Other sources are the Structural Funds and the European Investment Bank. The EC has also created several business support networks to help businesses gain a better understanding of European issues.[31]

18. A competitiveness and innovation framework programme, proposed for the period 2007-13, is intended to encourage use of information technologies, environmental technologies, and renewable energy sources.[32] In June 2005, the Commission set out a five-year strategic framework for the information society, i2010 – a European Information Society for growth and employment. This strategy aims to boost the digital economy within the EC. It addresses the issues of the appropriate legal framework for electronic communications and audiovisual contents, the priorities for research spending on ICT, and the promotion of these new technologies and services.

19. All restrictions on the movement of goods and capital, as well as on the provision of services between Member States, and between Member States and third countries, are prohibited under Chapter 4 of the EC Treaty, subject to a few exceptions. Thus, where movements of capital to or from third countries causes, or threaten to cause, serious difficulties for the operation of the economic and monetary union, the Council may take safeguard measures for a period not exceeding six months. In addition, Member States can take measures to prevent infringements of national laws and regulations (for prudential supervision of financial institutions); lay down procedures for the declaration of capital movements on grounds of administrative or statistical information; and take justifiable measures on grounds of public policy or security. Other restrictions apply to direct investment in real estate, provision of financial services, and capital markets (admissions of

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[29] Consultation on future Internal Market Policy. Viewed at: http://ec.europa.eu/internal_market/strategy/docs/consultation_en.pdf.

[30] COM(2005) 551. Also see Commission Recommendation 2003/361/EC of 6 May 2003 *Official Journal* L124 of 20.05.2003).

[31] These include the Business to Europe (B2Europe) initiative under which various networks interact. Examples include the Euro Info Centre; Innovation Relay Centres; and the network of Organizations for Promotion of Energy Technologies. The EU cooperates with its partners on industrial policy by establishing different forms of exchange, including industrial roundtables and industrial cooperation.

[32] COM(2005) 121 final.

securities).[33] Moreover, Member States may apply relevant provisions of their tax law that distinguish between taxpayers with regard to their place of residence or the place where their capital is invested, provided that this does not lead to arbitrary discrimination or disguised restrictions.

20. The Treaty also prohibits restrictions on the freedom of establishment including setting-up of agencies, branches or subsidiaries. This freedom includes the right to take up and pursue self-employed activities, and to set up and manage undertakings, in accordance with national laws. However, derogations may be evoked with respect to provisions on special treatment of foreign nationals on grounds of public policy, public security or public health.[34] This freedom extends to companies or firms established in a member State and having their registered office, central administration or principal place of business within the Community.[35] The Statute for a European Company (adopted in 2001) entered into force on 8 October 2004.[36] Under this Statute, companies operating in more than one member State may establish themselves as a single company called an SE (abbreviation for Societas Europaea). SEs operate throughout the EC under one set of rules and a unified management and reporting system. In October 2006, around 40 companies had been converted or were in the process of transformation into SEs. The regulation is complemented by the Council Directive supplementing the Statute for a European Company with regard to the involvement of employees.[37] The directive establishes rules on worker involvement in the management of SE.[38]

21. In addition, Directive 2005/56/EC of 26 October 2005 proposes a simplified legislative framework for cross-border mergers of limited liability companies with a view to facilitating such mergers.[39] It is designed to identify the legislation applicable in the event of a merger into one of the merging companies. Once the new entity has been set up, a single body of national legislation applies: that of the Member State in which the entity has established its registered office. Nevertheless, Member States may decide not to apply the Directive to cross-border mergers involving a cooperative society even in cases where the latter would fall within the definition of "limited liability company". Moreover, companies that collectively invest capital provided by the public (UCITS) are excluded from the scope of the Directive.

22. Likewise, Directive 2004/25/EC of 21 April 2004 establishes minimum guidelines for the conduct of takeover bids for the securities of companies governed by the laws of Member States, where all or some of those securities are tradeable on a regulated market. It seeks to provide an adequate level of protection for holders of securities throughout the Community, by establishing a framework of common principles and general requirements to be implemented by Member States no later than two years after its entry into force. As from 2005, listed companies are required to use international accounting standards.[40] This is expected to bring transparency and greater comparability between the consolidated financial statements of EC listed companies, provide investors with adequate information, and lead to better capital allocation within the EC.

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[33] Treaty Establishing the EC, Articles 56-60.

[34] Articles 43-48 of the Treaty Establishing the EC.

[35] For additional information on EU Companies laws, see http://europa.eu/scadplus/leg/en/s09000.htm.

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

[37] *Official Journal* L 294, 10 November 2001, pp. 22-32.

[38] Also, Council Regulation, (EC) No 1435/2003 of 22 July 2003, on the Statute for a European Cooperative Society (SCE), allows creation of a Societas Cooperativa Europaea, SCE).

[39] *Official Journal* L 310 of 25.11.2005, p. 1.

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

23. In line with the action plan on "Modernising Company Law and Enhancing Corporate Governance in the EC" (adopted in May 2003)[41], an expert advisory group was set up on 28 April 2005 to provide technical advice on preparing measures on corporate governance and company law. The group comprises non-governmental experts from various professional backgrounds (e.g. issuers, investors, employees' representatives, academics, regulated professions) with particular experience and knowledge of the subject. The group's advice will supplement public consultations on Commission initiatives.[42] Additionally, on 14 March 2006, Parliament voted on the Commission's proposal for a Directive (IP/04/1334) to make it easier for public limited liability companies to take certain measures affecting the size, structure and ownership of their capital. The proposed Directive amends the parts of the 1976 Second Company Law Directive covering the formation, maintenance and alteration of capital, and is expected to enable companies to react more promptly and efficiently to market developments while maintaining the protection offered to shareholders and creditors.[43]

24. EC Member States were required to ensure that national implementing legislation for the Parent-Subsidiary Directive (Council Directive 90/435/EEC, 2003/123/EC) was in force by 1 January 2005. Similarly, Member States were under an obligation to implement some of the 2005 amendments to the Merger Directive (Council Directive 90/434/EEC) by 1 January 2006, and the remainder by 1 January 2007. The main purpose of the amendments to the Parent-Subsidiary and Merger Directives is to broaden their scope to new types of operations and payments, and thereby remove some of the remaining tax obstacles to cross-border business organization and restructuring in the internal market. As regards the Interest and Royalties Directive (Council Directive 2003/49/EC), a survey published in June 2006 provides a comprehensive overview of the state of its implementation in 20 Member States.[44] The survey also covers the application of Article 15(2) of the Agreement on tax matters, signed on 26 October 2004 between the EC and the Swiss Confederation (OJ L385 of 29 December 2004), applicable since 1 July 2005.

(5) TRADE AGREEMENTS AND ARRANGEMENTS

(i) Overview

25. During the period under review, the EC continued with its enlargement process. Bulgaria and Romania are set to join the EC in 2007, and accession negotiations were commenced with Croatia and Turkey. The EC also maintained its status as one of the most active participants in the WTO and a strong driving force behind the Doha Development Agenda (DDA) negotiations. In addition, the EC continued to build upon its extensive network of preferential trade areas (PTAs) with both developed

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[41] The initiatives considered to be the most urgent relate to: the need for listed companies to include in their annual documents, a coherent and descriptive statement covering the key elements of their corporate governance structures and practices; the need for the development of a legislative framework aimed at helping shareholders to exercise various rights (including cross-border voting rights); a recommendation aimed at promoting the role of (independent) non-executive or supervisory directors, and another on directors' remuneration; the creation of a European corporate governance forum to help encourage coordination and convergence of national codes, and of the way they are enforced and monitored.

[42] EC Press Release "Corporate Governance: new group to advise the Commission on strengthening shareholders' rights and modernising company law". Viewed at: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/05/500&format=HTML&aged=0&language=en&guiLanguage=en.

[43] The proposed Directive and a working document were viewed at: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/312&format=HTML&aged=0&language=EN&guiLanguage=fr.

[44] Survey on the Implementation of the EC Interest and Royalty Directive. Viewed at: http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/survey_IR_dir.pdf.
Five Member States (Greece, Latvia, Lithuania, Poland, and Portugal), which enjoy a transitional derogation, were excluded from the survey.

and developing countries. The EC considers its preferential trade agreements as part of a wider policy of promoting multilateralism. Thus, a significant number of its negotiations are with, or encourage creation of, regional groupings. In its view, the economies of its preferential partners are too small to negotiate on their own, and usually trade more with Europe than their neighbouring countries. Examples of EC negotiations with regional bodies include the MERCOSUR; the Gulf States; Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) countries; and the Euro-Mediterranean free-trade area. As a result of its numerous preferential agreements and its GSP scheme, the EC's entirely MFN regime applies to only nine WTO Members (Australia; Canada; Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; Hong Kong, China; Japan; Republic of Korea; New Zealand; Singapore; and the United States); these nine WTO Members accounted for some 30% of the EC's total imports in 2005.

26. Some of the EC's reciprocal preferential arrangements consist of both bilateral and multilateral aspects, and in almost all cases, liberalization is asymmetrical, with the EC's partners liberalizing at a slower pace than the EC, and over different transition periods (to reflect country and regional needs). Since it last TPR in 2004, the EC has reviewed some of its arrangements, especially the GSP scheme and its arrangement with ACP countries under the Cotonou Agreement. In most cases, these reviews led to enhanced liberalization of trade in non-agricultural goods, agricultural goods, and in some cases, trade in services. In addition, the preferential arrangements cover: harmonization of technical requirements and standards; protection of intellectual property rights; liberalization of investment and capital flows; cooperation on competition policies; government procurement; trade defence instruments; and dispute settlement. All of its negotiations take into account environmental and social considerations through sustainability impact assessments. In addition, many of the preferential agreements contain provisions on political and cultural cooperation.

27. The EC recently announced its intention to launch new preferential trade negotiations. It indicated that key economic criteria for new PTA partners included market potential and the level of protection against its export interests. Based on these criteria, the current priorities are ASEAN, the Republic of Korea, India and MERCOSUR (with which negotiations are ongoing).[45]

(ii) WTO

(a) Doha Development Agenda Negotiations

28. The EC is a key player in the WTO and one of the main drivers behind the Doha round negotiations. Together with some of its Member States, it contributes to the DDA Global Trust Fund and financed/co-financed other specific activities under the DDA. The EC also co-funded the WTO Public Forum 2006.

29. During the period under review, the EC has focused on: better market access for non-agricultural goods and services, across the board, on the basis of a non-linear formula that will cut the highest tariffs most and offer flexibility for developing countries; liberalization of agriculture according to the July 2004 Framework Agreement; a fair, predictable, and transparent rules-based system to govern world trade and investment; incorporation of the development priorities of its trading partners in the negotiations; provision of trade-related assistance to developing countries to enable them to participate in the negotiations, implement DDA conclusions, and build their trade capacity.[46] The EC is also encouraging developed countries and those developing countries in a

[45] European Commission (2006d).

[46] In response to the challenges of the DDA, the EC developed a strategy for trade-related assistance that is highlighted in a Communication entitled "Trade and Development; assisting developing countries to benefit from trade" (18/09/02). The Communication was endorsed by the Council on 19/11/02.

position to do so, to provide duty-free and quota-free (DFQF) access to products originating in LDCs. The EC supports key elements of sustainable development (environment protection, liberalization of trade in environmental goods, social development, and consumer concerns). Thus, it called for comprehensive and balanced negotiations, and tabled proposals in several areas.

30. In agriculture, the EC offered, in October 2005, to eliminate all trade-distorting export practices by 2013, including export subsidies; and to increase market access and decrease domestic support. It recommended that developed countries cut tariffs by between 35% and 60%, depending on the level of the tariffs, while developing countries cut tariffs by two thirds of the rates set for developed countries. The EC also called for an extension of the possibilities to protect agricultural products through a system of geographical indications and so improve the possibilities for consumers to choose quality agricultural products.

31. On non-agricultural goods, the EC's objectives are threefold: cutting tariff peaks and high tariffs; flexibility for developing countries; and a so-called "round for free" for LDCs. After tabling a proposal for a compression mechanism to eliminate tariff peaks and high tariffs, and significantly reduce tariff escalation, the EC supported the proposal of a Swiss formula with negotiated numbers for the coefficients to be applied to developed Members and to developing Members. The EC supports the idea of flexibility for developing Members and considers that such flexibility must be negotiated in an integrated fashion with the formula coefficient for developing countries. The EC has tabled a proposal for all WTO Members to reduce tariffs on textiles, clothing, and footwear to a narrow common range, as close to zero as possible; and submissions on burdensome regulations and duplicative conformity requirements for textiles and clothing; as well as electrical and electronic appliances. With regard to NTBs, it has tabled horizontal and sectoral initiatives, as well as bilateral requests. The EC has also tabled a proposal for a horizontal mechanism to address NTBs without escalating to a dispute settlement procedure, and has requested the creation of disciplines for export taxes.

32. The EC's objectives in negotiations on services include: removing barriers to trade in services; a more transparent and non-discriminatory regulatory environment; preserving public services and collective values; and helping developing countries to benefit from trade in services. To this end, in June 2005, the EC submitted its improved conditional offer, including on mode 4.[47] The EC tabled its revised request in January 2006[48], and is considering requests from other WTO Members.[49] In addition, the EC replaced its Members' GATS schedules and list of Article II (MFN) exemptions with consolidated ones.[50]

33. The EC advocates substantial changes to multilateral rules on contingency measures, regional trade agreements, geographical indications, trade and environment, and trade facilitation.

34. The EC's notifications during the review period cover trade-related legislation and measures, and its applied MFN tariff as of January 2006 (notified to the WTO Integrated Database (IDB)). The

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[47] Communication from European Communities and their Member States, Conditional Revised Offer. Viewed at: http://trade.ec.europa.eu/doclib/docs/2005/june/tradoc_123488.reduced%20cells%20v2.pdf.

[48] The revised request seeks a reduction in market access restrictions and thus an expansion in trading opportunities for the European services industry. It covers professional services, other business services, telecom, postal services, distribution, construction and related engineering services, financial, tourism, news agency, transport, energy and distribution services.

[49] European Commission online information. Viewed at: http://trade.ec.europa.eu/doclib/docs/2004/ march/tradoc_112335. pdf.

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

EC also notifies its regional trade agreements after their entry into force. In 2004, the EU notified the WTO of the accession of its ten new members; its interim agreement with Croatia on trade and trade-related matters; and its Association Agreements with Chile and Egypt (Table II.1). Other notifications cover reports on developments in the use of covered instruments. As at July 2006, the EC has 20 outstanding notification obligations.

Table II.1
Selected EC notifications to the WTO, October 2006

Agreement and requirement	Symbol	Date
Agreement on Agriculture		
Article 10 and 18.2 - export subsidies (ES:1 to ES:3)	G/AG/N/EEC/52	16/02/2005
Article 16.2 - Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net-Food Importing Developing Countries (NF:1)	G/AG/N/EEC/50	17/06/2004
Article 18.2 - Domestic support (DS:1 & relevant supporting tables)	G/AG/N/EEC/51	04/11/2004
Article 18.2 - Tariff and other quota commitments (MA:2)	G/AG/N/EEC/48	27/02/2004
Article 18.3 - Domestic support (DS:2)	G/AG/N/EEC/47	29/07/2003
Article 5.7 and 18.2 – Special safeguard provisions (MA:5)	G/AG/N/EEC/43	05/06/2003
Agreement on Government Procurement 1994		
Article XXIV:6	GPA/W/226	12/12/2002
Agreement on Implementation of Article VI of the GATT 1994		
Article 16.4 – semi-annual	G/ADP/N/126/Add.1	01/04/2005
Article 16.4 – semi-annual	G/ADP/N/126/EEC	08/03/2005
Article 16.4 – ad hoc	G/ADP/N/116	18/04/2004
Article 5.8	G/ADP/N/100/EEC	21/01/2003
Article 18.5	G/ADP/N/1/EEC/2/Suppl.4	14/04/2003
Agreement on Import Licensing Procedures		
Article 7.3 – Replies to Questionnaire	G/LIC/N/3/EEC/7/Corr.1	03/07/2006
Article 7.3 – Replies to Questionnaire	G/LIC/N/3/EEC/7/Add.1	16/06/2006
Article 7.3 – Replies to Questionnaire	G/LIC/N/3/EEC/7	13/06/2006
Article 7.3 – Replies to Questionnaire	G/LIC/N/3/EEC/8/Corr.1	03/07/2006
Article 7.3 – Replies to Questionnaire	G/LIC/N/3/EEC/8	13/06/2006
Article 1.4(a) and 8.2(b)	G/LIC/N/1/EEC/2/Add.4	10/01/2003
Article 7.3 – Replies to Questionnaire	G/LIC/N/3/EEC/8/Add.1	16/06/2006
Agreement on Safeguards		
Article 12.1(a) – Initiation	G/SG/N/6/EEC/4	13/07/2005
Article 12.1(a) – Initiation	G/SG/N/6/EEC/3	17/03/2004
Article 12.1(a) – Initiation	G/SG/N/6/EEC/2/Suppl.1	08/06/2005
Article 12.1(b) – Finding	G/SG/N/8/EEC/2	16/03/2004
Article 12.1(c) – Decision	G/SG/N/10/EEC/2	16/03/2004
Article 12.4 – Proposal for provisional measures	G/SG/N/7/EEC/2	06/11/2003
Article 12.5 – Joint communications	G/SG/62	06/03/2003
Article 12.5 – Suspension of concessions referred to in paragraph 2 of Article 8	G/SG/43/SUPPL.1	20/06/2002
Article 12.6	G/SG/N/1/EEC/1/Suppl.1	14/04/2003
Article 9.1 footnote 2	G/SG/N/11/EEC/2/Suppl.1	16/03/2004
Agreement on Subsidies and Countervailing Measures		
Article 25.11 – Semi-annual	G/SCM/N/113/EEC/Add.1	13/09/2004
Article 25.11 – Semi-annual	G/SCM/N/113/EEC	13/09/2004
Articles 18.4 & 32.6	G/ADP/N/1/EEC/2/Suppl.5	28/04/2004
Article 25.11 – Ad hoc	G/SCM/N/110	01/04/2004
Article 32.6	G/SCM/N/1/EEC/2/Suppl.4	14/04/2003
Agreement on Technical Barriers to Trade		
Article 10.7	G/TBT/10.7/N/50	03/03/2006
Article 10.7	G/TBT/10.7/N/49	03/03/2006
Article 10.7	G/TBT/10.7/N/46	21/07/2004
Article 2.9	G/TBT/N/EEC/60	23/03/2004
Article 5.6	G/TBT/N/EEC/53	03/02/2004
Multiple article	G/TBT/N/EEC/52/Add.1	10/03/2004
Unspecified article	G/TBT/N/EEC/57	24/02/2004
Agreement on Textiles and Clothing		
Article 2:1	G/TMB/N/60/ADD.5/Suppl.4	13/11/2002
Article 2:11	G/TMB/N/469	16/03/2004
Article 2:17	G/TMB/N/444/ADD.3/Corr.1	02/10/2002
Article 3:1	G/TMB/N/64/ADD.2/Suppl.1	03/04/2002
Article 3:3	G/TMB/N/424	20/02/2002

Table II.1 (cont'd)

Agreement and requirement	Symbol	Date
Agreement on the Application of Sanitary and Phytosanitary Measures		
Regulation	G/SPS/N/EEC/103/Add.14	06/07/2006
Regulation	G/SPS/N/EEC/103/Add.15	06/07/2006
Regulation	G/SPS/N/EEC/103/Add.13	13/04/2006
Regulation	G/SPS/N/EEC/103/Add.12	11/04/2006
Regulation	G/SPS/N/EEC/103/Add.11	17/03/2006
Regulation	G/SPS/N/EEC/196/Add.3	24/08/2005
Regulation	G/SPS/N/EEC/196/Add.2	14/04/2005
Regulation	G/SPS/N/EEC/110/Add.2	27/10/2004
Regulation	G/SPS/N/EEC/196/Add.1	27/09/2004
Regulation	G/SPS/N/EEC/144/Add.2/Corr.1	08/07/2004
Regulation	G/SPS/N/EEC/184/Add.2/Corr.1	08/07/2004
Regulation	G/SPS/N/EEC/198/Add.1	06/07/2004
Regulation	G/SPS/N/EEC/103/Add.10	18/06/2004
Regulation	G/SPS/N/EEC/203/Add.1	04/06/2004
Regulation	G/SPS/N/EEC/203/Add.2	04/06/2004
Regulation	G/SPS/N/EEC/149/Add.6	03/06/2004
Regulation	G/SPS/N/EEC/197/Add.1	03/06/2004
Regulation	G/SPS/N/EEC/202/Add.1	03/06/2004
Regulation	G/SPS/N/EEC/204/Add.1	03/06/2004
Regulation	G/SPS/N/EEC/209/Add.1	03/06/2004
Regulation	G/SPS/N/EEC/210/Add.1	03/06/2004
Regulation	G/SPS/N/EEC/144/Add.2	01/06/2004
Regulation	G/SPS/N/EEC/184/Add.2	01/06/2004
Regulation	G/SPS/N/EEC/191/Add.2	01/06/2004
Regulation	G/SPS/N/EEC/212/Add.1	01/06/2004
Regulation	G/SPS/N/EEC/213/Add.1	01/06/2004
Regulation	G/SPS/N/EEC/103/Add.9	04/05/2004
Article 7, Annex B	G/SPS/N/EEC/242	07/04/2004
Decision of the Committee on Government Procurement 1994 of 27 February 1996	GPA/W/285/Add.4	29/01/2004
Decisions of the CONTRACTING PARTIES (BISD 31S/12 BISD 31S/222 BISD 32S/12 BISD 32S/93) Decision on Notification Procedures for Quantitative Restrictions (G/L/59) – biennial	G/MA/NTM/QR/1/Add.9/Corr.1	20/03/2003
GATS		
Article III:4 or IV:2	S/ENQ/78/Rev.2	18/06/2002
Article V:7(a)	WT/REG2/6	17/10/2002
Article XXI:1(b)	S/C/N/231/Corr.1	15/08/2003
GATT 1994		
Article XVII:4(a) - Understanding on the Interpretation of Article XVII	G/STR/N/3/EEC	23/07/2002
Article XXIV:7(a) - Free-Trade Areas	WT/REG142/N/1/Rev.1	24/12/2002
Article XXIV:7(a) - Interim Agreement (Free-Trade Areas)	WT/REG164/N/1	18/02/2004
Article XXVIII:5	G/MA/120	12/12/2002
GATT Concessions under the Harmonized Commodity description and coding system (BISD 39S/300) Procedures to implement changes in the harmonized system (Annex to L/6905)	G/SECRET/HS02/EEC/2	28/03/2002

Source: WTO documents.

35. The EC remains one of the most active Members in WTO dispute settlement.[51] In November 2006, it was actively involved in 36 disputes: as a complainant in 18 cases and a respondent in 18 cases.[52] During the period under review, the EC initiated twelve new disputes[53], and was a respondent in nine cases[54], covering GMOs, hormones, customs matters, aircraft subsidies, and geographic indications. In addition, it was a third party in four disputes.[55]

[51] As of November 2006, the EC has been a complainant in 75 cases, a respondent in 56 cases and a third party in 69 disputes.

[52] These cases relate to the EC's trading relations with: Argentina, Australia, Brazil, Canada, China, Ecuador, Guatemala, Honduras, India, Korea, Mexico, Norway, Thailand, and the United States.

[53] WT/DS314, 317, 319, 320, 321, 330, 332, 339, 341, and 350.

[54] WT/DS307, 313, 315, 316, 326, 328, 337, 347, and 349.

[55] WT/DS308, 312, 322 and 323.

36. Pursuant to the mandate under the Doha Ministerial Declaration to review the Dispute Settlement Understanding (DSU), the EC has submitted proposals on: the use of permanent panellists; clarification of the DSU provisions on implementation and the sequencing issue[56]; 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. Other concerns include the improvement of trade compensation as a remedy; speeding up the process whenever this is feasible and justified; and increasing transparency.[57]

(iii) Preferential trade agreements and arrangements

(a) Agreements with European countries/groupings

EC accession

37. The EC accession of May 2004 crowned a process of gradual structural transformation of the ten new Member States.[58] Accession implies meeting the Copenhagen criteria: stable institutions guaranteeing democracy; the rule of law; respect for protection of human rights and minorities; existence of a functioning market economy; capacity to cope with market forces and competitive pressures within the Union; and ability to take on the obligations of membership. However, a few transitional arrangements on specified areas apply to new members. Hungary and Malta were granted transitional arrangements on, respectively, the import of aluminium (not alloyed) and four categories of textile products.[59] Furthermore, various EU-15 States introduced transitional arrangements concerning access to their labour markets by workers from eight new Member States.[60] Under this arrangement, Austria, Belgium, Denmark, France, Finland, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, and Spain applied restrictions during the period under review. Of these, Austria, Belgium, Denmark, Germany, and Luxembourg announced their intention to extend the restrictions through the second phase from 2006 to 2009, while France, Finland, Greece, and Spain intend to gradually lift the restrictions.[61] Moreover, the majority of the new Member States have introduced temporary measures on the acquisition of agricultural land by non-nationals.

[56] "Sequencing" relates to the steps that need to be taken, and their order, before determining that the losing party has not complied correctly with the DSB recommendations and reacting accordingly.

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

[58] These are: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia.

[59] The import of non-alloyed aluminium (HS 7601.10.00) to Hungary is subject to a three-year decreasing import quota and an increasing *ad valorem* duty. Malta has been granted a five-year transitional period for the import of woven fabrics of combed wool or of combed fine animal hair (HS 5112.11.10), denim (HS 5209.42.00), woven fabrics of artificial filament yarn (HS 5408.22.10), and other made up clothing accessories (HS 6217.10.00), under a progressive schedule involving a maximum annual import quota and an increasing *ad valorem* duty.

[60] Workers from Malta and Cyprus were not included under this exemption. According to paragraph 2 of point 3 of the country-specific annexes to the 2003 Act of Accession, all EU-15 Member States should notify the Commission by 30 April 2006 whether they will continue to apply national measures or measures resulting from bilateral agreements, or whether they will apply Community law on access to their labour markets. The annexes stipulate that in the absence of such notification, Community law on free movement of workers shall apply from 1 May 2006 onwards. This obligation of notification was underlined by the Commission during the last meetings of the Technical Committee on free movement on 22 February 2006, and of the High Level Group on free movement on 28 March 2006.

[61] Press Release, "Transitional measures for the free movement of the workers forming the subject of the accession treaty of 2003". Viewed at:http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/06/176&format=HTML&aged=0&language=EN&guiLanguage=en.

38. On 1 May 2006, the second anniversary of the EU's enlargement, the Commission issued a Communication covering the economic aspects.[62] In general, the integration brought about stronger economic growth in the ten new Member States (NMS-10), which had been experiencing sharp increases in unemployment due to structural adjustments to the market economies. Moreover, the adoption of the EC's *acquis communautaire* helped to reform centrally planned economies, brought about macroeconomic stability and stable financial markets, and provided opportunities for businesses.

39. Data suggest that accession has intensified NMS-10 agricultural trade with EC-15 partners and led to an increase in trade flows between the NMS-10, without diverting trade from third countries. Concerns that EC-15 farmers could suffer from new competitors in the NMS-10 have not materialized. Accession also resulted in increased support for agriculture. As regards trade in goods, since accession, the EC-15 share of NMS-10 trade has remained broadly stable, at 62%, reflecting a high degree of trade integration. Unlike trade in goods, there was no significant impact of accession on trade in services between NMS-10 and EC-15 States. Exports of services in volume terms in both NMS-10 and EC-15 expanded rapidly in 2004. Nevertheless, concerns over the labour market effects of the enlargement persist. The fears are that the potential combination of relocation of economic activities to the NMS-10 States, together with FDI flows and labour migration from the new to the old Member States, would engender job losses in the latter.

40. During the period under review, Romania and Bulgaria signed the Treaty of Accession (April 2005), and will become full members of the EC in January 2007: Bulgaria, Romania, and 21 Member States had already ratified it by October 2006. Before accession takes place, the framework for bilateral trade relations are the Europe Agreements, which cover: trade liberalisation and other trade-related issues; political dialogue; legal approximation; and other areas of co-operation, i.e. in industry, environment, transport and customs. More specifically, the Europe Agreements aim to establish progressively a free-trade area between the EC and the two countries, on the basis of reciprocity, but in an asymmetric manner. A large share of both countries' trade with the EC is conducted freely, while various agricultural and processed agricultural products remain subject to customs duties on both sides.

European Economic Area

41. The Agreement creating the European Economic Area (EEA Agreement) was negotiated between the EC and seven member countries of the EFTA, and signed in 1992. It entered into force on 1 January 2004.[63] The Agreement covers all four pillars of the internal market, i.e. freedom of movement of goods (excluding agriculture and fisheries, which are included to a very limited extent), persons, services, and capital. It also covers other horizontal issues on social policy, consumer protection, environment, company law and statistics. It is in these latter areas that the EEA-EFTA States take over EC legislation.[64] Moreover, the substantive competition rules of the Agreement

[62] Press Release, "Enlargement, two years on: all win as new Member States get richer", IP/06/557, Brussels, 3 May 2006. It is accompanied by a more detailed and general assessment by the Bureau of Policy Advisers and the Directorate-General for Economic and Financial Affairs.

[63] Out of the then seven EFTA members (Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom), Switzerland decided not to participate following a referendum, while three others joined the EU (Austria, Finland, and Sweden). Thus it remains in force for Iceland, Norway, and Liechtenstein. The EEA permits these three countries to participate in the internal market, without assuming the full responsibilities of EU membership.

[64] In addition, the Agreement contains provisions to allow cooperation between the EC and the EEA-EFTA states on research and technological development, information services, education, small and medium-sized enterprises, tourism, the audio-visual sector, and civil protection.

correspond to the Community *acquis*. The Agreement is implemented through a set of special institutional arrangements and updated through incorporation of new relevant Community legislation.[65] Thus, to date, some 4,000 legal acts are applicable across the EEA.

42. Article 19 of the EEA Agreement provides for reviews, at two-year intervals, of the conditions of trade in agricultural products between parties. Bilateral negotiations with Iceland ended in 2005 and should be implemented as of January 2007. Bilateral negotiations with Norway resumed in 2006. A major challenge in 2003/2004 was to ensure that the EEA was enlarged at the same time as the EC. To this end, an EEA Enlargement Agreement was negotiated between the EC (its Member States), the EEA-EFTA states, and the acceding countries. The Agreement came into force on 1 May 2004, allowing for the simultaneous enlargement of the EC and the EEA.

Switzerland

43. Relations between the EC and Switzerland are governed by various bilateral agreements; the first entered into force in June 2002. The initial seven agreements cover free movement of persons, trade in agricultural products, public procurement, technical barriers to trade, air transport, transport by road and rail, and research. Since the EC's last TPR, nine additional bilateral agreements have entered into force, covering, *inter alia*, trade in processed agricultural goods and free movement of persons.[66]

Western Balkans

44. The Stabilization and Association process, as enhanced by the Thessaloniki Agenda[67], is the policy framework for the EC's relationship with the Western Balkan countries. During the period under review, the EC continued to work on the trade policy aspects of the stabilization and association agreements (SAAs) with the Western Balkan countries.[68] More specifically, SAAs with the Former Yugoslav Republic of Macedonia and Croatia entered into force in April 2004 and February 2005 respectively.[69] In addition, the EC signed an SAA with Albania in June 2006; pending its ratification, an interim agreement was to enter into force on 1 December 2006. The EC also opened SAA negotiations with Serbia and Montenegro[70], as well as Bosnia and Herzegovina at the end of 2005. Moreover, the process for reaching a decision on the future status of Kosovo has begun. Furthermore, the EC opened accession negotiations with Croatia on 17 March 2005, and granted candidature status to the Former Yugoslav Republic of Macedonia in December 2005. On a bilateral angle, the

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[65] An EEA Joint Committee is mandated to adopt decisions extending Community regulations and directives to EEA-EFTA States. It currently has five sub-committees.

[66] For further details see EC online information at: http://ec.europa.eu/comm/external_relations/switzerland/intro/index.htm.

[67] In June 2003, the Thessaloniki EU-Western Balkans summit endorsed the "Thessaloniki Agenda" comprising measures drawn from the pre-accession process, and made a commitment to implement it jointly.

[68] Since the break-up of the Former Yugoslavia, the EC has been pursuing a stabilization and association strategy with the countries in the region. The strategy is being implemented at three different levels. At the bilateral level, the EC has granted non-reciprocal preferences to the Western Balkans. See Council Regulation (EC) No 2007/2000, OJ No L 240, 23 September 2000, as last amended by Commission Regulation (EC) No 1946/2005, OJ No L 312, 29 November 2005.

[69] Both SAAs were signed in 2001; before their entry into force, interim agreements applied. The SAAs focus on respect for democratic principles and strengthening the links between the region and the EC. They foresee the establishment of a free-trade area with the EC, based on reciprocity after a transition period and covering, *inter alia*, competition, state aids, intellectual property, and services.

[70] Negotiations with Serbia were suspended as at October 2006, while negotiations with Montenegro resumed in September 2006.

autonomous trade measures (ATMs)[71], applied to the whole Western Balkans, allow duty-free access to products from the region into the EC market. It is estimated that these trade preferences contributed to an average annual increase of 8% of exports to the EC in the period 2000-04. In 2005, the ATMs were renewed until the end of 2010.[72]

45. The network of bilateral free trade agreements (FTAs) established under the Stability Pact has been completed, leading to increased mutual trade although intraregional trade remains low.[73] In June 2005, South-East trade ministers began a process to integrate the existing network of bilateral FTAs into a single regional FTA (the new CEFTA), which should be signed in December 2006, for entry into force in 2007. The EC supports these initiatives and provides both advice and technical assistance.[74] Meanwhile, the European/Accession partnerships agreed in December 2005 for the Western Balkan countries define the priorities for the short and medium term. At the multilateral level, the Commission supports the accession of Bosnia and Herzegovina, Montenegro and Serbia to the WTO.[75]

Other European agreements

46. Negotiations with Turkey were opened in October 2005 after the Council adopted a framework for accession negotiations, setting out the method and the guiding principles, in line with the December 2004 Council conclusions. Consequently, the EC launched the analytical examination of the *acquis* (screening) which forms the first phase of accession negotiations.[76] This exercise will continue until the end of 2006, with external trade matters being handled in the autumn. In December 2005, the Council adopted the revised Accession Partnership for Turkey. In the meantime, trade relations continue under the EU-Turkey Customs Union established in 1995. Although there is no timetable for the integration of agriculture into the customs union, a decision taken in 1998 (98/223/EC) covers some agricultural products.[77] The customs union agreement makes use of the

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[71] In 2000, the EC granted ATMs to Albania, Bosnia and Herzegovina, Croatia, the FYROM, and Serbia and Montenegro. Under the scheme, wine and certain fisheries products are subject to preferential tariff quotas; sugar is subject to preferential tariff quotas (except for Croatia where this is currently being negotiated); the specific import duty on "baby beef" was eliminated, although an *ad valorem* duty of 20% continues to apply; and quotas apply on imports of textile products originating in the customs territories of Montenegro and Kosovo. ATM, together with the relevant provisions of the SAAs, and other trade arrangements, provide a framework for the development of trade between the EU and the region.

[72] Council Regulation (EC) No. 1946/2005, 14.11.205, OJ L 312/2005.

[73] A Memorandum of Understanding on trade facilitation and liberalization was signed by these countries in 2001 under the auspices of the Stability Pact for South-Eastern Europe, which commits them to conclude a network of bilateral FTAs among themselves. For additional information on the Stability Pact, see http://www.stabilitypact.org/trade/.

[74] The EC is providing assistance through the CARDS programme (Community assistance for reconstruction, development and stabilisation), an instrument of the stabilization and association process. For the period 2005-06, CARDS assistance will cover Albania, the FYROM, Serbia and Montenegro, and Bosnia and Herzegovina. Croatia is also eligible for the CARDS regional funds. CARDS assistance focuses on institution building; justice and home affairs; cross-border cooperation; and private sector and infrastructure development. The Western Balkan countries are also eligible for TAIEX funds to assist their preparation for eventual EU accession. European Commission (2005g).

[75] Albania, Croatia, and the FYROM are WTO members.

[76] This process allows candidate countries to familiarize themselves with the *acquis* and allows the Commission and the Member States to evaluate the degree of preparedness of candidate countries before deciding whether a chapter can be opened for negotiations.

[77] The decision has recently been amended to take account of the enlargement of the EU to its ten new Member States.

pan-European system of (diagonal) cumulation of origin, and covers technical barriers to trade, competition policies, and protection of intellectual property rights.[78]

47. The EC also has customs union agreements with Andorra and San Marino and and a free-trade agreement with the Faroe Islands. In the framework of free-trade agreements between the EC and third countries, products originating in Andorra or San Marino normally benefit from the preferences granted to the EC. The Faroe Islands now also participate in the pan-Euro-Mediterranean system of (diagonal) cumulation of origin.

(b) Agreements with non-European countries/groupings

MERCOSUR

48. Since 2000, the EC and MERCOSUR have been negotiating a biregional Association Agreement covering, *inter alia*, free trade in goods and services. Progress was made on the trade chapter; however, since October 2004 discussions have continued mainly informally and at a technical level.[79] Negotiations on the trade chapter are governed by three main principles: a region-to-region approach, which constitutes the basis of discussions on all regulatory areas; comprehensive and balanced negotiations beyond the respective WTO obligations; and the agreement is to be subject to a single undertaking obligation. A ministerial meeting in September 2005 provided an opportunity to take stock of results achieved and to give political guidance to the negotiating process. The comprehensive agreement will cover, *inter alia,* market access, rules on government procurement, investment, intellectual property rights, competition policies, SPS measures, technical barriers to trade, trade defence instruments, and a dispute-settlement mechanism.

49. The EC accounts for almost 23% of MERCOSUR's trade, and is its biggest investor. Merchandise trade between MERCOSUR and the EC represents 2.3% of total EC merchandise trade. EC imports from MERCOSUR consist of agricultural products (53%), machinery, transport material, and chemical products, and its exports to MERCOSUR consist primarily of machinery (32%) and chemical products (21%), and transport equipment (19%). The EC also maintains bilateral relations with each of the four founding MERCOSUR countries. These relations are based on cooperation framework agreements establishing joint committees that enable the two parties to regularly discuss questions of mutual interest.

Chile

50. An Association Agreement has governed trade relations between the EC and Chile since 1 February 2003.[80] The Agreement provides for progressive and reciprocal liberalization of goods trade, over a ten-year period.[81] It also covers services, government procurement, liberalization of investment and capital flows, the protection of intellectual property rights, cooperation in the field of

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[78] Additional information was viewed at: http://ec.europa.eu/comm/enlargement/turkey/index.htm.

[79] During the EC-MERCOSUR trade negotiators meeting, in Lisbon, in October 2004 Ministers reiterated the priority they attach to the negotiation of an Inter-regional Association Agreement. Declaration - MERCOSUR-EC trade negotiators meeting at ministerial level, Lisbon, 20 October 2004. The EC-MERCOSUR relationship is based on the Interregional Framework Co-operation Agreement signed on 15 December 1995 and in force since 1 July 1999. The main objective of the 1995 Framework Agreement is the preparation of negotiations for the Interregional Association Agreement. The Agreement consists of three elements: political dialogue, cooperation and trade issues.

[80] The Association Agreement was notified in WTO document WT/REG164/N/1 of 18 February 2004.

[81] For more information, see http://ec.euroa.eu/comm/trade/issues/bilateral/countries/chile/index_en.htm.

competition, and dispute settlement. In addition, it contains provisions on customs and related areas, and standards, technical regulations and conformity assessment procedures.[82]

Mexico

51. The EC maintains close trade relations with Mexico through the free-trade agreement that entered into force in October 2000.[83] The FTA is comprehensive in coverage (goods, services, public procurement, competition, intellectual property rights, investment, and dispute settlement). In accordance with the asymmetric liberalization schedule, all duties on industrial imports from Mexico were removed by the EC in 2003. Mexico is expected to lift all duties on EC industrial goods by 2007. The phasing out of duties in preferential agricultural and fishery trade will be achieved in 2010. The FTA also provides for preferential treatment in the services sector and has catalysed investment flows; over 7,200 companies with EC capital now doi business in Mexico and vice-versa. In accordance with the review clause of the agreement, adjustments to the FTA are under negotiation in the agriculture, services and investment sectors so as to increase integration between the economies.

Gulf states

52. The objective of the EC's trade relations with countries in the Gulf region is to enhance political dialogue and to foster economic integration between both parties, with a view to diversifying and increasing bilateral trade; and to promote regional integration within the Gulf Cooperation Council (GCC). After a break of more than ten years, negotiations between the EC and the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates) resumed in March 2002, following the adoption of new negotiation directives from both sides and the commitment by the GCC to establish a customs union, which entered into force in January 2003.[84] The proposed FTA is to provide for progressive and reciprocal liberalization of trade in goods and services. During the period under review, several rounds of negotiation and technical meetings took place. The negotiations covered, *inter alia*, market access on goods and services, government procurement, intellectual property rights, competition, dispute settlement, and rules of origin.[85] In 2005, EC bilateral trade in goods with the Gulf region amounted to € 87.7 billion.

Mediterranean countries

53. Under the Barcelona process, the EC and the Mediterranean (MED) countries aim to establish a Euro-Mediterranean free-trade area by 2010, i.e. free trade in non-agricultural products, and progressive liberalization of trade in agricultural goods and services.[86] The free-trade area is being established essentially through the conclusion of Euro-Mediterranean association agreements between the EC and individual Mediterranean countries.[87] All agreements, with exception of the one with

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[82] See WTO (2004) for further details.

[83] The Economic Partnership, Political Co-ordination and Co-operation Agreement has three pillars: political dialogue, trade liberalization, and cooperation. Additional information was viewed at: http://europa.euEC.int/comm/external_relations/mexico/intro/index.htm; and http://europa.euEC.int/comm/trade/issues/bilateral/countries/mexico/index_en.htm.

[84] WTO (2004).

[85] See http://europa.eu.int/comm/trade/issues/bilateral/regions/gcc/index_en.htm; andhttp://europa.eu.int/comm/external_relations/gulf_cooperation/intro/index.htm.

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

[87] Under the Association Agreements, the MED partners will fully liberalize their trade in non-agricultural goods over a 12-year transition period (15 in the case of Egypt), while imports of these products from the MED countries will have duty- and quota-free access to the EC. The agreements also provide for reciprocal liberalization of imports of raw and processed agricultural and fishery products, where mutual

Syria, have entered into force. The EC also supports free-trade arrangements amongst the Mediterranean countries, as a means of regional integration (for example, the Agadir Agreement concluded recently between Morocco, Tunisia, Egypt, and Jordan).[88] Since the launch of the Barcelona Process, progress has been made through reduction of tariffs, elimination of quantitative restrictions, removals of non-tariff barriers, adoption of new rules of origin (on 11 October 2005)[89], trade facilitation under the Action Plan on Trade and Investment Facilitation, and transparency and predictability in the implementation of trade policy measures in the MED countries. Presently, the MED countries enjoy duty-free access for non-agricultural goods to the EC market and are reciprocating through progressive tariff dismantling over transitional periods.

54. During the period under review, negotiations continued between the EC and the MED countries. The 4th Euro-Mediterranean Trade Conference, in July 2004, noted that significant progress has been made in the automation and acceleration of customs procedures, use of electronic interchange systems (including means of signature and payment), and the adoption of a single document for customs clearance in many MED countries. It also noted that reform efforts were still necessary in administrative cooperation and the implementation of the PanEuroMed protocol on origin.[90] The EC and its MED partners celebrated the 10th anniversary of the Barcelona Process in November 2005 and defined a set of objectives that culminated in the adoption of a five-year work plan.[91]

55. The 5th Euro-Mediterranean Trade Conference, held in March 2006, launched negotiations on liberalization of services and the right of establishment. The negotiations follow a two-track approach: negotiations on general provisions of interest to all parties will be conducted collectively. The parties aim to agree on a draft text by the end of the first semester of 2007. Subsequently, negotiations on issues pertaining to the different parties, such as their schedules of specific commitments, will be conducted on a bilateral basis. In addition, Ministers agreed to deepen agricultural trade liberalization (negotiations started in 2006), and to negotiate a dispute settlement mechanism. The parties aim to conclude the first bilateral protocols on this mechanism by the end of 2007.

South Africa

56. The EC's trade relations with South Africa's are governed by the Trade, Development and Co-operation Agreement (TDCA), which was signed on 11 October 1999 and entered into force in May 2004. The trade-related articles of the agreement had been applied provisionally since January 2000. The agreement provides for asymmetric (in favour of South Africa) trade liberalization in goods and services over a period of twelve years. Separate agreements on wines and spirits, signed on 28 January 2002, are applied provisionally; they provide for reciprocal protection of wine and spirits names, cover oenological practices and processes, as well as product specifications. The

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concessions are given in various forms, including zero tariff, reduced import duties (both within and out of quota), and increased tariff quotas. The agreements cover liberalization of trade in services and the right of establishment, capital movements, public procurement, competition rules, origin rules, and intellectual property rights. See WTO (2004) for further details.

[88] Additional information on EC-Mediterranean arrangements was viewed at: http://ec.europa.eu/comm/trade/issues/bilateral/regions/euromed/index_en.htm.

[89] The PanEuroMed System of cumulation of origin allows economic operators to cumulate processing made in different countries of the region and thus obtain preferential treatment more easily. See http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm.

[90] Fourth Euromed Trade Ministerial Conference, Conclusions. Istanbul, 21 July 2004. Viewed at: http://trade.ec.europa.eu/doclib/docs/2004/july/tradoc_118199.pdf.

[91] For additional information, see http://www.barcelona10.org/.

agreement also contains provisions for cooperation on competition. The parties are working to solve pending technical issues in agricultural trade, rules of origin, and anti-dumping.

57. In June 2006, the EC proposed a Strategic Partnership to set out a comprehensive long-term framework for its economic and political relations with South Africa. The EC also adopted a negotiating mandate to amend the TDCA with a threefold purpose: to bring the agreement in line with the revised Cotonou Agreement as regards new political provisions on issues such as terrorism or weapons of mass destruction; to push for further trade liberalization in order to update provisions on development cooperation; and cooperation in other areas. The two sides also discussed a possible alignment of the TDCA review process with the EC-SADC negotiations on an Economic Partnership Agreement. The EC is South Africa's most important trade partner, accounting for over 40% of its merchandise trade, as well as 70% of its FDI inflows.

(c) Non-reciprocal preferential arrangements

Generalized System of Preferences (GSP)

58. The EC's GSP scheme for the period January 2002 to December 2005 was based on Council Regulation (EC) No. 2501/2001 (as amended through (EC) No. 2211/2003).[92] This regulation established five types of arrangements: general arrangements; special incentive arrangements for the protection of labour rights; special incentive arrangements for the protection of the environment; special arrangements for LDCs; and special arrangements to combat drug production and trafficking. New guidelines were adopted in 2004 for the period 2006-15, and a new GSP Scheme on 27 June 2005 through Council Regulation (EC) No. 980/2005. This regulation replaced (EC) No 2501/2001, and applies from 1 January 2006 to 31 December 2008. The new scheme aims to promote sustainable development and good governance in vulnerable countries, i.e. those that lack diversification and sufficient integration into the multilateral trading system.

59. The new scheme reduces the available arrangements to three. First, all eligible countries benefit from the "general arrangement". Second, a "special incentive arrangement for sustainable development and good governance" (the GSP+) provides additional benefits for countries implementing international standards in sustainable development and good governance. Third, a special arrangement for LDCs, also known as the Everything But Arms (EBA) initiative, grants LDCs duty-free and quota-free access to the EC market. Under the general arrangement, products are classified as either sensitive or non-sensitive to the EC economy. Most agricultural goods are listed as sensitive, whereas non-sensitive products are mainly non-agricultural.[93] Non-agricultural sensitive

[92] The objectives of the scheme were to simplify and harmonize procedures of various arrangements in order to improve access by developing countries to the EC market, while ensuring the promotion of fundamental social and environmental standards (Council Regulation (EC) No. 2501/2001, OJ L 346/1, 10.12.2001, as amended. Viewed at: http://eur-lex.europa.eu/LexUriServ/site/en/consleg/2001/R/02001R2501-20050101-en.pdf).

[93] Non-sensitive products benefit from the suspension of tariff duties, whereas sensitive products enjoy tariff reductions of 3.5% on the MFN *ad valorem* rate, and 30% on specific duties, with the exception of undenatured ethyl alcohol and other denatured spirits, where the specific duty reduction is 15%. Where tariffs on sensitive products include both *ad valorem* and specific duties, the latter shall not be reduced; and where tariffs specify either minimum or maximum duties, minimum duties are not to be reduced whilst maximum duties do not apply. However, products in Sections XI(a) and XI(b) of the GSP (mainly textiles and clothing) benefit from a 20% reduction in tariffs. Additionally, tariffs are suspended where preferential treatment results in *ad valorem* duties of 1% or less, or in specific duties of a total of €2 or less, because the cost of collection might be higher than the revenue collected. Regional cumulation of origin is possible. Examples of non-sensitive agricultural goods include fresh sweet potatoes; Jerusalem artichokes and similar roots and tubers with high inulin content; and Macadamia nuts.

products include textiles, clothing and apparel, carpets, and footwear. The scheme provides for the exclusion of a beneficiary country on grounds of its degree of development, i.e. if classified by the World Bank as a high-income country and if it has achieved a certain level of industrial development in accordance with a criterion set out in the regulation. The scheme uses the GSP rules of preferential origin, set out in Commission Regulation (EEC) No. 2454/93 of 2 July 1993.

60. The special incentive arrangement for sustainable development and good governance (GSP+) is available to vulnerable countries that have ratified and effectively implemented the international conventions listed in Annex III to the Regulation.[94] A distinction is made between two sets of international conventions: (i) core human and labour rights under UN/ILO conventions (Part A of Annex III) - ratification and effective implementation of these is, in principle, obligatory[95]; and (ii) conventions related to the environment and governance (Part B of Annex III).[96] Ratification and effective implementation of at least seven of these conventions are required, while the remaining conventions must be ratified and implemented by 31 December 2008. This arrangement replaces the special arrangement to combat drug production and trafficking in force previously, so as to conform to the WTO's Appellate Body ruling.[97] It entered into force on 1 July 2005 and applies to countries not classified by the World Bank as high-income countries for three consecutive years. The GSP+ countries comprise Bolivia, Colombia, Costa Rica, Ecuador, Georgia, Guatemala, Honduras, Sri Lanka, Moldova, Mongolia, Nicaragua, Panama, Peru, El Salvador, and Venezuela. In principle, this list is fixed until 31 December 2008.

61. The special arrangement for LDCs incorporates the Everything But Arms (EBA) initiative under which the EC extends duty-free access to products, without any quantitative restrictions, with the exception of arms and ammunition. Under the arrangement, tariffs on all products under HS Chapters 1 to 97 (excluding Chapter 93) are suspended; tariffs on products of CN code 08030019 were suspended from 1 January 2006. Tariff on products under HS headings 1006 and 1701 shall be suspended from 1 September 2009 and 1 July 2009 respectively. By contrast, a gradual reduction in tariffs, culminating in their total suspension, is planned for husked rice, some banana varieties, and white sugar. During the lead-up to suspension, husked rice and white sugar should benefit from a global tariff quota at zero in-quota duty. Free access for bananas, through a process of gradual tariff elimination introduced on 1 January 2002, resulted in full liberalization on 1 January 2006. A similar process for rice and sugar is expected to take place over the period 2006-09.[98] The EC applies the list

[94] In this case, *ad valorem* and specific duties on all products listed in Annex II are suspended. However, where both duties apply, the specific duty is limited to 16% of the customs value for products with certain codes. See Article 8(2) of Council Regulation (EC) No. 980/2005. This applies to products of CN codes 1704.1091 and 1704.1099.

[95] These include the International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention on the Elimination of All Forms of Discrimination Against Women; Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment; the Convention on the Rights of the Child; the Convention concerning the Abolition of Forced Labour (No 105); and Convention concerning Forced or Compulsory Labour (No 29). However, if a country is faced with specific constitutional constraints, and has neither ratified nor effectively implemented two of the sixteen conventions on the list, it must make a formal commitment to do so.

[96] These include the Montreal Protocol on Substances that Deplete the Ozone Layer; Basel Convention on the Control of Trans-boundary Movements of Hazardous Wastes and their Disposal; Stockholm Convention on Persistent Organic Pollutants; Convention on the International Trade in Endangered Species of Wild Fauna and Flora; Convention on Biological Diversity; Cartagena Protocol on Biosafety; Kyoto Protocol to the United Nations Framework Convention on Climate Change; UN Single Convention on Narcotic Drugs (1961); and the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988).

[97] WTO document WT/DS246/AB/R, 20 April 2004, Appellate Body Report, *EC – Tariff Preferences*.

[98] See Regulation (EC) No. 416/2001.

of LDCs drawn up by the UN; removal from the list is progressive, involving a transitional period of at least three years.

62. The regulations allow temporary withdrawal from the preferential arrangements mainly as a consequence of the behaviour of a beneficiary country, i.e. serious and systematic violations of the conventions listed in part A of Annex III; serious and systematic unfair trading practices; trade in drugs, or failure to comply with international conventions on money-laundering; serious and systematic infringements of the rules governing fisheries and fishery resources; and exports of goods made by prison labour. This may also apply if there are sufficient grounds for an investigation to be opened. A withdrawal decision, in principle, enters into force six months after its adoption. Similarly, beneficiary countries may be removed from the scheme upon their classification by the World Bank as high-income countries (graduation), or if they are bound to the Community by a preferential trade agreement. During the period under review, GSP eligibility has been withdrawn for Myanmar.[99] Tariff preferences for all products from countries benefiting from the general arrangement and the special incentive arrangement for sustainable development and good governance may also be removed.

63. The scheme also includes a safeguard clause allowing the EC to suspend tariff preferences when imports of a product cause serious difficulties or create direct competition with similar EC products. Serious difficulties are assessed using criteria measuring EC producers' market share, production, stocks, production capacity, bankruptcies, profitability, capacity utilization, employment, imports, and prices. Such an action can be taken by the Commission, on its own initiative, or at the request of a Member State. This clause has not been applied during the period under review.

64. The GSP scheme has enhanced the potential for developing countries to access EC markets. Nonetheless, there is a declining trend in trade shares and low ratios of GSP utilization. Moreover, although various studies have been conducted on the impact of the EBA initiative, there is no clear consensus on its quantitative effects. According to an UNCTAD study[100], the EBA would result in welfare gains in the range of US$400 million. This result differs from that arrived at by Trueblood and Somwaru[101], who find welfare gains of around US$ 2.5 billion; this difference may be because the tariff cuts employed and the bases from which these cuts are applied vary in the two studies. A 2005 study by Yu and Jensen in 2005 concludes that total welfare gains are less than US$300 million for all the LDCs concerned, with a large percentage of the gains coming from the three sensitive products that are subject to lengthy gradual liberalization, especially sugar. The study noted that the negative impact on the EC and third countries seems to be quite small.[102] In a study commissioned by the EC, Gallezot and Bureau, find evidence for strong growth of LDC exports of products that were liberalized under the EBA[103], this has enabled certain countries to significantly increase trade with the EC, while for others trade growth has remained limited.

The Cotonou Agreement

65. The EC's trade relations with the African, Caribbean and Pacific (ACP) countries[104] are governed by the ACP-EC Cotonou Agreement signed on 23 June 2000 for a period of 20 years. The

[99] Council Regulation No. 980/2005.
[100] Bora, Cernat and Turrini (2002).
[101] Trueblood, and Somwaru (2002).
[102] Yu, and Jensen (2005).
[103] Gallezot and Bureau (2006).
[104] The 48 sub-Saharan African States, 15 States in the Caribbean, and 15 States in the Pacific (East Timor acceded to the Cotonou Agreement in May 2003). The Cotonou Agreement replaces the Lomé Convention (1975-2000).

Cotonou Agreement, which entered into force in 2003, is based on five interdependent pillars: an enhanced political dimension; increased participation; a more strategic approach to cooperation focusing on poverty reduction; new economic and trade partnerships; and improved financial cooperation. Under the agreement, ACP countries (except for South Africa), benefit from non-reciprocal trade preferences during an interim period (2001-07)[105], i.e. duty-free treatment on industrial, certain agricultural, and fishery products, subject to a safeguard clause. For certain products (bananas, beef and veal, and sugar), the EC provides special market access under "commodity protocols". Moreover, preferential rules of origin contain product-specific requirements that allow for cumulation between the ACP countries, the EC, and "overseas countries and territories".[106] The agreement provides for a revision clause (Article 95) and for its adaptation every five years (with the exception of the economic and trade provisions for which there is a special review procedure). Accordingly, negotiations for its first revision took place between May 2004 and 23 February 2005. The amendments covered the political dimension, development strategies, investment facility, and implementation, as well as management procedures.[107] The signature of the revised Cotonou Agreement will be followed by a process of ratification, which is expected to be finalized by end 2007.[108]

66. Under the Cotonou Agreement, the EC is negotiating reciprocal Economic Partnership Agreements (EPAs) with the ACP countries. EPAs will be based on four main pillars, and will (i) entail rights and obligations for both sides; (ii) be based on existing regional integration initiatives; (iii) be designed to take account of the economic, social and environmental constraints of ACP countries; and (iv) facilitate the gradual integration of ACP countries into the world economy. Specifically, the agreements will define bilateral trade-related provisions, within the broader framework of WTO rules. Thus, they will provide for progressive elimination of tariffs and non-tariff measures (including technical barriers to trade), on both goods and services, and address other trade-related issues.[109] Development concerns will be reflected through flexibility vis-à-vis depth of liberalization, its asymmetry, length of transition periods, trade coverage and exceptions, and through EC support measures. EPAs are scheduled to enter into force on 1 January 2008.

67. Since the negotiation process got under way in September 2002, the parties have conducted clarification meetings on EPAs involving all ACP countries (Phase I).[110] Specific negotiations with regional bodies (Phase II) commenced as follows: West Africa[111] (ECOWAS and Mauritania) and

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

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

[107] Additional information was viewed at: http://ec.europa.eu/comm/development/body/cotonou/pdf/negotiation_20050407_en.pdf#zoom=100.

[108] For early application, transitional measures will allow the majority of the revised provisions to enter into force upon signature.

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

[110] A joint report taking stock of Phase I of the negotiations was adopted by the ACP Council of Ministers and the EC Commissioners for Trade and Development in October 2003. Phase I brought a convergence on a number of issues (EC documentACP/00/118/03 Rev.1 – ACP-EC/NG/NP/43, dated 2 October 2003. Viewed at: http://trade-info.cec.eu.int/doclib/docs/2003/november/tradoc_114136.pdf.

[111] A draft road map was agreed during technical meetings held in Abuja from 11 to 14 March 2004. The road map covers the priorities of the region, and highlights the development dimension of the EPA, a timetable and the structure of the negotiations. The focus of negotiations in 2005 was on regional economic integration. Additional information was viewed at: http://trade.ec.europa.eu/doclib/docs/2005/november/tradoc_125868.pdf.

Central Africa[112] (CEMAC, Sao Tome and Principe) (October 2003); Eastern and Southern Africa[113] (February 2004); Caribbean Forum of ACP States (CARIFORUM)[114] (April 2004); Southern African Development Community (SADC) (July 2004)[115]; and countries in the Pacific[116] (September 2004). After discussion of the issue of regional integration, talks in Phase III focus on the phasing of liberalization of trade in goods, speed and priority sectors for liberalization of trade in services, other trade-related issues, and the potential impact on productive sectors in the ACP countries.[117]

68. The EC is the main trading partner for most ACP countries. In 2004, EC merchandise trade with the ACP countries was worth approximately €55 billion: some €28.4 billion for imports and €26.5 billion for exports. EC exports to the ACP countries in 2004 consisted mainly of machinery (31%), followed by vehicles (10%), ships/boats (9%), oil (8%), and medicines (4%). In the same year, 50% of EC imports from ACP countries consisted of four items: petroleum (26%), diamonds (11%), cocoa (9%), and wood (4%). However, the EC's share of imports from the ACP countries is declining, from 6.7% in 1976 to 2.75% in 2004.

Overseas countries and territories (OCT)

The EC has been granting duty-free and quota-free treatment on all products originating in the OCT, on a non-reciprocal basis, since 1991, subject to a safeguard provision.[118] Rules of origin provide for cumulation with the EC and the ACP, without limits, except for rice and sugar. The arrangement also has provisions on transhipment. A Council Decision on the OCT Association Arrangements was adopted on 27 November 2001 to continue the regime until the end of 2011.

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[112] The focus of negotiations in 2005 was on regional economic integration. Discussions have been held on customs issues, trade facilitation, TBT, SPS, and other issues. For more information, see http://trade.ec.europa.eu/doclib/docs/2004/july/tradoc_118214.pdf.

[113] Negotiations were launched in Mauritius in February 2004. In the first joint ESA-EC meetings (end July 2004), the two sides agreed on priorities and sequencing of EPA negotiations. A ministerial meeting, held in Mauritius on 9 February 2006, launched the substantial phase of the negotiations. Ministers took stock of the progress achieved in market access and fisheries, and agreed to extend discussions to services and trade-related issues, and to start drafting a text. Additional information was viewed at: http://trade.ec.europa.eu/doclib/docs/2006/february/tradoc_127347.pdf.

[114] Negotiations between the EC and CARIFORUM were opened on 16 April 2004. Caribbean and EC officials met on 15 July 2004 and agreed on the scope and priorities of the negotiations. The officials met again on 12 November 2004; they launched negotiations on regional integration, and defined the targets to be attained by end 2007. Joint technical meetings were held on regional market-access issues, services and investment, and trade-related areas. Reviews took place on 20 May and 28 September 2005. The second EPA Ministerial meeting, on 30 September 2005, launched negotiations on Phase III, which will define the structure and scope of the EPA. It will address: market access for agricultural and non-agricultural goods; services and investment; trade-related issues; and legal and institutional issues. Information viewed at: http://trade.ec.europa.eu/doclib/docs/2004/april/tradoc_116912.pdf.

[115] During the first negotiating session at ministerial level, the SADC put the emphasis on the simplification of rules of origin, whereas the EC insisted on clarification of the regional 'spaghetti bowl' of overlapping trading arrangements. In 2005, negotiations entered into their substantive phase. The two sides also discussed progress reports on SPS and TBT. Information was viewed at: http://trade.ec.europa.eu/doclib/docs/2004/july/tradoc_118125.pdf.

[116] The parties adopted a Joint Roadmap, which presents the objectives, principles, structures and sequencing of the negotiations. Since then, exchanges have taken place mostly at the technical level. Priority issues identified include fisheries, investment, and services. Information viewed at: http://trade.ec.europa.eu/doclib/docs/2004/october/tradoc_118922.pdf.

[117] DG Trade (2006b).

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

III. TRADE POLICIES AND PRACTICES BY MEASURE

(1) INTRODUCTION

1. The EC's trade regime has remained largely unchanged since its last TPR in 2004. The 2006 tariff comprises 90% *ad valorem* and 10% non-*ad valorem* rates. Non-*ad valorem* rates apply on agricultural goods (WTO definition), many of which are also subject to tariff quotas. The average applied MFN tariff has increased slightly, to 6.9% from 6.5%, due to a downward trend in the import prices of certain agricultural products subject to non-*ad valorem* tariffs, the *ad valorem* equivalents (AVE) having increased accordingly. Tariff rates range from 0% to 427.9% (an AVE), with agricultural products still attracting the highest rates. The EC's wide network of preferential trade arrangements, together with the large number of countries eligible for unilateral preferences, has confined the application of its exclusively MFN tariff to nine WTO Members, which accounted for some 30% of its total merchandise imports in 2005.

2. Value-added tax and excise duties apply to imports and locally produced goods (VAT also applies to services) at the same rates; these rates are set by Member States and are not harmonized within the EC. The EC remains an important user of contingency trade remedies; between January 2004 and September 2006, it initiated three safeguard, 27 anti-dumping and two countervailing investigations. Under its Customs 2007 programme, the EC is improving customs administration through the implementation of electronic exchange systems to support the creation of a paperless customs environment. Customs controls are based on risk analysis using automated data processing techniques.

3. The EC maintains import licences on grounds of surveillance, quota management, and safeguards. Technical regulations, standards, and sanitary and phytosanitary measures have been under continued review by the Commission; in certain areas, they have not been fully harmonized among Member States. Products placed on the market of a Member State must comply with both national and EC legislation. The EC provides export subsidies for a number of agricultural products; they account for some 90% of total export subsidies notified by WTO Members.

4. New legislation on public procurement entered into force in 2004 with a view to making the legal framework simpler, more flexible and adapting it to the electronic era. There have been no major changes to the legal basis of competition policy in the EC, which seeks to address anticompetitive practices and enhance competitiveness throughout the EC. The intellectual property rights regime in the EC is governed by both Community-wide legislation and legislation of Member States. Since its last TPR, the EC has acceded to the Madrid Protocol; it has also been reviewing its patent policy.

(2) MEASURES DIRECTLY AFFECTING IMPORTS

(i) Customs procedures and valuation

5. The EC's customs procedures, in place since 1992, are governed by its Customs Code (CC) along with its implementing provisions.[1] During the period under review, security- and safety-related procedures were added to the CC whilst preparations and consultations were undertaken for a major overhaul of the CC. The EC signed the International Convention on the Simplification and

[1] Council Regulations No. 2913/92 and No. 2454/93 respectively, as amended. For further details on the basis of the EC's CC, see WTO (2004).

Harmonization of Customs Procedures (Kyoto Convention), but had not ratified any of its chapters or annexes.[2]

6. Several amendments to the CC were introduced by Regulation No. 648/2005, most of them with the aim of increasing safety and security procedures while at the same time furthering trade facilitation. Implementing provisions for this Regulation were under discucussion as at October 2006. After the adoption of such provisions, pre-arrival and departure declarations should be lodged at customs offices in advance of the goods in order for its risk to be analysed. Risk analysis is to be carried out through "automated data processing techniques". The Regulation also introduces the legal concept of an authorized economic operator (AEO), i.e. an economic operator that has: (i) an appropriate compliance record with customs requirements; (ii) a satisfactory system of managing commercial (and, where applicable, transport) records; (iii) proven financial solvency (when applicable); and (iv) appropriate security and safety standards (when applicable). It stipulates that Risk Information Forms are to be prepared and exchanged electronically amongst customs offices where routine control concerns exist. Also, action is being taken on a programme for post-clearance audits (i.e. examination of accounts and records), under the Customs 2007 programme.[3] Council Decision No. 787/2004/EC provided funding for customs-related schemes that take into account the entrance of new Member States. In 2004, the EC signed an agreement with the United States to broaden and intensify cargo security on a reciprocal basis, ensuring equal treatment to both U.S. and EC ports and operators.[4] Since its last TPR, the EC has also signed agreements on cooperation and mutual administrative assistance in customs matters with the People's Republic of China, and India.[5]

7. The EC Commission adopted two proposals to modernize the CC in November 2005, both of which were under consideration by the Council and the European Parliament as at October 2006.[6] The first one proposes a complete overhaul and a reformulation of the CC, albeit maintaining its current bases, to take into account, *inter alia*, the use of new technologies. The proposal seeks, amongst other things, to: simplify the structure of the CC and provide more coherent terminology (the number of articles would be reduced as well as the number of main procedures), fewer provisions and simpler rules; reduce the number of import and export procedures; rationalize the customs guarantees system; extend the use of single authorizations throughout the EC, and provide the possibility for operators to centralize clearance of goods at a single customs office. The second proposal seeks the implementation of a paperless customs environment with interoperable, accessible, and interconnected automated customs systems throughout the EC; this will comprise all the IT systems necessary to ensure a fully functioning computerized customs environment of 25 (27 as of January 2007) national customs administrations.[7] Other specific proposals include the centralization of clearance procedures, with a one-stop shop for customs and other procedures to be performed at the EC's external border, and the implementation of a single window electronic entrance point.

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[2] World Customs Organization online information. Viewed at: http://www.wcoomd.org/ie/En/Conventions/conventions.html.

[3] The Customs 2007 Cooperation Programme is to support the achievement of policy objectives such as the functioning of the internal market, including supply chain security and trade facilitation, strengthening security and safety, and supporting the modernization of the customs environment. For further details on Customs 2007, see WTO (2004). An assessment was carried out by the Commission in 2005 (EC working document SEC/200635).

[4] *Official Journal* L 304/34 of 30 September 2004.

[5] *Official Journal* L 375/47, of 23 December 2004, and *Official Journal* L 304/ 47 of 30 September 2004.

[6] Proposals for a regulation laying down the Community Customs Code (COM (2005) 608 final), and for a decision on a paperless environment for customs and trade (COM (2005) 609 final). Both proposals were adopted on 30 November 2005.

[7] EC working document TAXUD/477/2004-Rev.3.

8. As at February 2006, customs declarations, either paper-based or electronic, were lodged and processed on the basis of the 1992 CC.[8] Although paper-based declarations are currently the rule (the above-mentioned proposals intend to reverse this), electronic declarations are already widely in use. Moreover, Regulation (EC) No. 648/2005 provides for the lodging of pre-arrival information, in the form of a summary declaration, to any customs office, in electronic form, with the exception of goods passing through territorial waters or airspace. Customs controls are based on risk analysis using automated data processing techniques and electronic exchange of risk information between customs offices on an EC-wide basis.[9] All appeals against customs decisions have to be lodged in the Member State where the decision has been taken or applied for.

9. Customs valuation procedures in the proposals under consideration would maintain the same basis as in the current CC.[10] As at January 2006, there was general satisfaction amongst the participating countries with the efficiency of the Customs 2007 programme. Nevertheless, the speed and extension of interconnected IT customs networks remains the principal challenge. In particular, several IT systems, e.g. TARIC and NCTS, together with new systems, will be brought under the electronicCustoms initiative, which seeks to establish interoperability and access to the various electronic customs systems throughout the EC and the transmission of data. The use of NCTS has been compulsory since 1 July 2005.[11] These various IT initiatives are expected to contribute to trade facilitation, as operators will be able to carry out all customs procedures from their place of business. The measures should reduce operating costs for traders and increase savings for the EC. They are expected to generate €2.5 million per year in savings and revenues when fully implemented.[12]

(ii) Common Customs MFN Tariff

10. The EC tariff nomenclature, known as the Combined Nomenclature, is based on the International Convention on the Harmonized Commodity Description and Coding System.[13] The EC's Common Customs Tariff schedule is published annually in its *Official Journal;* for 2006, it contains 9,843 lines. The EC applies several types of tariff; *ad valorem* rates are the most widely used (90%), followed by specific (6.4%), compound (2%), alternate (0.7%) and variable (0.9%).[14] Some agricultural products are subject to tariff quotas (section (2)(vii) and (Chapter IV(2)(ii)(a)). *Ad valorem* tariffs are applied on the c.i.f. customs value.

11. The EC has bound all its tariff lines in the WTO (Schedule CXL) (Table III.1). The proportion of tariff lines with the same applied and bound rates is 98.4%. On three product categories, the autonomous (applied) tariffs present problems of consistency with the corresponding conventional (bound) tariffs (Table III.2); according to the general rules on the EC tariff[15], "when autonomous rates of duty are lower than the conventional rates of duty, the autonomous duties, [...], are applicable".

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[8] For further details, see WTO (2004).

[9] Regulation (EC) No. 1889/2005 also requires that all persons carrying €10,000 or more make a declaration when crossing the border and that the information be exchanged with other Member States if there are indications that it is related to illegal activities as defined in Directive 91/308/EEC.

[10] For further details, see WTO (2004).

[11] For further details on the various customs-related IT schemes, see WTO (2004).

[12] EC Memo/05/453. Viewed at: http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/05/453&format=HTML&aged=0&language=EN&guiLanguage=fr.

[13] For a detailed description of the EC's Combined Nomenclature, see WTO (2004).

[14] For a description of the five types of rates used by the EC see WTO (2004).

[15] European Union *Official Journal* L 286, 28 October 2005.

Table III.1
Structure of the EC MFN tariff, 2004-06
(Per cent)

	2004	2006	2006 bound rate	U.R.
1. Bound tariff lines (% of all tariff lines)	100.0	100.0	100.0	100.0
2. Duty-free tariff lines (% of all tariff lines)	26.9	26.0	25.2	25.2
3. Non-*ad valorem* tariffs (% of all tariff lines)	9.9	10.0	10.0	10.0
4. Tariff quotas (% of all tariff lines)	3.3	3.4	3.4	3.4
5. Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	2.7	2.1	2.1	2.1
6. Simple average tariff rate	6.5	6.9	7.0	7.0
Agricultural products (WTO definition)[a]	16.5	18.6	18.6	18.6
Non-agricultural products (WTO definition)[b]	4.1	4.0	4.1	4.1
Agriculture, hunting, forestry and fishing (ISIC 1)	10.0	10.9	11.2	11.2
Mining and quarrying (ISIC 2)	0.2	0.3	0.3	0.3
Manufacturing (ISIC 3)	6.4	6.8	6.9	6.9
7 Domestic tariff "spikes" (% of all tariff lines)[c]	5.8	5.6	5.8	5.8
8. International tariff "peaks" (% of all tariff lines)[d]	8.6	9.0	9.3	9.3
9. Overall standard deviation of applied rates	11.5	14.0	14.0	14.0
10. "Nuisance" applied rates (% of all tariff lines)[e]	6.8	9.4	9.4	9.4

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

Note: The 2006 bound tariff rate is the "conventional" rate given by the EC, while the UR rate is the final bound rate extracted from the WTO database.

Source: WTO Secretariat calculations, based on EC *Official Journal* L286; and WTO estimates.

Table III.2
Items with problems of consistency between conventional and autonomous rates

	"Conventional" (bound) rate	"Autonomous" (applied) rate
21069010	8.3% + 78.3 €/100 kg/net	13% + 122.3 €/100 kg/net MAX 35 €/100 kg/net
37061099	6.5%	5 €/100 m
37069099	5.4%	3.5 €/100 m

Source: European Union *Official Journal* L286, 28 October 2005.

12. For analytical purposes, *ad valorem* equivalents (AVEs) of non-*ad valorem* tariffs have been calculated using average unit prices or "entry prices" of imports, where they exist. The computation of the average unit prices is based on 2005 (or 2004) data.[16] The analysis covers some 9,741tariff lines, i.e. some 102 non-*ad valorem* tariff lines, with no import or entry price, are excluded. The tariff lines excluded from the analysis are for agricultural products: 83 of the lines carry data on intra-EC trade, with no imports from non-EC Members. The analysis may, to a certain extent, be biased. For instance, the exclusion of some non-*ad valorem* tariff lines, as well as the use of 2005/04 data for the present analysis, is likely to introduce a downward bias in the estimate; world prices (in euros) of certain agricultural products might have fallen since then.[17] The use of variable tariffs (with entry prices) is also a factor.

13. Subject to the preceding observations, the simple average applied MFN tariff is estimated at 6.9% in 2006 (up from 6.5% in 2004), with rates ranging from zero to 427.9% (Table III.3 and AIII.1). The increase in the average rate is due to a downward trend in import prices of certain agricultural products subject to non-*ad valorem* tariffs: the tariffs having remained unchanged, the

[16] In the absence of imports of certain items in 2005, 2004 data are used where they exist.
[17] AVEs used in the 2004 review of the EC were based on 2002 trade data; the overall average tariff was 6.5%. The use of 2004 trade data would have resulted in a higher overall 2004 average tariff of 6.8%.

downward trend has meant higher AVEs (i.e. higher nominal tariff protection) for the products. Some 81.5% of tariff lines carry rates lower than 10% (Chart III.1). The modal range (32.1% of all tariff lines) remains between zero (excluded) and 5% (included), and the modal rate is still zero. The relatively high coefficient of variation (2) depicts a wide dispersion within the rates, essentially in agriculture, mainly due to the imposition of non-*ad valorem* tariffs and the large dispersion/fluctuation of their AVEs.

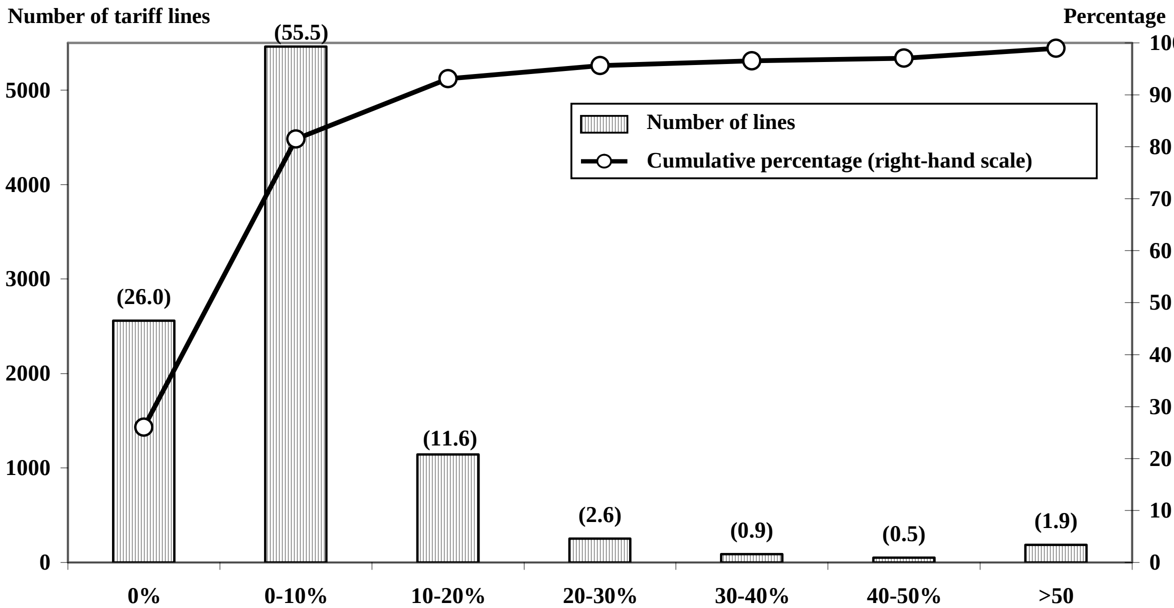
Table III.3
Structure of the EC MFN tariff by WTO sector, 2006

	All products: HS 01-97		WTO Agriculture		WTO non-agriculture [a]	
	Number of lines	%	Number of lines	%	Number of lines	%
Total	9,843	100.0	2,059	100.0	7,784	100.0
Ad valorem	8,854	90.0	1,107	53.8	7,747	99.5
Duty free	2,559	26.0	389	18.9	2,170	27.9
Dutable	6,295	64.0	718	34.9	5,577	71.6
Non-*ad valorem*	989	10.0	952	46.2	37	0.5
Spécific	633	6.4	628	30.5	5	0.1
Mixed	73	0.7	42	2.0	31	0.4
Compound	197	2.0	197	9.6	0	0.0
Other	86	0.9	85	4.1	1	0.0

a Includes petroleum.

Source: WTO Secretariat estimation, based on data provided by the European Community authorities.

Chart III.1
Breakdown of applied MFN tariffs, 2006



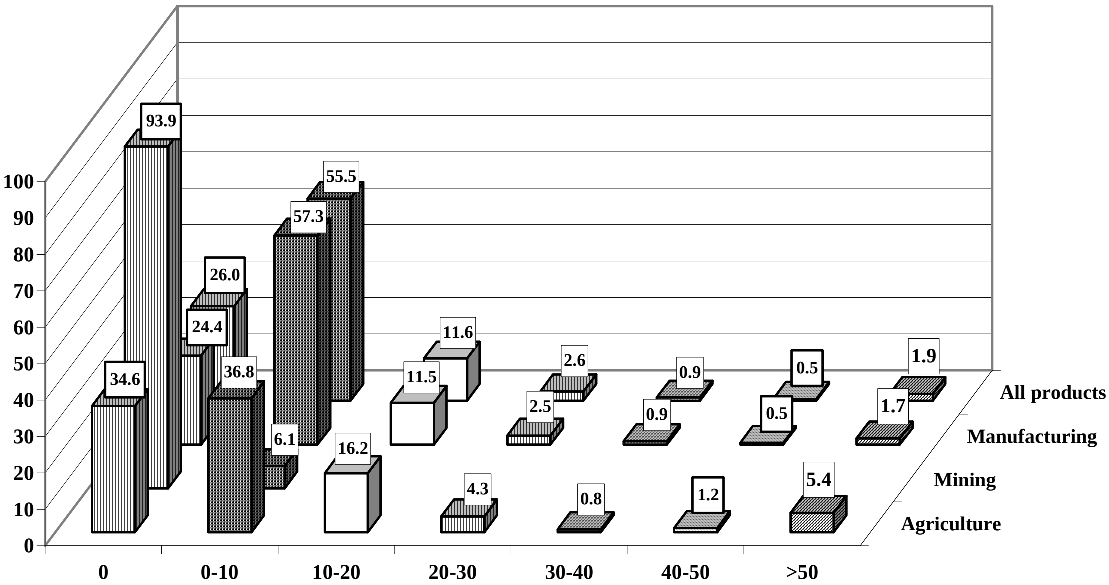
Note: **The figures in brackets correspond to the percentage of total lines. They do not add to 100% since AVEs are not estimated for 102 lines.**

***Source*: WTO Secretariat calculations, based on EC *Official Journal* L286, 28 October 2005.**

14. Agricultural products (WTO definition) are the most tariff-protected, with an average MFN tariff of 18.6% (more than twice the overall average MFN tariff). The average non-agricultural MFN tariff (excluding petroleum) is 4.0%. Agricultural products are also the most tariff-protected under the ISIC (Revision 2) definition, with an average rate of 10.9%, followed by manufactured products (with an average tariff of 6.8%), and mining and quarrying (0.3%) (Table III.1). Some 5.4% of all agricultural tariff lines are subject to rates higher than 50% (Chart III.2).

Chart III.2
MFN tariff distribution by ISIC sector[a], 2006

Number of lines



a Labels are share of the total number of tariff lines, by sector. They do not add to 100% since AVEs are not estimated for 102 lines.

Source: WTO Secretariat calculations, based on EC *Official Journal* L286, 28 October 2005.

15. Product-wise, the zero rate still applies to, *inter alia*, bamboo, rattan, cotton linters, pharmaceutical products, pulp of wood, ore, slag and ash, printed books and newspapers, tin products, works of art, and civil aviation aircraft. Products with relatively high tariff protection are almost exclusively agricultural or processed food, including certain edible flours and meals of meat or meat offal (427.9%); certain *Agaricus* mushrooms (300.8%); certain frozen meat of bovine animals (276.9%); certain pineapple juices (209.8%); frozen edible offal of bovine animals (188.2%); live *Gallus domesticus* fowl (167.2%); and isoglucose (163.8%).

16. On aggregate, because of the relatively high protection of agricultural goods, the EC tariff schedule continues to show mixed escalation, with average rates of 8.9% for the first stage of processing, 5.0% on semi-processed goods and 7.5% on fully processed goods. At a more disaggregate (ISIC (Revision 2) two-digit) level, the tariff structure has also remained broadly unchanged since the last review of the EC, with mixed escalation in wood products; paper; food, beverages and tobacco; chemicals and plastics; and positive escalation in basic metal industries; textiles and apparel; non-metallic minerals; and fabricated metal (including machinery and equipment) industries (Table III.3 and Chart III.4).

Table III.4
Summary analysis of EC applied MFN tariffs, 2006

Analysis	No. of lines[a]	Applied 2006 rates: No. of lines used	Simple avg. tariff (%)	Tariff range (%)	Std-dev (%)	CV	Imports 2005 (US$ million)
Total	9,843	9,741	6.9	0-427.9	14.0	2.0	1,461,431
By WTO definition[b]							
Agriculture	2,059	1,957	18.6	0-427.9	27.1	1.5	78,001
Live animals and products thereof	331	295	27.3	0-427.9	39.9	1.5	5,843
Dairy products	155	123	42.4	1.6-134.4	28.8	0.7	693
Coffee and tea, cocoa, sugar, etc.	300	294	18.8	0-163.8	19.7	1.0	14,722
Cut flowers and plants	62	62	4.3	0-19.2	4.4	1.0	2,276
Fruit and vegetables	437	437	16.2	0-300.8	22.1	1.4	19,933
Grains	55	55	55.2	0-116.6	33.4	0.6	2,521
Oil seeds, fats, oils and their products	164	162	7.4	0-137.2	16.3	2.2	15,527
Beverages and spirits	272	253	15.2	0-209.8	22.7	1.5	6,496
Tobacco	30	30	19.7	5.2-74.9	20.8	1.1	2,321
Other agricultural products	253	246	6.1	0-122	14.7	2.4	7,667
Non-agriculture (excl. petroleum)	7,743	7,743	4.0	0-35.6	4.1	1.0	1,077,002
Fish and fishery products	381	381	10.5	0-26	6.6	0.6	17,679
Mineral products, precious stones and precious metals	513	513	2.4	0-13.8	2.9	1.2	111,991
Metals	1,024	1,024	1.8	0-10	2.3	1.3	100,101
Chemicals and photographic supplies	1,389	1,389	4.4	0-35.6	2.8	0.6	124,184
Leather, rubber, footwear and travel goods	283	283	4.8	0-17	4.7	1.0	32,838
Wood, pulp, paper and furniture	444	444	1.2	0-10	2.3	2.0	44,139
Textiles and clothing	1,269	1,269	8.0	0-12	3.2	0.4	98,806
Transport equipment	262	262	4.8	0-22	5.1	1.1	108,099
Non-electric machinery	952	952	1.7	0-9.7	1.4	0.8	177,787
Electric machinery	544	544	2.8	0-14	3.4	1.2	163,529
Non agricultural articles n.e.s.	682	682	2.4	0-14	1.9	0.8	97,850
By ISIC sector[c]							
Agriculture, hunting, forestry and fishing	598	594	10.9	0-167.2	20.4	1.9	43,049
Mining	131	131	0.3	0-8.6	1.3	5.0	270,425
Manufacturing	9,113	9,015	6.8	0-427.9	13.5	2.0	1,086,408
By stage of processing							
Raw materials	1,202	1,197	8.9	0-167.2	18.6	2.1	371,061
Semi-processed products	2,917	2,911	5.0	0-207.2	8.2	1.6	175,750
Fully-processed products	5,724	5,633	7.5	0-427.9	15.0	2.0	856,345

a Tariff rates are based on a lower frequency (number of lines) since lines with no *ad valorem* equivalents are excluded.

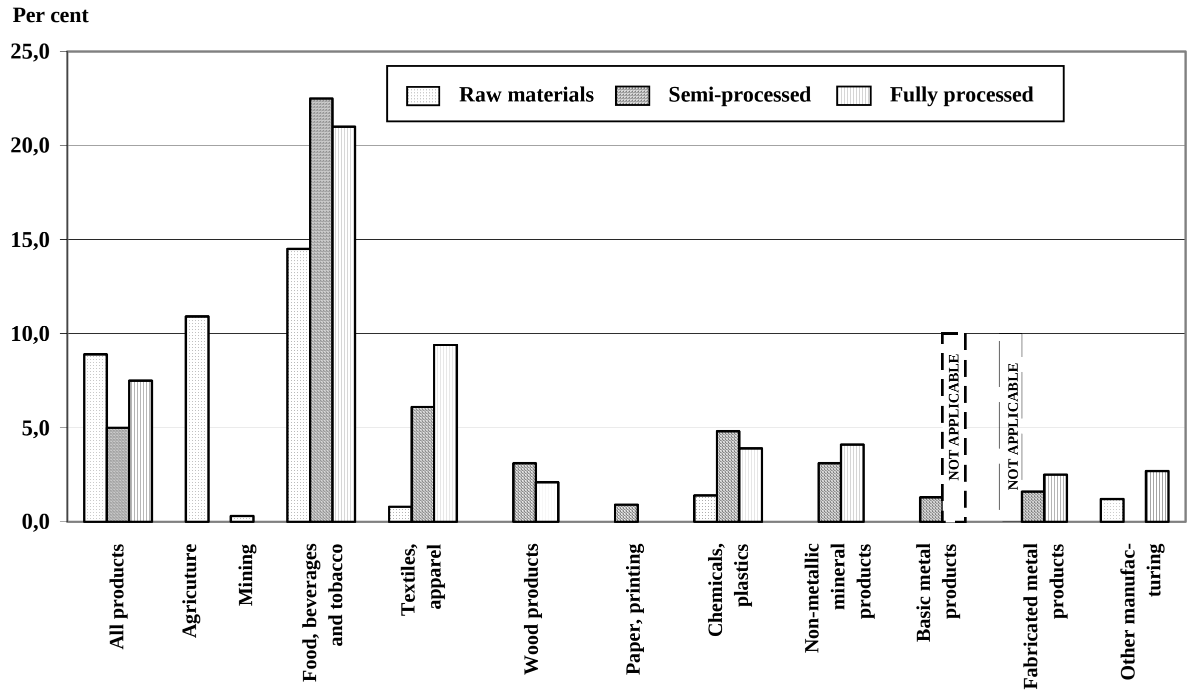
b Some 41 tariff lines are excluded from both WTO agriculture and non-agriculture definitions (essentially petroleum products).

c International Standard Industrial Classification (Rev.2). Electricity, gas and water are excluded (1 tariff line).

Note: CV = coefficient of variation.

Source: WTO Secretariat estimates, based on EC *Official Journal* L286; imports data provided by the EC.

Chart III.3
Tariff escalation by ISIC 2-digit industry, 2006



Source**:** **WTO Secretariat calculations, based on EC *Official Journal* L286, 28 October 2005; and WTO estimates.**

(iii) Other duties and taxes

(a) Value-Added Tax

17. During the period under review there has been no fundamental change to the main VAT legislation at the EC level (The Sixth Directive).[18] The VAT base is largely harmonized across the EC, but rates, derogations, and procedures differ across Member States. In practice, the contribution of VAT to the Member States' fiscal accounts varies: in 2003, it ranged from 6.1% of GDP (Italy) to 9.7% of GDP (Denmark).[19] In the long run, the EC aims to establish a single harmonized VAT system, with the tax levied at the final place of consumption of goods and services, and a single set of procedures based on electronic returns.[20]

18. The Sixth Directive allows Member States certain derogations in the implementation of VAT at national level (Article 27). This gives rise to variations in the way VAT functions across the EC (Table III.5). As at 31 December 2005, the following derogations were in force: Austria (3), Belgium (12), Cyprus (1), Denmark (7), Finland (1), France (11), Germany (18), Greece (7), Ireland (10), Italy (10), Luxembourg (7), Netherlands (16), Portugal (1), Spain (2), Sweden (1), and United Kingdom (13).[21]

[18] Sixth Council Directive 77/388/EEC of 17 May 1977, as last amended by Council Directive 2006/18/EC of 14 February 2006.
[19] DG Taxation and Customs Union (2005).
[20] DG Taxation and Customs Union (2006b).
[21] DG Taxation and Customs Union (2006a).

Table III.5
National VAT rates in the EC

Country	Legal base (as amended)	Rates			
		Super Reduced	Reduced	Standard	Parking
Austria	Turnover Tax of 1994	-	10.0	20.0	12.0
Belgium	VAT Law of 3 July 1969	-	6.0	21.0	12.0
Cyprus	VAT Law of 7 July 2000 L.95(I)/2000	-	5.0/8.0	15.0	n.a.
Czech Republic	VAT Act of 2004	-	5.0	19.0	n.a.
Denmark	Danish VAT Act of 18 May 1994	-	-	25.0	n.a.
Estonia	VAT Law of 25 August 1993	-	5.0	18.0	n.a.
Finland	VAT Act of 30 December 1993	-	8.0/17.0	22.0	n.a.
France	Law 78/1239 of 29 December 1978	2.1	5.5	19.6	n.a.
Germany	The VAT Act of 21 February 2005	-	7.0	16.0[a]	n.a.
Greece	Law 1642 of 21 August 1986 1986 codified by Law 2859/2000 of 7 November 2000	4.5	9.0	19.0	n.a.
Hungary	Act IXXIV on VAT of 1992	-	5.0	20.0	n.a.
Ireland	VAT Act of 1972	4.4	13.5	21.0	13.5
Italy	PD 633 of 26 October 1972	4.0	10.0	20.0	n.a.
Latvia	VAT Law of 26 October 1995	-	5.0	18.0	n.a.
Lithuania	VAT Law of 5 March 2002 No IX-751	-	5.0/9.0	18.0	n.a.
Luxemburg	Basic VAT Law of 5 August 1969	3.0	6.0	15.0	12.0
Malta	VAT ACT XXIII of 1998	-	5.0	18.0	n.a.
Netherlands	VAT of 28 June 1968	-	6.0	19.0	n.a.
Poland	VAT Act of 11 March 2004	3.0	7.0	22.0	n.a.
Portugal	DL 394B/84 of 26 December 1984	-	5.0/12.0	21.0	n.a.
Slovenia	VAT Act No. 89/98 of 23 December 1998	-	8.5	20.0	n.a.
Slovakia	VAT Act No. 175/1998 of 1 January 1998	-	-	19.0	n.a.
Spain	Law 37 of 29 December 1992	4.0	7.0	16.0	n.a.
Sweden	VAT (SFS 1994: 200) of 1 July 1994	-	6.0/12.0	25.0	n.a.
United Kingdom	VAT Act of 1994	-	5.0	17.5	n.a.

a Will be raised to 19% as of January 2007.

n.a. Not applicable.

Note: Further reductions are applied in some regions of Austria, Greece, France, Italy and Portugal.

Source: European Commission (2006), *VAT rates applied in the Member States of the European Community*. Viewed at: http://europa.eu.int/comm/taxation_customs/customs/index_en.htm.

19. Another salient feature of the EC's VAT regime is its exemptions schemes (Table III.6).[22] The four main schemes are for: (i) intra-EC acquisitions by taxable persons; (ii) intra-EC distance sales (generally small non-businesses); (iii) small businesses operating within the Member State where they are located; and (iv) small quantities of particular goods imported for personal consumption (section (b) below).[23] These exemptions are generally applied as long as the transaction value is below the thresholds defined by each Member State subject to certain limits set out in EC legislation. Other more general VAT exemptions provided for by the Sixth Directive concern activities of public interest or where the application of VAT is difficult (e.g. postal services, hospital and medical care, financial services, insurance and reinsurance transactions), specific imports (e.g. goods that should enjoy VAT exemption in the exporting country, gas, and electricity), and goods in transit (e.g. goods placed in warehouses). Special rules apply to transactions involving motor vehicles less than six months old and with less than 6,000 km, where VAT is paid in the owner's Member State of residence.

[22] Sixth Council Directive 77/388/EEC of 17 May 1977, as last amended by Council Directive 2006/18/EC of 14 February 2006, Articles 13-16, and Council Directive 69/169/EEC of 28 May 1969, Articles 2 and 7.

[23] DG Taxation and Customs Union (2006c).

Table III.6
VAT exemption thresholds in the EC

Country	Thresholds (euros)			
	Acquisitions by taxable persons[a]	Distance selling[a]	Small enterprises[a]	Small quantities[d]
Austria	11,000	100,000	22,000	600/175
Belgium	11,200	35,000	5,580	600/175
Cyprus	10,000	35,000	15,600	600/175
Czech Republic	10,018	35,034	30,731	600/175
Denmark	10,722	37,528	6,667	600/175
Germany	12,500	100,000	17,500	600/175
Estonia	10,226	35,151	16,000	600/175
Greece	10,000	35,000	9,000/4,000	600/175
Spain	10,000	35,000	..	600/175
France	10,000	100,000	76,300/27,000	600/175
Ireland	41,000	35,000	51,000/25,500	600/175
Italy	8,263	27,889	..	600/175
Latvia	10,778	36,952	17,200	600/175
Lithuania	10,138	36,207	29,000	600/175
Luxemburg	10,000	100,000	100,000	600/175
Hungary	10,000	35,000	15,860	600/175
Malta	10,000	35,000	37,000/24,300/ 14,600	600/175
Netherlands	10,000	100,000	..	600/175
Poland	10,000	35,000	10,000	600/175
Portugal	10,000	35,000	9,976/12,470	600/175
Slovenia	10,000	35,000	25,000	600/175
Slovakia	10,345	36,946	36,946	600/175
Finland	10,000	35,000	8,500	600/175
Sweden	10,071	35,809	..	600/175
United Kingdom	87,145	105,089	87,145	600/175

a Second subparagraph of Article 28(a)(i) of Directive 77/388/EEC, as amended.
b Article 28b, (2) of Directive 77/388/EE, as amended.
c Article 24(2) of Directive 77/388/EEC, as amended. This scheme is reserved for taxable persons established within the territory of the country.
d The first figure refers to intra-EC imports; the second refers to imports from third countries into the EC.

.. Not available.

Note: For Malta, € 37,000 when the economic activity consists principally in the supply of goods. € 24,300 when the economic activity consists principally in the supply of services with a low value added (high inputs), and € 14,600 in other cases, namely service providers with a high value added (low inputs).

Source: DG Taxation and Customs Union (2006). *VAT in the European Community*. Viewed at: http://europa.eu.int/comm/taxation_customs/taxation/vat/traders/vat_community/index_en.htm and Council Directive 69/169/EEC of 28 May 1969, Articles 1 and 2.

20. During the period under review, the Council amended the Sixth Directive, granting Member States the right to apply reduced VAT rates until 31 December 2010 to specific labour-intensive activities, i.e. small service repair of bicycle, shoes and leather goods, renovation and repair of private dwellings, window cleaning in private households, and domestic care service and hairdressing.[24] In February 2006, a proposal was also presented to the Commission to bring the regime up to date and raise the maximum quantities and values under which imports for personal consumption are eligible for exemption of VAT.[25] The proposal also seeks to abolish quantitative limits for perfume, coffee and tea, and impose a quantitative limit on imported beer, whether from EC Member States or not.

21. In 2005, the Commission published a report on the results of consultations concerning the implementation of a one-stop scheme for persons liable for VAT in more than one Member State[26], an initial step in the simplification of the VAT system throughout the EC. A number of issues raised in

[24] Council Directive 2006/18/EC of 14 February 2006.
[25] Council Directive Proposal COM(2006), 76 final, 2006/0021 (CNS).
[26] EC working document TAXUD/D/1D (2005).

the consultations were reflected in the subsequent legislative proposal, including a more extensive use of the system (business-to-business (B2B) as well as business-to-consumer (B2C)); and provisions for repayments have been made more business-friendly. A regulation was also enacted to clarify provisions of the Sixth Directive and to ensure greater consistency in its interpretation.[27]

(b) Excise duties

22. During the period under review, there was no major change to the excise duty system in the EC, which concerns alcoholic beverages, tobacco products, and energy products.[28] The base for excise duties has been harmonized throughout the EC, but the rates differ among Member States; while EC legislation establishes their minimum, they are set at national level. EC legislation on excise taxes does not discriminate between EC and non-EC products.

23. There are no limits on what private persons can take with them when they travel between EC countries, as long as the products are for personal use and not for resale. Excise duties and VAT are included in the product price in the Member State of purchase, and no further payment is due in any other Member State.[29] Each country can set guide levels for personal use, tobacco and alcohol.[30] Travellers who carry a larger quantity of these goods may be asked to prove they are intended for personal use. In May 2004, existing Member States were given the temporary option to set limits for exemptions from excise duties on goods travellers could bring from new Member States. Limits on tobacco products were imposed by Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy (only with respect to Slovenia), Sweden, and the United Kingdom.

24. Travellers entering the EC from a non-EC country may import goods in their personal luggage free of customs duties, VAT, and excise duties within specified limits (Table III.7).

Table III.7
Thresholds for excise duty exemptions on imports (for personal use) from non-EC countries, 2005

Tobacco products	200 cigarettes or 100 cigarillos or 50 cigars or 250 grams of tobacco
Alcoholic drinks	1 litre of spirits over 22 % volume or 2 litres of fortified wine or sparkling wine 2 litres of still wine
Perfume	50 grams
Eau de toilette	250 ml
Other goods	Up to a value of €175[a b c]

a Within that limit, Finland applies a limit of 16 litres of beer per person.
b Member States may reduce this limit to €90 for travellers under 15 years.
c The value of personal effects imported temporarily or re-imported following their temporary export is not be taken into consideration for determining this amount.

Note: In this context, imports are regarded as having no commercial character if they take place occasionally and consist of goods for the personal or family use of the travellers, or of goods intended as presents. The limits laid down in the table above also apply for travellers coming from: the Canary Islands, the Channel Islands, Gibraltar or other territories where VAT and EC excise provisions do not apply.

Source: Directive 69/169/EEC and Article 46 of Regulation 918/83.

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[27] Council Regulation No. 1777/2005 of 17 October 2005.
[28] See WTO (2004), for further details on the EC's excise duty legislation.
[29] Council Directive No. 92/12/EEC of 25 February 1992, Articles 8 and 9.
[30] Council Directive No. 92/12/EEC of 25 February 1992, Article 9. The guide levels may not be lower than: 800 cigarettes, 400 cigarillos, 200 cigars, 1 kg of smoking tobacco, 10 litres of spirit drinks, 20 litres of intermediate products, 90 litres of wines (including a maximum of 60 litres of sparkling wines), and 100 litres of beer.

25. In February 2006, a proposal was adopted to revise international travel allowances.[31] The proposal includes an increase to €220 (€500 for air travellers) for goods brought into the EC, other than those specified in the regulations; the abolition of limits on perfume, coffee, and tea; the introduction of limits on the importation of beer; and a prerogative to Member States to reduce limits on tobacco products in order to support health policies. During the period under review, additional regulations were enacted to clarify rules and procedures for cooperation among Member States to ensure compliance with excise duties legislation.[32]

(iv) Duty and tax exemptions and concessions

26. During the period under review, there were no changes to the EC legislation on duty and tax exemptions and concessions[33]; and no changes are envisioned under the proposed CC. In addition to VAT and excise duty exemptions (section (iii) above), the CC still provides for customs duty relief on account of special circumstances[34]; on re-imported Community goods; on products fished from the sea by Member State vessels; and on goods re-exported after inward processing under the drawback procedure, or because they are defective, or do not comply with the terms of the contract.[35] Furthermore, customs duties are suspended under various customs approved treatments, including: external transit; customs warehousing; inward processing; temporary importation; and free zones and free warehouse.

27. The EC is a signatory to the Convention on Temporary Admission and thus applies the VAT exemptions contained in the Convention.[36]

(v) Rules of origin

28. EC rules of origin have not changed since its last TPR, nor have the procedures used to establish the origin of imports. Non-preferential rules of origin are contained in the CC and its implementing regulations, and preferential rules of origin in the implementing provision of the CC (for autonomous/non-reciprocal preferences) and the various trade agreements and arrangements concluded by the EC. The provision on cumulation continues to be applied under its three schemes: bilateral, diagonal, and full.[37]

29. Consultations have been carried out with the private sector and customs offices on the changes to be implemented on preferential rules of origin, with a view to promoting their simplification. A Communication on the future of preferential rules of origin (COM(2005) 100) was

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[31] EC Press release IP/06/238 of 27 February 2006; and European Communities (2006).

[32] Council Regulation No. 2073/2004 of 16 November 2004 and Council Directive No. 2004/106/EEC of 16 November 2004.

[33] For further details on VAT exemptions, see WTO (2004).

[34] Regulation No. 918/83 lists the goods that qualify for duty relief on account of special circumstances. These include personal property by private individuals; goods of negligible value imported by private individuals; articles imported for carrying out activities in the public interest; equipment belonging to a firm moving to the Community; selected products obtained by Community farmers; and tourist information material.

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

[36] For further details on the Convention on Temporary Admission, see WTO (2004), Chapter III, footnote 41.

[37] For further details on the EC's rules of origin, see WTO (2004). The legal basis for non-preferential rules of origin are contained in Articles 22-27 of the CC, and Articles 35-65 and Annexes 9-11 of the IPC (Commission Regulation No. 2454/93). In the case of preferential rules of origin, the legal basis comprises Article 27 of the CC, Articles 66-123 of the IPC and the preferential agreements and arrangements signed by the EC.

adopted as a follow-up to the Green Paper put forward in December 2003. Three broad changes are contemplated in the Communication: (i) the replacement of all existing rules (many of which are specific to products and countries), by one, across-the-board rule based on value-added in the beneficiary country (i.e. a threshold of value-added, to be determined, would define origin) subject to an ongoing evaluation of its suitability; (ii) certifications of origin would be replaced by a statement on origin given directly by the exporter, with the appropriate country authorities retaining responsibility for carrying out registration and certification of origin controls; and (iii) enforcement of rules of origin would fall under the responsibility of the competent authorities in the beneficiary country.

(vi) Tariff preferences

30. The CC provides for the possibility of granting preferential tariffs unilaterally, or on a reciprocal basis, through trade agreements (Chapter II(5)(iii)).[38] The preferences consist of duty-free access for almost all non-agricultural products, and relatively low tariffs (compared with the MFN levels), generally under quotas (i.e. tariff quotas), on selected agricultural goods.[39]

(vii) Import prohibitions, restrictions, and licensing

31. The EC implements trade and economic sanctions in accordance with resolutions of the United Nations Security Council (UNSC). For instance, the EC prohibited direct or indirect imports of rough diamonds, as well as round logs and timber products, from Liberia (whether of Liberian origin or not).[40] Furthermore, the EC has prohibited the importation of rough diamonds from Côte d'Ivoire, whether of Côte d'Ivoire origin or not. The EC has also implemented some other restrictions.[41]

32. The EC also restricts trade under treaties and international conventions to which it is a signatory. Since its last TPR, the EC has signed two treaties that may impose restrictive trade measures.[42] These were: the WHO Convention on Tobacco control, and the Convention on the Conservation of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean.[43] The EC implemented recommendations by the International Commission for the Conservation of the Atlantic Tunas (ICCAT) to impose trade sanctions upon Bolivia, Cambodia, Equatorial Guinea, Georgia, and Sierra Leone, and to lift sanctions earlier imposed upon Belize, Honduras, and Saint Vincent and the Grenadines.[44] Following a recommendation by ICCAT, the EC lifted trade sanctions on Cambodia,

[38] CC Article 20.

[39] See WTO (2004), for further details and an analysis of the EC's preferential trade regime.

[40] Council Common Position 2006/31/CFSP of 23 January 2006. Council Regulation (EC) No. 234/2004 of 10 February 2004 concerning certain restrictive measures in respect of Liberia and repealing Regulation (EC) No. 1030/2003 OJ L 40, 12.2.2004.

[41] Council Regulation (EC) No. 314/2004 of 19 February 2004 concerning certain restrictive measures in respect of Zimbabwe OJ L 55, 24.2.2004; Regulation (EC) No. 1210/2003 of 7 July 2003 concerning the importation of cultural goods from Iraq; Council Regulation (EC) No. 1236/2005 of 27 June 2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment OJ L 200, 30.7.2005; Council Regulation (EC) No. 1859/2005 of 14 November 2005 imposing certain restrictive measures in respect of Uzbekistan OJ L 299, 16.11.2005; Council Regulation (EC) No. 817/2006 of 29 May 2006 renewing the restrictive measures in respect of Burma/Myanmar and repealing Regulation (EC) No. 798/2004 OJ L 148, 2.6.2006.

[42] For a summary of the treaties and conventions in force at the time of the last Review, see WTO (2004).

[43] Council Decision 2004/513/EC of 2 June 2004, and Council Decision No. 2005/75/EC of 26 April 2004.

[44] Council Regulations (EC) No. 826/2004, No. 827/2004, and NP 828/2004 of 26 April 2004.

Equatorial Guinea, and Sierra Leone.[45] The EC has also transposed into Community law conservation measures adopted by the Convention on the Conservation of Antarctic Marine Living Resources, which included some trade-related elements.[46] The EC continues to carry out import surveillance, controls, and prohibitions on, *inter alia*, technical, sanitary, phytosanitary, and environmental grounds. The EC is member of the Kimberley Process; Council Regulation (EC) No. 2368/2002 implemented the Kimberley Process certification scheme.

33. During the period under review the EC made two notifications concerning import licensing procedures.[47] The EC import licensing system is in place to manage imports of specific products subject to quantitative restrictions, safeguard measures or import surveillance. In addition, certain steel and agricultural products are subject to Community surveillance for statistical purposes, according to the Commission. As regards non-WTO Members, the EC maintains quantitative restrictions on certain steel imports from Russia, Ukraine, and Kazakhstan. Import licences are free.

34. The EC currently maintains 98 tariff quotas, of which 91 are on agricultural products.[48] These quotas are administered through import licences, and include beef, sheep, goats, chicken, turkey, milk products, eggs, potatoes, fruit and vegetables, wheat, barley, rice, maize, starch, mushrooms, sausages, sugar, and grape juice (Chapter IV(2)(ii)).

35. Following the phase-out of the WTO Agreement on Textiles and Clothing on 31 December 2004, the EC maintains no quotas or double-checking on textiles and clothing imports with WTO Members. However, for ten textile and clothing products originating in China, specific agreed levels have been set until the end of 2007. These ten products, i.e. cotton fabrics, T-shirts, pullovers, men's trousers, blouses, bed linen, dresses, brassieres, table and kitchen linen, and flax or ramie yarn, were subject to the most significant surge of imports into the EC in the first semester of 2005 or were considered sensitive by EC producers. The import quota regime is administered through a double-surveillance licence system, both in China (at the export point) and in the EC (at the import point). The MoU was incorporated into the EC's textile import regime.[49] Trade in the products not covered by the MoU is to remain unaffected and thus quota free.

36. During the period under review, the EC extended the bilateral agreement with Belarus on trade restrictions on textile and clothing products, including on economic outward processing traffic. The bilateral textile agreement with Ukraine was also extended, but double-checking requirements were ended; double-checking requirements were also ended for Viet Nam and the Russian Federation. A bilateral textile agreement with Serbia suspended all quantitative restrictions. On an autonomous basis, the EC continues to apply quantitative restrictions on imports of textile and clothing products from the Democratic People's Republic of Korea, Montenegro, and Kosovo.[50] In the light of global liberalization of trade in textile and clothing products, bilateral and other arrangements with Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Laos, Tajikistan, and Turkmenistan and Uzbekistan were no longer extended.

[45] Council Regulation (EC) No. 919/2005 of 13 June 2005.
[46] Council Regulation (EC) No. 601/2004 of 22 March 2004.
[47] WTO documents G/LIC/N/3/EEC/7, G/LIC/N/3/EEC/7/Add.1, G/LIC/N/3/EEC/7/Corr.1, G/LIC/N/3/EEC/8, G/LIC/N/3/EEC/8/Add.1 and G/LIC/N/3/EEC/8/Corr.1.
[48] Commission Regulation No. 1719/2005 of 27 October 2005.
[49] Council Regulations No. 1084/2005 and 1478/2005 of 8 July and 12 September of 2005 respectively.
[50] For further details concerning bilateral agreements that imposed import restrictions, see WTO (2004).

(viii) Contingency trade remedies

37. During the period under review there were no major changes to the basic safeguard regulations applied by the EC on imports from WTO and non-WTO Members.[51] No major changes were made to its basic anti-dumping (AD) legislation[52]; and legislation on countervailing (CV) measures is unchanged.[53] Under EC regulations, imports should not be subject to more than necessary trade remedies. If the Council establishes that the combination of either anti-dumping or countervailing, and safeguard measures could lead to effects greater than "desirable" under the EC's trade defence policy, then the anti-dumping or countervailing measures may be amended, suspended, or repealed (partially/totally); nonetheless, other measures may be imposed if the Council deems it necessary.[54]

(a) Safeguards

38. The phase-out period of the WTO Agreement on Textiles and Clothing ended on 31 December 2004, thus terminating the quota scheme and safeguard mechanism under this regime. The adjustment to the EC's textile safeguard regulations was undertaken in 2003.[55]

39. According to official EC data, during the period 1 January 2004 to 30 September 2006, the EC initiated three safeguard investigations (on certain textile products, frozen strawberries, and farmed salmon), initiated one review of a safeguard measure (citrus fruits), imposed two definitive safeguard measures (on citrus fruits and farmed salmon), and revoked one measure (on farmed salmon).[56] As at September 2006, there were safeguard measures on citrus fruits, and surveillance measures on footwear and steel products. The safeguard investigation on strawberries was terminated without the imposition of measures. During the period under review, the EC made six safeguard notifications and six supplementary or corrigendum notifications to the WTO Committee on Safeguards[57]; they related to farmed salmon, prepared or preserved citrus fruits and strawberries. In these three cases, the notifications referred only to the initiation of investigations, and to the results of the mid-term review in the case of preserved citrus fruits. The EC notified that it did not apply the temporary tariff quotas (the safeguard measure) on imports of farmed salmon from developing countries as their individual and collective imports were negligible.

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[51] Council Regulation (EC) No. 2200/2004 of 13 December 2004 amended Council Regulation (EC) No. 3285/94 by excluding textiles imports from the scope of the regulation, unless they are subject to Council Regulation (EC) No. 517/94, and in general, products from countries listed in Council Regulation No. 519/94. Council Regulation (EC) No. 519/94 of 7 March 1994, as last amended by Council Regulation (EC) No. 427/2003 of 3 March 2003; Council Regulation (EC) No. 517/94 of 7 March 1994, as last amended by Commission Regulation (EC) No. 931/2005 of 6 June 2005 and Council Regulation (EC) No. 3030/93 of 12 October 1993, as last amended by Commission Regulation (EC) No. 1478/2005 of 12 September 2005. See WTO (2004), for further details.

[52] Council Regulation (EC) No. 384/96 of 22 December 1995, as last amended by Council Regulation (EC) No. 2117/2005 of 21 December 2005. For further details concerning the main AD legislative framework, see WTO (2004).

[53] Council Regulation (EC) No. 2026/97 of 6 October 1997, as last amended by Council Regulation (EC) Nº 461/2004 of 8 March 2004.

[54] Council Regulation (EC) No. 452/2003 of 6 March 2003.

[55] For further details concerning the legal basis of the adjustment, see WTO (2004).

[56] DG Trade online information. Viewed at: http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/index_en.htm.

[57] WTO documents G/SG/N/7/EEC/3; G/SG/N/8/EEC/3 and Suppl.1; G/SG/N/10/EEC/3 and Suppl.1; G/SG/N/11/EEC/3 and Suppl.1 and Suppl.2; G/SG/N/6/EEC/4 and Corr.1, G/SG/N/13/EEC/1; and G/SG/N/6/EEC/2/Suppl.1.

40. The EC also notified the Committee on Safeguards that, since 1 May 2004, EC legislation on safeguards is applicable throughout the new Member States and that all existing previous national legislation lapsed on that date.[58] Accordingly, all safeguard measures maintained by new EC Member States lapsed, including special safeguard measures (SSGs) on agricultural products.[59]

(b) Anti-dumping (AD) measures

41. The EC's AD legislation was amended in 2004.[60] The amendment imposed mandatory time limits for completion of review investigations (a target duration of twelve months, with a mandatory maximum of 15 months); amended the decision-making procedures for the adoption of definitive AD measures (a Commission proposal shall be adopted unless the Council decides by a simple majority to reject the proposal; this implies that abstentions count as positive votes); clarified what constitutes anti-circumvention practices, and who has the right to request the initiation of an investigation on circumventing practices; and clarified the rules on the possibility for exporters to be exempted from extended duties when circumvention takes place outside the EC.[61] In general, any resolution concerning the application of AD measures may be challenged in the European Court of First Instance and in the DSB in the case of WTO Members.[62]

42. According to EC data, from 1 January 2004 to 30 September 2006, 77 AD investigations were initiated and 39 definitive AD measures imposed.[63] Furthermore, the EC imposed provisional measures in 26 cases and terminated 18 cases without imposition of measures. The definitive AD measures applied were mostly *ad valorem* duties on specific textiles, chemicals, electronics, processed woods, bicycles, bricks, steel products, hand pallet trucks and their essential parts, trout, salmon, lever arch mechanisms, refrigerators, chamois leather, and plastic sacks and bags. During the same period, the EC made three AD notifications and three addendums or supplementary notifications to the WTO.[64]

43. Most AD rates applied were *ad valorem,* at between zero and 82%. During the period, 40 AD measures expired after the five-year imposition period, 22 were repealed after their review, and 16 lapsed with the accession of the new EC Member States. As at 30 September 2006, 135 definitive measures were in place, of which 39 on imports from China, ten from Russia, and nine each from India and Thailand. The EC also applies AD measures against certain leather shoes from China and VietNam (excluding high-tech sport shoes)[65]; the AD rates are set at 16.5% and 10.0% respectively (7 October 2006).

44. The number of AD notifications by the EC to the WTO has decreased significantly since the late 1990s; notifications of other contingency measures have decreased slightly (Table III.8). In

[58] WTO document G/SN/N/1/EEC/1/Suppl.2 of 1 November 2004.

[59] Four new EC Member States were imposing special safeguard measures on agricultural products: the Czech Republic (one), Hungary (two), the Slovak Republic (two) and Poland (three). WTO documents: G/AG/N/CZE/54 of 26 May 2004, G/AG/N/HUN/36 of 5 May 2004, G/AG/N/HUN/39 of 8 February 2005, G/AG/N/POL/61 of 17 February 2004, G/AG/N/POL/64 of 20 September 2004, G/AG/N/POL/65 of 31 January 2006, and G/AG/N/SVK/46 of 20 May 2005.

[60] Council Regulation No. 461/2004 of 8 March 2004.

[61] For further details on EC anti-dumping procedures, see WTO (2004).

[62] DG Trade online information. Viewed at: http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/index_en.htm.

[63] DG Trade (2005) and (2006a). Cases concerning several countries are counted as separate investigations/proceedings per country involved.

[64] WTO documents G/ADP/N/119/EEC and Add.1; G/ADP/N/126/EEC; G/ADP/N/132/EEC; G/ADP/N/1/EEC/2/Suppl.6 and Suppl.7.

[65] Council Regulation No. 1472/2006 of 5 October 2006.

particular, during 2000-04, the average number of initiations of AD investigations per year was significantly less (at 23), than during 1995-99, as was the average number of definitive measures (at 18).[66]

Table III.8
Contingency measures notified by the EC

	Average 1995-99	2000	2001	2002	2003	2004	2005	2006[a]
Anti-Dumping								
Initiation of investigations	37	31	27	20	7	29	24	24
Definitive measures	21	40	12	25	3	9	19	11
Countervailing								
Initiation of investigations	6	0	6	3	1	0	2	0
Definitive measures	1	11	0	3	2	2	0	0
Safeguards								
Initiation of investigations	0	0	0	1	2	1	2	0
Definitive measures	0	0	0	1	0	1	1	0

a To 30 September 2006.

Source: WTO Committees on Anti-Dumping Practices, Subsidies and Countervailing Measures, and Safeguards.

(c) Countervailing (CV) measures

45. Countervailing investigations procedures are similar to those for AD.[67] After accession on 1 May 2004, the new EC Member States' CV measures were replaced by the EC's. According to official data, from 1 January 2004 to 30 September 2006, the EC initiated two new countervailing investigations (on plastic sacks and bags imports from Malaysia and Thailand), and imposed two definitive CV measures (on cotton-type bed linens and graphite electrode systems imports from India), both *ad valorem* duties.[68] The investigation on plastic sacks and bags from Malaysia and Thailand was terminated without imposition of definitive measures.

46. The EC made five notifications during the period, including one addendum and one corrigendum, to the WTO Committee on Subsidies and Countervailing Measures.[69] As at September 2006, a total of twelve CV measures were in force, eight on imports from India. Most of the measures were *ad valorem*, at rates ranging from 0% to 32%, and were on chemicals, textiles, some electric systems, some steel products, and antibiotics. Nine CV measures were terminated, all due to automatic expiry after the five-year imposition period.

47. In October 2004, the EC requested consultations concerning alleged U.S. subsidies to its national air-transport industries. The EC considered this type of aid incompatible with the provisions of the SCM Agreement, and with Article III:4 of the GATT 1994. As at mid-2006, the complaint was under review by the Dispute Settlement Body.

[66] After accession to the EC on 1 May 2005, the ten new Member States' own AD measures lapsed and were replaced by existing EC measures.
[67] For further details on the EC's basic legislation on countervailing measures, see WTO (2004).
[68] DG Trade (2005) and (2006a).
[69] WTO documents: G/SCM/N/113/EEC and Add.1; G/SCM/N/122/EEC; G/SCM/N/130/EEC/Corr.1.

(ix) Technical barriers to trade (TBT)

48. Full harmonization of Standards and technical regulations in the EC has not been achieved.[70] Products placed on the market of a Member State must comply, where necessary, with relevant national and Community-wide legislation; compliance is established by means of conformity assessment procedures. Product regulations at the Community level are of two main types: those laying down detailed specific technical requirements (old-approach directives), and those limited to the setting up of essential requirements (new-approach directives) defined to meet health, safety, and environmental objectives. Under the new-approach directives, the use of "specific standards" (harmonized standards) confers presumption of conformity to these essential requirements. The new-approach directives cover a wider range of products than the old-approach directives.[71]

49. Under the new-approach directives, the manufacturer placing a product on the Community market assumes responsibility for compliance with Community legislation. The manufacturer must affix the "CE" marking on the product to indicate conformity with the applicable EC requirements, without which the product cannot be placed on the Community market. The steps a manufacturer must take in order to affix the "CE" marking depends upon the sector. Conformity assessment of industrial products is carried out by bodies designated by Member States in accordance with the Community procedure for the notification of bodies. However, for many products, the EC accepts the supplier's declaration of conformity of the product to the relevant legislation without any mandatory third party intervention. The harmonized standards, which confer presumption of conformity, are developed by European standardization bodies, i.e. the European Telecommunications Standards Institute (ETSI), the European Committee for Electrotechnical Standardization (CENELEC), and the European Committee for Standardization (CEN).[72] These bodies have adopted the WTO Code of Good Practice for the preparation, adoption and application of standards.

50. In non-harmonized areas, Member States may legislate to provide increased transparency, and to prevent unjustified restrictions to trade; they are required to notify the European standards organizations of draft standards and the European Commission of draft technical regulations. Furthermore, the EC applies the principle of mutual recognition in the internal market. Hence, goods lawfully produced in one cannot be banned from sale on the territory of another, even if produced to meet technical or quality specifications different from those applied to locally produced goods, except in cases of overriding general interest (such as health, consumer, or environment protection), of which the Commission must be notified.

51. During the period under review, consultations were undertaken to revise the new approach. In particular, the standardization of existing informal requirements in the information and communication technology industry is a main issue. During the consultation process, recommendations were put forward: to continue making extensive use of EC TBT (harmonized regulations); to improve efficiency, coherence and visibility of European standards, and their regulatory framework, including the establishment of institutional mechanisms to finance the standardization process; and to continue to transpose international standards into the EC framework. An Action Plan for European Standardization was developed by the Commission in 2005 to

[70] See WTO (2004).

[71] See WTO (2004).

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

implement the recommendations.[73] The Commission also presented a proposal to regulate financing of EC standardization, based on different types of grants to the European standardization bodies.[74]

52. Under the WTO TBT Agreement, EC Member States made 54 notifications in 2004, 68 in 2005 and 62 in 2006 (up to October 2006) whilst the EC made 29, 24 and 35 notifications respectively (Table III.9). New regulations were adopted by the EC on civil aviation security, biometric products, laboratory blood tests, bananas, and poultry. All EC Member States have a national enquiry point for TBT requirements on non-harmonized areas.[75]

Table III.9
WTO notifications of technical regulations by the EC and Member States, 1995-06

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006[a]
Austria	0	0	2	1	2	0	0	0	0	0	0	0
Belgium	17	13	48	49	23	19	26	11	1	0	0	2
Cyprus	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Czech Republic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8	16	5
Denmark	28	15	23	40	27	25	7	6	16	2	2	5
Estonia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	1
Finland	4	7	5	5	3	5	3	5	0	2	0	4
France	1	2	15	20	21	7	9	7	14	5	15	6
Germany	2	3	3	3	3	0	0	0	0	2	0	0
Greece	0	0	0	0	0	0	0	0	0	0	0	0
Hungary	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	1	2
Ireland	0	0	1	0	0	0	0	0	0	0	0	0
Italy	0	0	0	0	0	0	0	1	2	3	1	0
Latvia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Lithuania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1	1	1
Luxemburg	0	0	1	2	1	0	0	0	0	0	0	0
Malta	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Netherlands	33	0	287	91	48	46	40	15	4	7	1	5
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	1
Portugal	0	0	0	0	0	0	0	0	0	0	0	0
Slovenia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15	9	12
Slovakia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1	3	0
Spain	4	7	5	9	9	6	9	12	5	1	0	3
Sweden	5	30	22	18	9	15	8	17	9	7	19	13
United Kingdom	0	0	5	2	5	9	1	4	4	0	0	2
EC	31	46	20	36	34	16	7	17	21	29	24	35
Total	123	123	437	276	185	148	110	95	76	83	92	97

n.a. Not applicable.

a Up to October 2006.

Source: WTO Secretariat.

53. The EC has signed no new mutual recognition agreements (MRAs) since its last TPR. However, amendments are being introduced to some existing MRAs. In other cases, the removal of the requirement for third party certification requirements in the regulations applied by the Parties, for example in electro-magnetic compatibility, has removed the need for an MRA. Once adopted, the amendment to MRA with Switzerland will eliminate the need for formal decisions by the EC and Switzerland to recognize, change the scope of, or withdraw recognition of conformity assessment bodies in cases where both parties agree.[76] Moreover, Protocols to the Europe Agreements on

[73] European Commission (2005a).
[74] COM(2005) 377 final.
[75] WTO document G/TBT/ENQ/27 of 17 February 2006.
[76] For details on existing MRAs and their sectoral coverage, see DG Trade Newsletter No. 1, "Mutual Recognition Agreements", February 2006.

Conformity Assessment and Acceptance of Industrial Products (PECA) have been agreed with Romania and Bulgaria.[77] Technical meetings were held within the framework of agreements on conformity assessment and acceptance of industrial products (ACAAs) with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria, Tunisia, and Ukraine. The ACAAs will be bilateral between the EC and the partner country, and will be limited to specific industrial subsectors as appropriate for each partner country; subsectors under discussion include electrical equipment, machinery, gas appliances, pressure equipment, construction products, medical devices, measuring instruments, toys, and pharmaceuticals. Preparatory work for the ACAAs is in the early stage of development. The EC considers ACAAs/PECAs an important pre-accession tool for candidate and potential candidate countries.[78]

(x) Sanitary and phytosanitary (SPS) measures

54. EC legislation on SPS issues is implemented by Member States in coordination with the Commission. The common SPS regime aims to provide EC exporters with technical support in SPS-related issues in third countries; provide technical assistance to developing countries in institutional capacity-building on SPS matters; comply with WTO rules and rulings; and maintain EC SPS legislation in line with international guidelines. The EC and its Member States participate in most committees and task forces in the Codex Alimentarius Commission and other international organizations in the SPS field (World Organisation for Animal Health, International Plant Protection Convention). An EC-wide Community Animal Health Policy was envisaged for 2007; as at October 2006 a review of the policy was still in progress.

55. During the period under review there was only one minor change to the main legislation on food safety.[79] An amendment was passed to enlarge the Scientific Panel of the European Food Safety Authority (EFSA) so as to include experts in various areas of plant health, e.g. entomology, mycology, virology and bacteriology.[80] The EFSA remains the principal institution in charge of scientific analysis on all SPS matters at EC level. It focuses on risk assessment, whilst the Commission and Member States are responsible for risk management and the operation of food control systems. Risk assessment is carried out by one of the eight scientific panels on: (i) food additives, flavouring, processing aids, and materials in contact with food; (ii) additives and products or substances used in animal feed; (iii) plant health, plant protection products and their residues; (iv) genetically modified organism; (v) dietetic products, nutrition and allergies; (vi) biological hazards; (vii) contaminants in the food chain; and (viii) animal health and welfare.

56. Several regulations were enacted to implement SPS legislation. An extension of the transitional period to allow for the implementation of collection systems for animal by-products was granted to Cyprus until 1 January 2007; in the meantime, on-site burning of animal by-products is permitted.[81] Another transitional measure was enacted to allow Member States to collect, transport, treat, use and dispose of some foodstuffs as long as these do not come into contact with any animal by-product; the measure is to be in place from 1 January 2006 to 31 July 2007.[82] The use of organic

[77] All relevant conformity assessment procedures and requirements concerning Turkey are contained in the Agreement Establishing the Definitive Phase of the Customs Union.

[78] For further details on the EC's TBT regime, see WTO (2004).

[79] The main legislation on food safety is Commission Regulation No. 178/2002 of 28 January 2002. For further details, see WTO (2004).

[80] Commission Regulation No. 575/2006 of 7 April 2006.

[81] Commission Decision 2005/62/EC of 27 January 2005.

[82] Commission Regulation No. 197/2006 of 3 February 2006.

fertilizer and soil improvers (other than manure) was regulated to, *inter alia*, eliminate the possible use of animal tissues that might contain transmissible spongiform encephalopathy agents.[83]

57. In order to help its exporters, the EC established data base on "trade-distorting" SPS measures in third countries.[84] These trade-distorting SPS measures relate to, *inter alia*, bovine spongiform encephalopathy, highly pathogenic avian influenza, certification, foot-and-mouth disease, food additives, classical swine fever, and listing of establishments. Under Article 7 of the Annex B to the WTO SPS Agreement, the EC and its Member States (EC-25) made 107 notifications in 2004, 44 in 2005 and eleven in 2006 (up to October 2006). Of these, eight (including addendums) were emergency SPS measures (Table III.10).

Table III.10
EC's emergency SPS measures

G/SPS/N/EEC/234	Temporary suspension of imports from Thailand of fresh meat of poultry, ratites, farmed and wild feathered game, poultry meat products and meat preparations consisting or containing meat of the above mentioned species, of raw material for pet food production obtained from poultry and of eggs for human consumption.	29 January 2004
G/SPS/N/EEC/235	Temporary suspension of imports from Cambodia, Indonesia, Japan, Laos, Pakistan, China (including Hong Kong), Korea, Thailand, and VietNam of fresh meat of poultry, ratites, farmed and wild feathered game, poultry meat products and meat preparations consisting or containing meat of the above mentioned species, of raw material for pet food production obtained from poultry and of eggs for human consumption.	9 February 2004
G/SPS/N/EEC/238	Temporary suspension of imports from the United States of live birds other than poultry including those accompanied by their owner, live poultry, ratites, farmed and wild feathered game birds and hatching eggs of these species and of fresh meat of poultry, ratites, wild and farmed feathered game, meat preparations and meat products consisting of, or containing meat of those species and of eggs for human consumption in response to an avian influenza outbreak in the United States (HS: 0105, 010631 to 010690, 0207, 0407, 0408, 1601, 160220 to 160239).	26 February 2004
G/SPS/N/EEC/240	Temporary suspension of imports of live birds other than poultry including those accompanied by their owner, live poultry, ratites, farmed and wild feathered game birds and hatching eggs of these species and of fresh meat of poultry, ratites, wild and farmed feathered game, meat preparations and meat products consisting of, or containing meat of those species and of eggs for human consumption in response to an avian influenza outbreak in Canada (HS: 0105, 010631 to 010690, 0207, 0407, 0408, 1601, 160220 to 160239).	24 March 2004
G/SPS/N/EEC/242	Suspension of imports of jelly mini-cups containing additives E 400, E 401, E 402, E 403, E 404, E 405, E 406, E 407, E 407a , E 410, E 412, E 413, E 414, E 415, E 417 and/or E 418 (ICS: 67.220). These additives present choking hazards.	7 April 2004
G/SPS/N/EEC/255	Suspension of imports of chemically defined flavouring substances for use in foodstuffs (ICS 67.220.20). These substances do not meet EC technical requirements.	16 February 2005
G/SPS/N/EEC/257	Suspension of imports of fruits of *Capsicum spp.* dried and crushed (CN 090420-90), curry powders (CN 091050), curcuma (CN 091030) ICS: 67.220.10 (spices and condiments) and palm oil (CN 15111090). These substances have been found to be carcinogens.	30 March 2005
G/SPS/N/EEC/277	Suspension of imports of chemically defined flavouring substances for use in foodstuffs (ICS 67.220.20, spices and condiments) and foodstuffs containing them. These substances do not meet EC technical requirements.	13 December 2005

Source: WTO documents.

[83] Commission Regulation No. 181/2006 of 1 February 2006 and 780/2004 of 26 April 2004.
[84] The database is available at: http://mkaccdb.cec.eu.int/sps/index.html. See WTO (2004), for further details on the SPS requirements and procedures for animal products exports.

58. Council Directive 2002/99/EC of 16 December 2002 deals with, *inter alia*, the prevention of the spread of transmissible diseases to animals, and veterinarian certification of animal products intended for human consumption. Several regulations established procedures for the implementation of the principal legislation on health concerning animal by-products not intended for human consumption. Several annexes were amended[85], i.e. Annex II, on hygiene requirements for the collection and transport of animal by-products; V, on the general hygiene requirements for the processing of animal by-products; VI on specific requirements for some animal by-products and for biogas and composting plants; VIII, on the requirements to place pet food, dog chews and technical products on the EC market; and XI, the list of countries from which animal by-products, not intended for human consumption, may be imported. In particular, imports of blood products from ungulates and other types (except from equidae) from Japan are now allowed as are imports of animal by-products for pharmaceutical use from Japan, the Philippines and Chinese Taipei.

59. The prohibition on certain substances having hormonal action for growth promotion has remained into force.[86] An amendment was introduced to the legislation on plastic materials and articles intended to come into contact with food.[87] Certain monomers were added to the Community list of permitted substances, as were some additives to the list monitored by EFSA after new information on their safety was made available. Also, the specific migration limit was reduced for PVC gaskets containing epoxidised soybean oil (ESBO), which are used to seal glass jars containing baby-food.

60. The restriction on the importation of Brazilian nuts in shells from Brazil has remained in place.[88] The Commission extended controls on Sudan dyes (Sudan I, II, III, and IV) to include imports of curcuma and virgin palm oil, as well as chilli, chilli products, and curries that may contained such dyes.[89] These dyes are not found naturally in food and have been classified as carcinogens by the International Agency for Research on Cancer.[90] As a consequence, EFSA and Member States have carried out systematic toxicological reviews on dyes since mid 2005.[91] Council Directive 2005/94/EC sets out preventive and control measures relating to the surveillance, early detection, and control of avian influenza.

(xi) Government procurement

61. Total public procurement within the EC-25 in 2004 represented 16% of its GDP. The EC public procurement regime aims to increase competition and transparency, and to create opportunities, better quality, and valued services.[92] During the period under review three new pieces of legislation were enacted which, as at mid 2006, provided the legal basis for public procurement procedures within the EC. Directive No. 2004/18/EC of 31 March 2004 consolidated, under one directive, the previous provisions on public work contracts, public supply contracts, and public services contracts. Directive N° 2004/17/EC of 31 March 2004 established public procurement procedures for specific sectors, i.e. water, energy, transport, and post services. These directives repealed existing legislation.

[85] Commission Regulations: No. 92/2005 of 19 January 2005, 93/2005 of 19 January 2005, 416/2005 of 11 March 2005, 2067/2005 of 16 December 2005 and 208/2006 of 7 February 2006.

[86] See WTO (2004), for a description of EC legislation on the ban of the use of hormones for growth promotion purposes.

[87] Commission Directive 2005/79/EC of 18 November 2005.

[88] For a description of these restrictions, see WTO (2004).

[89] DG Health and Consumer Protection, Press release IP/05/385 of 4 April 2005.

[90] Commission document MEX/04/0121, on *Midday Express*, 21 January 2004.

[91] Commission briefing MEMO/05/154, 11 May 2005.

[92] SIMAP online information. Viewed at: http://simap.eu.int/A/2330efb7-0aab-b34c-04c0377ccce3f48d_en.html.

Commission Decision No. 2005/15/EC set the rules for the applicability of Article 30 of Directive No 2004/17/EC. The main objectives of the new directives were to simplify the legal framework, to make it more flexible, and to adapt it to the electronic era.

62. The new directives introduced the following principal changes: (i) framework agreements (an agreement between one or more contracting entities and one or more suppliers, the purpose of which is to establish the terms governing contracts to be awarded during a given period of time); (ii) rules for selective tendering with negotiations; (iii) rules for a dynamic purchasing system based on open tendering (a wholly electronic system for commonly used goods/services); (iv) the possibility to reserve contracts to sheltered workshops and businesses where 50% or more of the labour force are disabled persons; (v) the possibility to have recourse to central purchasing bodies; (vi) clarifications on the use of social and environmental issues; (vii) mandatory exclusion of candidates under certain circumstances; and (viii) the use of electronic auctions. The procedures stipulated in the Directives are applied when the value of the purchase is at or above specified thresholds (Table III.11). Otherwise, the procedures followed are based on national law and principles stipulated in the EC Treaty such as non-discrimination, equal treatment, transparency, mutual recognition, and proportionality.

Table III.11
Minimum thresholds, mid 2006[a]
(euros)

	Supplies	Services	Works
Public contracts, other than for utilities			
EC GPA contracting authorities	137,000	137,000	5,278,000
Other public sector contracting authorities	211,000	211,000	5,278,000
Contracts subsidized more than 50% by the contracting authority[c]	n.a.	211,000	5,278,000
Service designs contests:			
Central government authorities	n.a.	137,000	n.a.
Other authorities	n.a.	211,000	n.a.
Specific sectors[d]	n.a.	211,000	n.a.
Utilities[b]			
All Sectors, except service design contests	422,000	422,000	5,278,000
Service designs contests	n.a.	422,000	n.a.

n.a. Not applicable.
a Threshold amounts do not include VAT.
b Utilities include water, energy, transport, postal and telecommunications services.
c Contracts that are subsidized more than 50% by the contracting authorities involve either civil engineering to build hospitals, facilities intended for sports, recreation and leisure, school and university buildings, and buildings used for administrative purposes or the services connected to the aforementioned types of projects.
d Specific sectors refer to telecommunications (CPC Reference No. 752) and research and development.

Source: Commission Regulation (EC) No. 2083/2005 of 19 December 2005, amending Directives 2004/17/EC and 2004/18/EC.

63. Under the new Directive 2004/18, open and restricted procedures may be used at the authorities' discretion, whereas the Directive provides for an exhaustive list of the cases justifying the use of the negotiated procedure with a prior public notice (for instance, in exceptional cases, when the nature of the purchase does not permit prior overall pricing) and without public notice (such as when, for technical or artistic reasons, the contract may be awarded only to a particular operator). Competitive dialogue is to be used when the contract is particularly complex and cannot be awarded under the open or selective procedure. A contract is deemed to be "particularly complex" where the procuring entitites cannot objectively define the technical means capable of satisfying their needs or are not objectively able to specify the legal and financial make-up of the project. Contracts for

utilities may be awarded under open, restricted, or negotiated procedures. Given that, in the utilities Directive, procuring entities may choose between open, restricted or negotiated procedure at their own discretion, it was not deemed necessary to introduce more flexibility (and thus a competitive dialogue).

64. The new directives provide for non-discriminatory treatment to suppliers across the EC and that procuring entities act in a transparent manner. However, to guarantee employment opportunities for handicapped workers, Member States may reserve certain contracts to businesses in which the majority of employees are handicapped. Public procurement contracts must be awarded either on the basis of the lowest price or the economically most advantageous tender. Procuring entitites shall inform candidates and tenderers as soon as possible of decisions relating to the award of a contract, and, upon request, shall provide the reasons for their decisions (rejection of tenders, non-admittance to a dynamic system or rejection of a framework agreement); this information must be provided within 15 days from receipt of the written request.

65. For utility markets, i.e. water, energy (including exploration), transport, and postal services, which can be verified to be competitive (with open entry), procurement contracts may be exempted from the procedure set out in Directive 2004/17.[93] Exposure to competition is assessed on the basis of objective criteria, taking account of the specific characteristics of the sector concerned.[94] Furthermore, the new Directives provide for the exclusion of several types of contract from their scope for various reasons, such as defence, security, provision or exploitation of public telecommunication networks, provision of utilities by joint-ventures formed by procuring entities but not entirely subsidized by them, the acquisition or rental of land or other immovable property, arbitration and conciliation, employment, research and development where results accrue exclusively to the procuring entity, and services supplied under exclusive rights.[95]

66. Specific measures to enhance competition in procurement were also introduced, e.g. online auction bidding (e-auctions). This type of auction can be used at the authorities' discretion if all aspects of the contract can be fully specified. Also, a completely electronic system of purchases of "commonly used" goods and services, called Dynamic Purchasing System, may be set up following open procedure rules. These measures are expected to increase the level of competition and efficiency in public procurement across the EC.

67. During the period under review, there were no changes to the provisions on procedures to appeal a purchasing authority's decision and damage award payments.[96] The EC is a signatory to the WTO Government Procurement Agreement (GPA): all EC Members States provide national treatment for goods or suppliers from the GPA signatory countries. During the period under review, the EC made one notification to the Committee on Government Procurement concerning its new thresholds.[97] In the framework of the ongoing review of the WTO GPA, the EC plays an active role; it has tabled several submissions on the text to the GPA Committee, as well as an initial offer.

68. According to Eurostat data, procurement advertised in the *Official Journal*, represented between 2.5% and 3.6% of GDP between 2001 and 2004 (Table III.12), 16.1% of total procurement in the EC-25 (€ 287.7 billion approximately).

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[93] Directive 2004/17/EC, Article 30.

[94] Commission Decision 2005/15/EC.

[95] Directive 2004/17/EC, Articles 18-22, and Directive 2004/18/EC, Articles 10-16, 57 and 68.

[96] Council Directives 92/13/EEC and 89/665/EEC of 25 February 1992 and 21 December 1989 respectively. For further details, see WTO (2004).

[97] WTO Document GPA/W/295/Add.5, 30 January 2006.

Table III.12
Open procurement indicators, 2002-2004

	Value of procurement published in the OJ as a percentage of gross domestic product			Value of procurement published in the OJ as a percentage of total public procurement		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Belgium	2.40	2.65	2.54	15.49	16.84	16.10
Czech Republic	n/a	n/a	0.37	n/a	n/a	1.43
Denmark	2.74	2.36	2.73	15.07	12.82	16.61
Germany	1.28	1.84	1.17	7.34	10.61	7.49
Estonia	n/a	n/a	2.86	n/a	n/a	21.65
Greece	5.76	4.97	4.13	39.79	35.25	36.43
Spain	3.04	3.59	2.99	22.83	26.71	21.61
France	3.16	3.80	2.78	20.49	23.76	16.15
Ireland	2.39	2.40	3.34	18.54	19.00	27.77
Italy	2.25	2.74	2.36	19.55	22.40	16.25
Cyprus	n/a	n/a	1.28	n/a	n/a	10.39
Latvia	n/a	n/a	1.77	n/a	n/a	10.80
Lithuania	n/a	n/a	2.28	n/a	n/a	18.95
Luxembourg	2.02	2.23	3.33	13.04	14.22	18.51
Hungary	n/a	n/a	1.29	n/a	n/a	6.50
Malta	n/a	n/a	0.32	n/a	n/a	1.64
Netherlands	1.90	1.80	1.76	8.55	7.94	7.47
Austria	2.50	2.65	3.27	15.70	16.49	19.74
Poland	n/a	n/a	2.58	n/a	n/a	16.18
Portugal	2.59	2.47	2.52	19.85	18.66	16.69
Slovenia	n/a	n/a	1.66	n/a	n/a	9.19
Slovakia	n/a	n/a	2.79	n/a	n/a	11.12
Finland	2.28	2.58	2.95	14.03	15.15	17.38
Sweden	3.92	3.70	3.40	20.10	19.10	18.89
United Kingdom	3.89	7.44	4.70	22.61	40.52	25.29
Total	**2.64**	**3.58**	**2.68**	**16.59**	**21.88**	**16.11**

Source: Eurostat (2006). *Public procurement advertised in the Official Journal*. Viewed at: epp.eurostat.cec.eu.int.

69. During 2004-05, the Commission handled 49 cases of infringement of the public procurement regime at EC level, up from 39 cases in 2002-03.[98]

(3) MEASURES DIRECTLY AFFECTING EXPORTS

(i) Registration and documentation

70. During the period under review, registration procedures and documentation for exports from the EC changed in accordance with its stricter security-related policy. All exports, except those put under the outward processing or transit procedures, must undergo specified procedures.[99] EC Regulation No. 648/2005 of 13 April 2005 established, amongst other things, that exporters are required to submit pre-departure information to Customs offices for risk analysis. This information may be submitted electronically or at the border office. Export procedures are to be facilitated for reliable traders, i.e. authorized economic Operators (AEO) (for further details on AEA see section (2)(i) above). The proposed Customs Code streamlines export procedures, including security-related declarations. Moreover, the EC's e-Customs initiative to implement a paperless customs

[98] SIMAP onlinle information. Viewed at: http://europa.eu.int/comm/internal_market/public procurement/infringements_en.htm.

[99] CC Article 161. For further details on export registration and documents, see WTO (2004).

environment, includes the Automated Export System project to implement inter-operability, and electronic exchange of export-related information between Member States (see also section (2)(i)).[100]

71. Agreements with the United States established further documentation procedures for EC exports to the United States in particular, under the Container Security Initiative. Also, the World Customs Organization established a new general framework for security-related customs procedures in 2005.[101] The elements set out in that framework have been incorporated in the CC and should be fully implemented between 2007 and 2009.

(ii) Export taxes, charges and levies

72. The EC does not apply taxes, charges or levies on exports (mid 2006).

(iii) Export prohibitions, restrictions, and licensing

73. During the period under review, there was no change to the EC's export regime, including export restrictions, except for the entry into force of a new regulation controlling the import and export of certain equipment that could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment.[102] Under existing regulations, exports are not subject to any quantitative restrictions. However, Member States may impose export restrictions, including export authorizations, on a temporary basis. Exports restrictions may not be imposed on agricultural products covered by common organizations of markets or processed agricultural products covered by regulations within the framework of Article 308 of the EC Treaty. Exports restrictions may be imposed by the Council, upon recommendation by the Commission based upon a request from a Member State. General rules for export of cultural goods from the Community are laid down in Council Regulation No. 3911/92.

74. The EC continued to impose prohibitions on arms exports within the scope of the Common Foreign and Security Policy (CFSP), which supplement the arms export licensing schemes applied by its Member States. Since its last TPR, the EC has adopted and amended several arms embargoes to implement UN Security Council Resolutions concerning e.g. Democratic Republic of Congo, Côte-d'Ivoire, Lebanon, and Sudan.[103] The embargoes cover the sale of arms, ammunition, military vehicles and equipment, paramilitary equipment, and spare parts. In the framework of the CFSP, restrictions can also be imposed on exports of goods other than arms and related materiel, in particular internal repression equipment. The UN arms embargoes are supplemented by other similar measures applied by the EC as regards Burma-Myanmar, Uzbekistan, and Zimbabwe. On the other hand, the EC lifted its arms embargoes against Libya in October 2004 and Bosnia and Herzegovina in January 2006. The EC also started consultations on the possibility of lifting its arms embargo against China.

[100] EC (2004).

[101] WCO (2005).

[102] Council Regulation (EC) No. 1236/2005. For further description of the main EC legislation on export restrictions, see WTO (2004).

[103] The following EC documents establish the arms sale prohibitions (as at October 2006): Common Position (CP) 1998/409/CFSP, CP 2002/402/CFSP; CP 2002/960/CFSP, CP 2003/495/CFSP, CP 2004/161/CFSP CP 2005/440/CFSP, CP 2005/411/CFSP CP 2005/792/CFSP, CP 2006/30/CFSP, CP 2006/31/CFSP, CP 2006/318/CFSP, CP 2006/625/CFSP. The following Regulations ban exports of internal repression equipment: Regulation (EC) No. 314/2004, Regulation (EC) No. 174/2005, Regulation (EC) No. 817/2006, Regulation (EC) No. 1859/2005.

75. There was no major change to the legislation governing dual-use items and technology during the period under review.[104] The Commission adopted a regulation to update Annexes I and IV of Regulation (EC) No. 1334/2000 (list of exports, and intra-EC transfers, of dual-use items and technology) to accommodate international treaties signed by Member States.[105]

76. As at April 2006, the EC maintained export licences under the common market organization as well as under tariff-quota commitments with trading partners. An overview of products requiring export licences is provided in the EC's online customs tariff database (Taric).[106]

(iv) Export subsidies

77. The EC provides export subsidies based on the provisions laid down in the individual common market organization for the product in question. For milk and milk products, for example, these are laid down in Council Regulation (EC) No. 1255/1999 of 17 May 1999. Export refunds are granted through the management committee for the product concerned.

78. During the period under review, the following products received export subsidies: wheat and wheat flour, coarse grains, rice, sugar, butter and butter oil, skim milk powder, cheese, other milk products, beef meat, pig meat, poultry meat, eggs, wine, fruits and vegetables (fresh), fruit and vegetables (processed), alcohol, and "incorporated products" (Chapter IV (2)(ii)). With the exception of those for coarse grains and sugar, they are mostly direct export subsidies. In value, export subsidies notified by the EC represent approximately 90% of all the WTO Members' notified export subsidies. The Commission indicates that the overall level of export subsidies granted by the EC is likely to fall, due to market reforms and the declining number of products eligible for such subsidies.

79. According to the Commission, the EC continues to base its position on the 2004 Framework Agreement and the Ministerial Declaration adopted in Hong-Kong, China, in December 2005, which stipulates that WTO Members agree to ensure the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by the end of 2013.

(v) Export assistance

80. During the period under review, there were no changes to EC rules on assistance in the form of publicly provided export credits, insurance or guarantees.[107] All export assistance is provided at the Member State level, and is based on texts and principles elaborated mainly within the framework of the OECD. The EC has been a party to the OECD arrangement on guidelines for officially supported export credits since 1978. The EC undertook consultations with Brazil (along with other OECD members) with a view to establishing an understanding on export credit for civil aircraft.

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[104] For further description of the legislation on dual-use goods and technologies, see WTO (2004).

[105] The new list of items under control since 11 April 2006 can be found in the Council Regulation No. (EC) 394/2006 published in *Official Journal* L 74, dated 13 March 2006. An updated list of national measures implemented in conformity with EC Regulation 1334/2000 has been published in the *Official Journal* C 270, dated 29 October 2005.

[106] Taric online information. Viewed at: http://ec.europa.eu/taxation_customs/common/databases/taric/index_en.htm.

[107] See WTO (2004), for a description of EC rules on export assistance.

(vi) State-trading enterprises

81. During the period under review, the EC notified the WTO that no state-trading enterprises in the meaning of GATT Article XVII existed in the EC.[108]

(4) MEASURES AFFECTING PRODUCTION AND TRADE

(i) State-owned enterprises

82. State-owned enterprises (SOEs) abound throughout the EC and participate in various activities (Table AIII.2). Many of these SOEs are actively engaged in trade, including in energy and utilities. In general, their portfolios of operations vary along with the degree of public ownership and the level of the public institutions that own them, i.e. states, municipalities, other SOEs, EC rules regarding companies do not make any distinction based on ownership structure. As established by Article 86 of the EC Treaty, the competition rules and the prohibition of discrimination on the grounds of nationality apply fully to state-owned enterprises.

83. No EC regulations provide guidelines for activities carried out by EC SOEs, apart from those normally established for any business. There are no legal community restrictions on SOEs' activities, apart from those common to all firms.

84. According to an OECD study, the privatization of EC SOEs produced mixed results as most have not achieved the level of competitiveness initially envisioned.[109] Some of the issues mentioned were: government influence on the internal decisions of the partly privatized SOEs, and in some cases, internal decisions remaining highly sensitive to political pressures; the business culture of many SOEs remaining civil-service oriented; a lack of a clear distinction between the roles of the State as regulator and as owner of a competing business; and the loss of government guarantees in favour of SOEs – this loss has made private investment in those companies more risky, thus raising the cost of capital. These factors have contributed to the under-performance of many partly privatized SOEs, in terms of profit margins, returns on equity and on investment, compared with competing private enterprises.

(ii) Competition policy and regulatory issues

85. During the period under review, there were no major changes to the legal basis with regard to the main areas of competition policy in the EC, i.e. anti-trust issues, mergers, monopolies and state aide. The fundamental principles in competition law are stipulated in Articles 4, 16, 36, 73, and 81-89 of the EU Treaty. Pursuant to Article 4 of the Treaty, EC Member States are required to adopt economic policies "in accordance with the principle of an open market economy with free competition". In general, competition policy in the EC seeks to enforce regulations on anticompetitive practices, enhance competitiveness throughout the EC, and address anticompetitive problems in liberalized sectors. In particular, enforcement is focused on eliminating cartels and abuses of dominant position. Efforts are being made to enforce regulations on mergers that have cross-border implications, and to rectify decisions that lead to incompatible state-aid as well as its reimbursement.

[108] G/STR/N/8/EEC; G/STR/N/9/EEC; G/STR/N/10/EEC; G/STR/N/11/EEC, of 11 October 2006.

[109] OECD (2005b). A survey conducted by the OECD on mostly EC SOEs concluded that governance within the SOEs was not entirely transparent. The questionnaire upon which this survey was based was sent to countries in the European Economic Area and Canada (OECD, 2005d).

(a) Anti-trust

86. EC basic anti-trust legislation remains unchanged.[110] The Treaty prohibits anti-competitive agreements between undertakings that may affect trade between Member States[111], except for those exempted as being beneficial on balance to economic efficiency and consumer interest.[112] The exemption applies automatically to any agreement satisfying the relevant criteria; therefore, the Commission no longer grants individual exemption decisions. The Commission can also grant block exemptions, based on Article 81(3) of the Treaty.

87. The Commission has revised its rules on access to files by parties involved in anti-trust cases (and mergers).[113] The revision clarifies both the extent and exercise of the right to access such files. In 2005, the Commission began a review of Article 82 of the EC Treaty (abuse of dominant position in the market) and its exclusionary effects, i.e. anti-competitive behaviour that tends to drive competitors out of the market. To this end, it published a discussion paper on exclusionary abuses in December 2005.[114] The paper deals with the general framework for analysis of exclusionary abuses, and proposes an approach for five main categories of abuse, i.e. predation, single branding, rebates, tying and bundling, and refusal to supply; it proposes to move to an economic-effects-based approach. The review process expected to conclude with the issuing of guidelines in 2007 or 2008.

88. The Commission has initiated an in-depth inquiry, expected to conclude early 2007, into the electricity and gas markets due to possible restrictions or distortions to competition.[115] Several outstanding issues were found, including high levels of market concentration, vertical foreclosure, lack of market integration at EC level, lack of transparency, and non-competitive prices (e.g. price distortions though regulated tariffs set at relatively low levels). Initiatives are currently under consideration to address these concerns (October 2006) through, *inter alia*, competition advocacy (need for further regulation, including structural adjustments) and enforcement of EC competition law both at the EC and national levels.[116] The Commission also initiated a review to examine the level of competition in retail banking (including its payment networks) and in insurance services; the enquiry conclusions were expected by end 2006.[117]

89. The enforcement of anti-trust regulations is carried out by the Competition DG in coordination with national authorities. In fact, Article 15 of Council Regulation N° 1/2003 requires national competition authorities to transmit information and submit copies of judgements to the

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[110] Anti-trust legislation is governed by the EC Treaty and Council Regulation No. 1/2003 of 16 December 2002, as amended by Council Regulation No. 411/2004 of 26 February 2004.

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

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

[113] Commission Notice 2005/C 325/07 of 22 December 2005.

[114] DG Competition (2005). Further information on the Article 82 review is available on: DG Competition online information. Viewed at: http://ec.europa.eu/comm/competition/antitrust/others/article_82_review.html.

[115] DG Competition (2006a).

[116] DG Competition (2006c).

[117] DG Competition, Press release IP/05/719 of 13 June 2005.

Commission; the information is available online. Moreover, the network of competition authorities liaises on anti-trust surveillance with the Competition DG.

90. Since October 2005, new rules have been applied to the motor vehicle industry, as location clauses, contained in vertical agreements between manufacturers and car dealers, no longer benefit from the block exemption under Regulation 1400/2002. The clauses, which had limited dealers from opening outlets, even within the EC, were intended to provide an adjustment period after the new rules came into force in 2002.[118] In a separate case, a €49.5 million fine was imposed on Peugeot for obstructing exports of new cars from the Netherlands to other EC Member States during 1997-03.[119]

91. A Regulation on a new block exemption for air transport was adopted by the Commission on 2 October 2006.[120] The regulation phases out previous exemptions for consultations on slot allocations and on passenger tariffs for intra-EC flights with a sunset period until 31 December 2006. Consultations on passenger tariffs for flights between the EC and third countries benefit from an exemption subject to a reporting requirement. In maritime transport, the block exemption allowing liner shipping companies to enter into consortium agreements covering the regular and scheduled transport of cargo, chiefly by container, to or from one or more EC ports has been prolonged until 25 April 2010.[121] This exemption covers joint services of liner shipping consortia with a market share below 35%. Exempted activities include: fixing timetable or ports of call, the exchange, sale or cross-chartering of space or slots, pooling vessels, use of joint operation officers, provision of containers, use of computerized data, temporary capacity adjustments, use of port terminals, participation in cargo, revenue or net revenue pools, and joint marketing and related activities. The block exemption for liner shipping conferences has been repealed on routes to and from the EC. By October 2008, after a two-year transitional period, liner shipping conferences will have to be abolished on these routes. The scope of the competition enforcement rules, Regulation 1/2003, has been extended to tramp shipping.[122]

92. As part of the Lisbon Agenda, the review of institutional constraints (within the EC) has continued on professional services, i.e. lawyers, notaries, architects, engineers, pharmacists, and accountants. The review found that national regulations and/or conventions were allowing some forms of anti-competitive practice in the exercise of these professions, i.e. price fixing, restrictive advertising regulations, high entry requirements, and reserved rights and regulations constraining governing business structure and multi-disciplinary practices. Moreover, the review found progress in some EC Member States towards eliminating disproportionate restrictions to competition, although much work needs to be done to reduce the effects of anti-competitive practices in the Community.[123]

93. Open consultations were launched on a policy document aimed at identifying the main obstacles to a more efficient system of damages claims by individuals or companies that suffer losses due to infringement of EC anti-trust laws.[124] The policy document also set out different options and possible actions to improve such damages actions, which had been found to in "total underdevelopment"; obstacles such as access to evidence and quantification of damages had been

[118] DG Competition, Press release IP/05/1208 of 30 September 2005.
[119] DG Competition, Press release IP/05/1227 of 5 October 2005.
[120] Regulation 1459/2006, OJ L272 of 3.10.2006 p.3.
[121] Commission Regulation No. 611/2005 of 20 April 2005; Press release IP/05/477 of 25 April 2005.
[122] IP/06/1249 of 25/9/2006.
[123] COM (2005) 405 final.
[124] DG Competition, Press release IP/05/1634 of 20 December 2005 and COM(2005) 672 final.

highlighted.[125] The consultations were completed in spring 2006, and the results were published on the Commission's website. [126]

94. The total number of anti-trust cases decreased from 262 in 2003 to 158 in 2004 and 105 in 2005.[127] The number of cases initiated by the Commission decreased from 97 in 2003 to 58 in 2004 and 39 in 2005; and the number of cases closed increased from 319 in 2003 to 391 in 2004, to decrease to 244 in 2005. Five decisions were taken by the Commission against unlawful horizontal agreements in 2005, with €683 million imposed in fines.

(b) Mergers

95. The EC's regulation on merger control seeks to avoid a situation in which competition is significantly impeded, in particular by the creation or strengthening of a dominant position, as a result of mergers and acquisitions.[128] Under the Merger Regulation, the Commission assesses proposed concentrations on the basis of whether a dominant position is created or strengthened. In general, the Commission only examines mergers with a Community dimension, i.e. mergers that would create business with a worldwide turnover of €5 billion and a Community-wide turnover of €250 million. Such mergers must be notified to the Commission before they are put into effect. Most cases are approved within the initial scrutiny period of 25 days.

96. The guidelines established by the EC for horizontal mergers did not change during the period under review.[129] The specifications for the determination of the relevant market for purposes of merger regulations also remained unchanged. Specific guidelines on vertical mergers are under consideration. During the period under review, the Commission published three notices to clarify and specify issues related to EC merger regulations.[130] These dealt with the rationale for referral of some merger deals for Commission scrutiny, and the clauses related and necessary to concentration in merger deals, particularly on intellectual property rights, as well as simplified procedures in cases not suspected of competition concerns.

97. The number of mergers notified to the Commission increased from 212 in 2003 to 249 in 2004 and 313 in 2005.[131] The Commission took 246 final decisions in 2004 and 308 in 2005; of these, 7 cases in 2004 and 5 in 2005 required in-depth investigations. Ten transactions were approved in 2004 and six in 2005, with only one block in 2004.

[125] COM(2005) 672 final.

[126] European Commission online information. Viewed at: http://ec.europa.eu/comm/competition/antitrust/others/actions_for_damages/gp_contributions.html.

[127] Competition DG (2006b).

[128] The main regulation governing merger control in the EC is Council Regulation No. 4064/89, 21 December 1989. It was revised by Council Regulation No. 139/2004 of 20 January 2004, implemented by Commission Regulation No. 802/2004 of 7 April 2004. For further details, see WTO (2004).

[129] For a description of the horizontal guidelines, see WTO (2004). The guidelines were published in *Official Journal*, OJ C 31/5 of 5 February 2004.

[130] Commission Notices 2005/C 56/02, 2005/C 56/03 and 2005/C 56/04, all of 5 March 2005.

[131] DG Competition online information. Viewed at: http://europa.eu.int/comm/competition/mergers/cases/.

(c) State aid

98. In 2006, the EC adopted new guidelines on regional aid provided by its Member States (national regional aid).[132] The new 2007-13 guidelines cover aid such as direct investment grants and tax reduction for companies. State aid under these new guidelines covers four areas: geographic areas with below the EC average GDP per capita (27.7% of the EC population)[133], "statistical-effect" regions (3.6% of total EC population), economic development and low population density areas (4.0%), and other areas to which additional discretionary funding is allocated under Article 87(3)(c) of the EC Treaty (6.7% of the EC population). The guidelines include a safety provision to ensure that no EC Member State loses more than 50% of its previous entitlement. State aid to areas with below the EC average GDP per capita varies between regions where average GDP per capita is less than 75% of the EC average, and regions where it is less than 45% of the EC average. In general, EC policy aims to assist Member States in better targeting state aid so that it is conducive to the objectives of the Lisbon Agenda.

99. New guidelines were also adopted to provide help to companies in financial difficulty.[134] The new guidelines clarify how state aid supports a rescue and restructuring operation in favour of individual firms. In particular, the guidelines establish new minimum thresholds of financial burden the companies themselves must bear: 50% for large companies, 40% for medium-size undertakings and 25% for small enterprises. The guidelines establish an across-the-board ten year limit for such aid. Moreover, the Commission enacted two other regulations.[135] The first establishes transparency requirements concerning the financial relations between Member States and public business, and specifies the public undertakings required to maintain separate accounts from those of the State. The second regulation sets procedures for granting state aid in the form of public service compensation for businesses providing services of general economic interest.

100. Block exemption regulations currently apply to state aid to small and medium-size enterprises, for training and for employment.[136] In mid 2006, the Commission was considering an extension of notification exemption to 2013 for *de minimis* state aid totalling €150,000. This aid would apply to all sectors, except road transport, primary agricultural production and fisheries.

101. In 2005, the latest year for which data are available, there were around 764 registered cases relating to state aid; 84 of these were initiated by the Commission. There were 21 cases found to be incompatible with the internal market principles. In 2004, around €62 billion were granted throughout the EC in state aid (excluding aid to railways), representing about 0.6% of EC GDP.[137] In 2004, state aid (excluding aid to railways) varied widely between Member States, from 0.4% of GDP or less in Belgium, the Czech Republic, Estonia, Greece, Latvia, Luxemburg, the Netherlands and the United Kingdom, to 1.5% or more in Cyprus, Malta, Poland, and Finland (Table III.13). In terms of state aid granted (excluding aid to agriculture, fisheries, and transport), Estonia, Lithuania, and Latvia accounted for the lowest levels (0.09%, 0.13% and 0.16% of GDP respectively), and Malta, Cyprus,

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[132] The guidelines cover regional aid for investment, operations (in exceptional circumstances) and creation of new small enterprises (Commission Notice 2006/C 54/08, published in the *Official Journal*, OJ C 54/13 of 4 March 2006). For further details on the previous guidelines, see WTO (2004).

[133] Statistical-effect regions are those with less than 75% of the EC-15 average GDP per capita but more than 75% of the EC-25 GDP per capita.

[134] Commission Notice 2004/ C 244/02, Published in the *Official Journal*, OJ C 244/2 of 1 October 2004.

[135] Commission Directive No. 2005/81/EC of 28 November 2005 and Commission Decision 2005/842/EC of 28 November 2005.

[136] See WTO (2004), for further details on block exemptions.

[137] COM (2005) 624 final of 9 December 2005, *State Aid Scoreboard – Autumn 2005 update*.

and Poland for the highest (2.71%. 1.06% and 1.01%). Germany granted the highest amount of aid (€17 billion), followed by France (€9 billion) and Italy (€7 billion). Sector-wise, around 65% of state aid was channelled to manufacturing activities and various service subsectors, some 24% to agriculture and fisheries, 9% to coal, and 2% to transport (Table III.13). There are wide differences in sectoral allocation of state-aid across Member States. For example, in Estonia and Lithuania 24% and 16% of their state-aid was granted to manufacturing (respectively), and 76% and 81% to agriculture; in Italy and the United Kingdom sectoral allocation was almost exactly the opposite.

Table III.13
State aid in the EC, 2004

Country	Total aid as % of national GDP		% of total aid by sector[a]							Total aid
	Excluding railways	Excluding agriculture, fisheries and transport	M	S	A	F	C	T	OM	(€ million)
Austria	0.61	0.22	32	4	63	0	0	0	0	1.427
Belgium	0.34	0.24	65	4	26	0	0	2	2	972
Cyprus	1.48	1.06	35	24	29	0	0	0	12	184
Czech Rep.	0.41	0.19	37	5	47	6	4	0	0	352
Denmark	0.71	0.52	71	2	20	1	0	6	0	1.375
Estonia	0.39	0.09	24	0	76	0	0	0	0	35
Finland	1.66	0.38	22	1	74	0	0	3	0	2.483
France	0.54	0.39	54	7	26	1	10	2	0	8.915
Germany	0.78	0.69	66	4	12	0	18	0	0	17.236
Greece	0.29	0.20	66	3	28	2	0	0	1	473
Hungary	1.26	0.87	63	1	31	0	5	0	0	1.015
Ireland	0.65	0.27	33	8	58	0	0	0	0	951
Italy	0.52	0.40	72	5	16	2	0	6	0	7.037
Latvia	0.39	0.16	25	15	60	0	0	0	0	44
Lithuania	0.68	0.13	16	0	81	1	0	0	3	122
Luxemburg	0.31	0.17	48	8	45	0	0	0	0	78
Malta	3.10	2.71	87	0	13	0	0	0	0	134
Netherlands	0.39	0.18	47	0	45	0	0	8	0	1.813
Poland	1.47	1.01	51	0	31	0	17	0	1	2.873
Portugal	1.09	0.83	13	61	24	1	0	0	2	1.475
Slovenia	0.96	0.53	46	1	45	0	6	0	2	250
Slovakia	0.64	0.63	98	0	2	0	0	0	0	212
Sweden	0.99	0.80	75	4	12	0	0	7	2	2.745
United Kingdom	0.32	0.25	71	0	18	2	1	2	6	5.442
EC-25	0.60	0.44	59	5	23	1	9	2	1	61.617
EC-15	0.57	0.43	59	5	22	1	9	2	1	56.410
10 new M.S.	1.09	0.70	53	2	33	0	11	0	1	5.207

a M: manufacturing; S: services (including tourism, finance, media and cultural services); A: agriculture; F: fisheries; C: coal; T: transport, excluding railways; and OM: other non-manufacturing.

Note: Due to rounding of figures, the percentages of total aid by sector do not generally add up to 100.

Source: COM (2005) 624 final, *State Aid Scoreboard*; and calculations by the WTO Secretariat.

102. In 2004, around half of EC Member States awarded more than 90% of their state aid for non-sector specific objectives. Excluding allocations to agriculture, fisheries and transport, around 76% of EC state aid (€34.6 billion) was aimed at horizontal objectives (an increase of 7% over the 2000-02 period). The four main objectives were environment and energy savings (25% of total aid), regional economic development (18%), research and development (12%) and medium and small enterprises (12%). During 2002-04, grants were the main instrument of state aid to the manufacturing and services sectors (47.9% of total state aid), followed by tax exemptions (32.4%); guarantees accounted for 10.3%, soft loans represented 5%, tax deferrals 3.1%, and equity participation 1.3%.

More than 800 measures were covered by block exemptions relating to state aid to medium and small enterprises, employment, and training.

103. Transitional periods for new Member States are still in place.[138] During 2002-04, Bulgaria and Romania, both set to accede to the EC in January 2007, awarded annual state aid of around €65 million (0.36% of GDP), and around €981 million (1.35% of GDP) respectively.[139] Moreover, an extension was granted until 31 March 2005 for the provision of temporary state aid of up to 6% of the contract value for the construction of liquefied natural gas ship-carriers on the grounds of alleged unfair competition from Korean shipyards.[140]

(iii) Intellectual property rights

104. There was no major change to EC intellectual property legislation during the period under review.[141] The intellectual property rights (IPR) regime in the EC is governed by both Community-wide legislation and legislation in the Member States, Member States' legislation takes into account Community legislation, and commitments under international agreements, including the European Patent Convention. World Intellectual Property Organization (WIPO) conventions and treaties, and the WTO TRIPS Agreement. Intellectual property legislation is considered fundamental to the achievement of the Lisbon objectives.

(a) Industrial property

Trade marks and industrial designs

105. The accession of the EC to the Madrid Protocol took effect on 1 October 2004. Trade mark owners from Member countries of the Madrid Protocol are able to designate the EC in their application for international trade mark registration. If not refused by the Office for Harmonization in the Internal Market (OHIM), protection is effective in all 25 EC Member States as if it had been applied for or registered directly with OHIM. The owners may also use a trade mark application filed or registered at OHIM as the basis for an international application under the Madrid Protocol.[142] The Commission also enacted a Regulation to amend rules for the implementation of existing EC trade-mark legislation.[143] This amendment introduced procedural changes and addressed, *inter alia*, the division of applications and of registrations of trade marks, the revocation of decisions, the improvement and clarification of the opposition procedure, and the specific nature and means of the electronic submission procedure.

106. The Commission put forward a proposal to amend Council Regulations Nos. 6/2002 and 40/94 to give effect to the EC's accession to the Geneva Act of the Hague Agreement concerning the international registration of industrial designs.[144] The Commission presented another proposal to amend Directive 98/71/EC on legal protection of designs.[145] This proposal prohibits legal protection of designs for component parts of a complex product used to restore an original appearance. In effect, it is intended to harmonize the internal market through full liberalization of the market for spare

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[138] For further details on the transitional arrangements see WTO (2004).
[139] COM (2006) 130 final of 27 March 2006, *State Aid Scorecard- Spring 2006 update*.
[140] Council regulation No. 502/2004 of 11 March 2004, amending Council Regulation No. 1177/2002 of 27 June 2002.
[141] See WTO (2004), for further details on EC legislation on IPRs.
[142] For further details on the EC's accession to the Madrid Protocol, see WTO (2004).
[143] Commission Regulation No. 1041/2005 of 29 June 2005.
[144] COM (2005) 689 final of 22 December 2005.
[145] COM (2004) 582 final of 19 September 2004.

parts.[146] The European Economic and Social Committee (EESC) published an opinion reinforcing the aforementioned view and stated that to do otherwise would lead to a *de facto* product monopoly on the secondary market.[147] The EESC also stated that the proposal for legislation would benefit from a clearer demonstration of its compatibility with the WTO TRIPS Agreement.

107. Application fees payable to the Office for the Harmonization in the Internal Market (OHIM) for trade mark protection have been lowered[148]; the fee for Community trade mark (CTM) protection was lowered from €970 to €900, whilst the CTM registration fee was reduced from €1,100 to €850. The CTM renewal fee was reduced from €2,500 to €1,500; a special discount of €150 may be granted if the process is done electronically. These reductions were possible as the OHIM increased productivity and efficiency by streamlining procedures, reducing bureaucracy, implementing an austere financial management plan, cooperating with Member States' intellectual property authorities, and introducing new information technology.[149]

108. During 2002-05, total trade mark applications registered with the OHIM increased at an annual average rate of 9%, with designs increasing significantly after 2003 (Table III.14).

Table III.14
Statistics on trade marks and designs, 2000-06

	2000	2001	2002	2003	2004	2005	2006[a]
Trade marks							
Applications	57,377	48,903	45,218	57,666	58,862	58,666	16,706
Registered trade marks	34,752	38,528	35,883	34,302	34,432	59,725	17,997
Opposition to trade marks	11,500	12,879	9,802	9,939	10,721	17,311	3,462
Cancelled and surrendered	53	93	104	145	142	150	84
Designs							
Single applications	..	..	..	4,998	6,884	8,382	1,573
Multiple applications	..	..	..	5,470	7,187	8,425	1,632

.. Not available.

a Up to 31 March 2006.

Source: Office for Harmonization of the Internal Market online information. Viewed at http://oami.eu.int/en/office/stats.htm.

Patents

109. Procedures for filing patents can be carried out at the national and international levels.[150] Within the Community, 7.2% of patents filed were estimated to be worth more than €10 million, and 16.8% a value higher than €3 million. About 68% of the patents yield less than €1 million, and 8% less than €30,000.[151] The Commission launched a review of its patent policy, as part of a general effort to harmonize the internal market, by focusing on three main issues: possible introduction of a Community patent, improvements to the current system, and the determination of possible areas for harmonization.[152] Further to a comprehensive consultation exercise launched on 16 January 2006, a public hearing on the contemplated reforms was held on 12 July 2006. More than 2,500 submissions were received; the results of both the consultation and the hearing will be reflected in an action plan likely to be adopted by the end of 2006.

[146] COM (2004) 582 final, pp. 10.
[147] *Official Journal* 2005/ C 286/03 of 17 November 2005.
[148] Commission Regulation Nº 1687/2005 of 14 October 2005.
[149] Commission, Press Release IP/05/1289 of 17 October 2005.
[150] See WTO (2004), for a description of the procedures at these levels.
[151] DG Internal Market (2005).
[152] Commission, Press Release IP/06/38 of 16 January 2006.

110. The proposal for a single EC patent was originally presented in 2000 and a common political approach was reached in 2003.[153] Disagreement over translation requirements and jurisdictional issues has so far prevented final agreement on the introduction of the EC patent. Another pending issue was the reform of the European Patent Convention, to which the EC is not party, while all of its Member States are. Some of these Member States have been engaged in the establishment of a European Patent Litigation Agreement (EPLA); three issues need to be addressed before they become party to such an Agreement: the text of the Agreement would have to be brought into line with EC legislation, the relationship with the EC Court of Justice would have to be clarified, and a mandate would have to be granted by the Council to the Commission to take part in the ongoing negotiations (with a possible view of EC accession to the EPLA).[154] EC legislation covers some of the areas under consideration in the ongoing EPLA negotiations, e.g. Council Regulation No. 44/2001 on recognition and enforcement of judgements, and Directive No. 2004/48/EC on enforcement of intellectual property rights through civil procedures.

111. In 2005, a proposal for legislation concerning the patentability of computer-implemented inventions failed.[155] The proposal aimed to harmonize the provisions of national patent law dealing with inventions that rely on computers for their performance.

112. Regulation No. 816/2006 on compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems was adopted on 27 May 2006. With this Regulation, the EC has created a legal basis for the granting of compulsory licences for export purposes, as foreseen by the WTO General Council Decisions of 30 August 2003 and 6 December 2005.[156]

113. According to information compiled by the Trilateral website of the European Patent Office (EPO). the Japanese Patent Office, and the United States Patent and Trade Mark Office, the proportion of patents by bloc of origin remained stable during 2003-04 (Table III.15); the EPO received 116,791 patent applications in 2003 and 123,706 in 2004. First-time applicants to the EPO originating in European Patent Convention Member States (as opposed to applicants that first applied for patent protection at national level) represented around 24% of all direct patent applications to EPO. A large share of the applications related to electricity- and physics- based technologies (around 39% of all patent applications).

Table III.15
Patent applications at the European Patent Office by bloc of origin, 1998-04
(Per cent)

Year	EPO States	Japan	United States	Others
1998	50	17	29	4
1999	50	16	28	5
2000	49	17	28	5
2001	49	18	28	6
2002	50	15	28	6
2003	50	16	27	7
2004	50	17	26	8

Source: The Trilateral Offices online information. Viewed at: www.trilateral.net.

[153] See WTO (2004), for further details.
[154] European Commission (2006f).
[155] Common Position (EC) No. 20/2005 of 7 March 2005.
[156] European Commission, Press Release IP/06/550 of 28 April 2006.

114. The Community Plant Variety Office received 2,517 applications in 2003, 2,656 in 2004 and 2,733 in 2005, as well as 1,701, 1,867 and 2,178 titles respectively; most of the applications and titles corresponded to ornamental varieties (around 65% of all applications and 63% of all titles).[157]

115. In 2005, the Commission adopted a report on patents related to gene sequence and on the patentability of inventions concerning stem cells.[158] The Commission has not taken a position on Member States' interpretations on the preferable type of protection for gene sequence, nor has it taken a definitive position on the patentability of embryonic pluripotent stem cells (those capable of becoming other cells, excluding human beings); the report concludes that (as at 2005), further harmonization in this area could not be provided. On the other hand, totipotent stem cells (those capable of evolving into a human being), are excluded from any consideration on moral grounds.

(b) Geographical indications

116. Council Regulation No. 510/2006 of 20 March 2006 repealed Council Regulation N° 2081/92 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, as a consequence of a Panel Report by the Dispute Settlement Body (DSB) on the protection of trade marks and geographical indicators by the EC.[159] The new legislation, i.e. Council Regulation No. 510/2006, addressed the following issues: (i) clarification and simplification of the registration procedure (ii) a better definition of responsibilities between Member States and the Commission; (iii) the need to clarify that the provisions under Council Regulation No. 2081/92 on equivalence and reciprocity did not apply to GIs corresponding to geographical areas located in other WTO Members; (iv) opening registration directly to producer groups in third countries and not through their national administration; and (v) clarifying the procedures concerning amendments to specifications, objections, or cancellation in the event of failure to respect specifications.[160]

117. The EC maintains a shortlist of regional quality products**.** However, the list has not been updated since 2004; and thus, does not yet contain geographical indications from the new Member States.

(c) Copyright and related rights

118. In 2005, the Commission made a recommendation on collective cross-border management of copyright and related rights for legitimate online music services.[161] The recommendation brought forward two options that could foster EC-wide licensing of digital music and an invitation to strengthen national legislation for the management of legitimate online services, as well as the relationship between collective rights managers, on the one hand, and right holders or commercial users, on the other hand. It also provided general guidelines for dispute settlement, accountability, and distribution of royalties.

[157] CPVO online information. Viewed at: http://www.cpvo.eu.int/.

[158] Commission Press release IP/05/960 of 18 July 2005.

[159] See WTO (2004), for a detailed description of the EC legislation on the protection of geographical designation of origin and indications. The DSB report on the EC's protection of trade marks and geographical indications followed complaints lodged by the United States and Australia (WT/DS174 and WT/DS290). The DSB report was adopted on 20 April 2005.

[160] COM(2005) 698 final/2. Brussels.

[161] Commission Recommendation 2005/737/EC of 18 May 2005.

(d) Enforcement

119. Commission Regulation No. 1891/2004 of 21 October 2004 lays down provisions to implement Council Regulation No. 1383/2003, which concerns IPR enforcement at the EC's external borders. It established, amongst other things, definitions of who may represent holders of a right, as well as proof of ownership of an IPR; it also set time limits and procedures for the exchange of information between Member States and the Commission.[162] On 26 April 2006, the Commission adopted a proposal for a directive of the European Parliament and the Council on criminal measures aimed at ensuring IPR enforcement. The proposed measures are aimed at establishing more effective alignment of criminal law, and improving European cooperation. The Council and European Parliament have started the discussion of such a proposal.[163]

120. According to data from the Commission, trade in counterfeited and pirated goods has increased significantly since 2003.[164] The number of articles seized in 2004 totalled 103.5 million, an increase of 12% with respect to 2003 and almost 1,000% with respect to 1998. At 22,311, the number of procedures in 2004 were more than double those of 2003. In 2004, most intercepted goods were of mass-production type, e.g. 41.6 million cigarettes, 18.5 million audio CDs, games, software, DVDs, etc., and 18.1 million toys and games. In 2004, most IPR infringements concerned trade marks (74% of all cases) and copyrights and related rights (14%); a large share of the articles seized came from the People's Republic of China (54% of all articles). The total value of the seized goods was estimated at over a €1 billion.

121. Directive 2004/48/EC on IPR enforcement was adopted on 29 April 2004; it had to be transposed by Member States by 29 April 2006. The directive, based on "good practice" found in Member States laws, brought national legislation on sanctions and remedies closer into line across the EC. Member States were also required to appoint national correspondents to cooperate with other Member States and the Commission. Enforcement in the new Member States also produced significant results. For example, during the first quarter of 2004, approximately 300,000 face and body lotions were seized in Hungary, 10,000 car parts in Malta, 400,000 batteries in Lithuania, and Estonia intercepted eleven shipping vessels full of counterfeit clothes. According to official data, in 2004, most of the counterfeited and pirated articles in the new Member States were seized in Hungary, Slovenia, and the Czech Republic.

122. The significant increase in counterfeited and pirated articles confiscated at the EC borders since 2003 prompted the Commission to adopt a short-term plan.[165] This includes: the creation of a business-Customs working group to consider possible further EC counterfeiting regulations; the creation of a task force of Member State experts to improve anti-counterfeiting controls; the creation of a new electronic system of secure real-time data transmission; the promotion of further memoranda of understandings with trade representatives (e.g. airlines) in order to improve exchange of information; and the promotion of an amendment to the WTO TRIPS Agreement with a view to motivating exporting countries to apply anti-counterfeiting measures.

123. In November 2004, the Commission adopted a strategy to improve IPR enforcement in third countries.[166] The strategy proposed the identification of priority countries and the implementation of measures such as technical assistance, awareness raising, and political dialogue. The EC is also

[162] This is Council Regulation 1383/2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights (OJ L 328 , 30/10/2004 pp. 0016 – 0049).

[163] COM(2006) 168 final of 26.04.2006.

[164] Taxation and Customs Union online information. Viewed at http://europa.eu.int/comm/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm.

[165] Commission Press release IP/05/1247 and MEMO/05/364 both of 11 October 2005.

[166] Commission Press release IP/04/1352 of 10 November 2004.

reviewing the IPR chapter of its bilateral agreements to address enforcement concerns, and has appointed IPR experts in the EC delegations in various third countries. In 2005, it launched a survey covering IPR enforcement in some 40 countries; the results of the survey were announced in October 2006.[167]

[167] The survey was viewed at: http://ec.europa.eu/trade/issues/sectoral/intell_property/survey2006_en.htm.

IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. Services continue to be the most important contributor to real GDP and employment in the EC. With a view to eliminating differences in regulation across Member States, the EC is working to create a genuine internal market on trade in services by 2010. Since its last Review, the EC has taken measures to address some structural problems, notably the completion of the Financial Services Action Plan 1999-05; the launch of a new financial services strategy 2006-10; and the Action Plan for transport 2002-10. Further liberalization of services would boost the overall competitiveness of the economy.

2. The manufacturing sector (ISIC, revision 2, definition) provides around one-fifth of the EC's output, accounts for some three-quarters of merchandise exports, and is still a major beneficiary of state aid. As a result of declining productivity growth in manufacturing, in 2005, the Commission set out a new industrial policy, which, together with measures at Member State level, is aimed at fostering the competitiveness of the sector. MFN tariffs on manufactured imports average 6.8% (up from 6.4% in 2004), with rates ranging up to 427.9% (AVE) on certain processed food products.

3. The EC has an energy-intensive economy, which is about 50% self-sufficient in energy. Faced with increasing oil prices, the EC is seeking to save 20% of its energy consumption by 2020 through, *inter alia*, the use of energy-efficient technologies, and has also set a target of 21% renewable electricity by 2010. Some of the EC's key policy aims in the subsector are security of energy supply, promotion of competition, and completion of the internal market by 2007. Imports of electricity are duty free.

4. The EC is implementing the 2003 reform to its Common Agricultural Policy (CAP), mainly through the decoupling of payments from production; this has somewhat augmented the exposure of farmers to world market signals. As a result, the total value of aid that potentially has the most production-distorting effects (market price support, output payments, and input subsidies) dropped to 63.8% of support to producers in 2005 (down from 71.7% in 2003). The total amount spent on the CAP represented 45.5% of Community expenditure in 2005. Using the ISIC definition, MFN tariffs on agriculture, hunting, forestry and fishing average 10.9% (up from 10% in 2004), with rates ranging up to 167.2%. Border protection and domestic support, together with limited liberalization under preferential agreements, have insulated certain products from competition and contributed to surpluses. The policy has thus made subsidies indispensable for exports of some of the surpluses. The ongoing reforms aim to reorient this policy.

(2) AGRICULTURE AND RELATED ACTIVITIES

(i) Main features

5. The contribution of agriculture (including livestock, hunting and forestry) to GDP and employment in the EC is relatively low (Chapter I(1)). The sector employs about 9.7 million people on 9.9 million agriculture holdings in the EC-25; in the ten new Member States (NMS-10) that joined in May 2004, around 3.4 million people are employed on 3.6 million holdings.[1] In 2004, the average utilized agricultural area per holding was about 15.8 ha (20.2 ha in the EC-15, and 9.3 ha in the NMS 10). The cultivated area increased by around 30 million ha in 2004 with the accession of the NMS-10 (Table IV.1). France has the largest agricultural area, followed by Spain and Germany. Most

[1] A holding in the EC is defined as a technical-economic unit (under single management) engaged in agricultural production (Eurostat, 2005a).

of the agricultural area is dedicated to field cropping and grazing livestock, each accounting for 48.3 million ha, or 33% of the total agricultural area (Table IV.2); mixed farming (crops and livestock) accounted for 25.2% of the total agricultural area.

Table IV.1
Selected agricultural statistics, 2005

	Agricultural area ('000 hectares)	Final production (€ million)	Share of household consumption expenditure devoted to food, beverages and tobacco[b] (%)	External trade balance in food and agricultural products (€ million)
Austria	3,254[a]	5,417	14.2	442
Belgium	1,386	6,858	16.6	-1,736
Cyprus	158[a]	633	17.1	-80
Czech Republic	3,558	3,419	17.7	-182
Denmark	2,590	7,783	25.8	2,382
Estonia	829	524	15.3	-48
Finland	2,264	4,262	27.0	256
France	29,632[a]	63,203	19.2	4,840
Germany	17,020[a]	38,583	16.2	-2,970
Greece	3,960[a]	12,295	29.7	-3
Hungary	4,267	6,129	21.0	574
Ireland	4,307[a]	5,643	17.7	3,041
Italy	13,159[a]	44,245	15.7	-806
Latvia	1,702	755	22.0	-22
Lithuania	2,792	1,611	36.1	77
Luxembourg	129	249	..	-36
Malta	10	125	26.5	1
Netherlands	1,927[a]	20,965	..	-2,077
Poland	14,755	15,057	13.6	348
Portugal	3,819[a]	6,411	26.0	-678
Slovak Republic	1,879	1,914	21.3	-49
Slovenia	485	1,693	21.1	54
Spain	25,249[a]	39,761	20.0	-1,692
Sweden	3,192	4,449	18.6	286
United Kingdom	15,894	20,707	13.1	-4,377
EC-25	**156,285**	**311,425**	**..**	**-2,453**
EC-15	**125,852**	**280,406**	**..**	**-3,126**

.. Not available.

a Figures for 2004.
b Figures for 2003.

Source: Information provided by the EC Commission.

6. The EC is the world's leading trader (exporter and importer) of agricultural products; in 2004, it registered an external trade deficit of € 2.5 billion in food and agricultural products (Table IV.1). In 2004, its exports of individual commodities accounted for a substantial portion of world trade: wine (about 40%); pig meat, cheese, and milk powder (close to one third); and butter, eggs, and sugar (around 20%). The EC is self-sufficient in a wide range of agricultural products. In 2004, the highest level of self-sufficiency was in whole-milk powder, followed by skimmed milk powder, sugar, wheat, and butter.[2] Some EC agricultural production is reliant on export opportunities.

[2] EC online information. Viewed at: http://europa.eu.int/comm/agriculture/agrista/2004/table_en/en37 [15 June 2006].

Table IV.2
Agricultural area by main type of farming, 2005
('000 ha)

	Specialist field crop	Horticulture	Permanent crop	Grazing livestock	Granivores	Mixed cropping	Mixed livestock	Mixed crops and livestock
EC-25	**50,569**	**975**	**11,359**	**50,998**	**2,699**	**8,697**	**7,139**	**21,719**
EC-15	**40,499**	**780**	**10,709**	**46,185**	**1,756**	**5,719**	**3,563**	**14,583**
Austria[a]	672	3	77	1,937	147	74	93	252
Belgium	277	24	24	645	42	38	83	253
Czech Rep.	1,035	4	37	524	25	497	194	1,242
Denmark	1,303	12	10	488	165	48	32	533
Germany[a]	5,890	39	251	5,387	327	615	599	3,873
Estonia	259	2	1	303	2	35	58	168
Greece[a]	1,410	48	975	726	5	337	119	347
Spain[a]	8,368	284	4,463	4,903	444	2,030	960	1,696
France[a]	9,656	94	1,454	10,679	239	751	934	3,987
Finland	1,190	27	4	694	54	33	12	250
Ireland[a]	307	6	3	3,836	15	2	14	188
Italy[a]	4,404	103	2,700	3,604	88	1,116	233	843
Cyprus[a]	57	9	37	25	1	18	2	8
Latvia	622	6	13	358	7	149	196	351
Lithuania	897	15	22	392	14	380	484	587
Luxembourg	7	0	2	97	2	3	0	2
Hungary	2,470	27	175	303	57	418	163	643
Malta	2	2	1	1	0	3	0	2
Netherlands[a]	471	72	34	1,157	37	57	64	116
Poland	4,016	127	321	2,335	831	1,280	2,350	3,434
Portugal[a]	482	28	656	1,189	28	472	268	601
Slovenia	38	2	25	230	2	51	72	65
Slovak Rep.	674	1	18	342	4	147	57	636
Sweden	1,529	10	6	1,082	47	47	38	434
U.K.	4,533	30	50	9,761	116	98	107	1,196

a Figures for 2003.

Source: Information provided by the EC Commission.

7. Forests and other wooded land cover 160 million ha (around 42% of the EC's total landmass), and are increasing at a rate of 0.3% per year.[3] Forest type and coverage vary greatly across the EC, reflecting bio-geographic and climatic diversity, as well as differing traditions of land use. In recent decades, changes have been brought about by intensified management practices, the use of exotic tree species, the introduction of animals for hunting, and drainage. Moreover, repeated forest fires have produced changes in the Mediterranean region. These problems have affected the productive capacity of forests as a source of raw materials for timber-based industries, and their capacity to act as a carbon sink that lessens the effects of climate change. As a result, a new scheme, "Forest Focus", is in place to monitor and safeguard the Communities' forests; it runs from 1 January 2003 to 31 December 2006, with a budget of € 61 million for the period.[4]

[3] Eurostat (2005d).
[4] EC Press Release IP/03/1103, 19 July 2003.

(ii) Common Agricultural Policy (CAP)

(a) Overview

8. In June 2003, the EC Council of Ministers adopted a CAP reform on beef and veal, sheep and goat meat, cereals, oilseeds, dried fodder, seeds, and dairy products. It was aimed at, *inter alia*: establishing a more stable policy framework for the sector; putting greater emphasis on addressing the interests of consumers and taxpayers; increasing exposure to market signals for producers and a shift towards simpler and less trade-distorting support measures; keeping budgetary costs stable and manageable; safeguarding the rural economy and environment; and helping in negotiating an agreement under the WTO, while meeting the needs of the EC's agriculture and society. In addition, reform proposals were agreed for tobacco, olive oil, cotton, and hops in April 2004[5], and for sugar in February 2006 (the new market organization for sugar came into force on 1 July 2006); these reforms were based on the same principles as the 2003 CAP. In 2006, the EC started to implement the cotton reforms, aimed at reducing trade-distorting subsidies in the subsector, and capping public expenditure at € 800 million: 65% of EC cotton subsidies will be decoupled from production and paid out as farm income support (green box payment); and 35 % will be destined to producers as an aid per hectare of cotton (blue box payment). According to the Commission, proposals to reform the wine and fruit and vegetables subsectors are expected by the end of 2006 or early 2007.

9. The key element of the 2003 CAP was the introduction of the single payment scheme, not based on prices or production (decoupled), which replaced most of the existing premiums under different common market organizations (CMOs).[6] Farmers are now allotted entitlements based on historical reference amounts received during 2000-02. However, Member States may implement the scheme at the regional level, in which case, all farmers whose holdings are located in that region may receive payment entitlements irrespective of whether they had received direct payments in the past.[7] Member States may also choose to maintain a limited link between payment and production ("partial decoupling"). The single payment scheme is subject to the requirement to keep all farmland in good agricultural and environmental condition and to respect the statutory management requirements (cross-compliance). Other measures of the 2003 CAP include compulsory reduction in direct payments (modulation) for bigger farms to finance the rural development policy; reforms in the intervention mechanism for products with structural imbalances such as butter, rye, and rice; adjustments in support mechanisms for other products (e.g. durum wheat, starch potatoes, dried fodder, and nuts); and a mechanism for financial discipline to ensure that the reform budget, fixed until 2013, is not overshot (Table AIV.1).[8]

10. Although Member States had the possibility to delay implementation of the single payment scheme up to 2007, the majority of EC-15 countries began implementing it as from 1 January 2005, with the rest (i.e. Finland, France, Greece, the Netherlands, and Spain) commencing in 2006. In Germany, Greece, Ireland, Italy, Luxembourg, and the United Kingdom less than 1% of aid is now

[5] WTO (2004).

[6] The CMOs apply to: bananas, cereals, floriculture, dried fodder, fruit and vegetables, hops, olive oil and table olives, flax and hemp, eggs, pork, milk products, rice, seeds, sugar, tobacco, beef and veal, sheepmeat and goatmeat, wine, poultrymeat, and other agricultural products. See WTO (2002), for a description of the CMOs.

[7] The value of an entitlement at the farm level is calculated by dividing the reference amount of the payment by the number of eligible hectares in the reference year, while the value of an entitlement at the regional level is computed on the basis of hectares within a region, rather than a single payment individually for each farmer.

[8] The 2003 CAP involves many detailed changes, some taking place over several years. See WTO (2004).

coupled to production and prices, while France, Spain, the Netherlands and Portugal provide over 20% as coupled aid.[9] The majority of EC-15 countries based the single farm payment on farm levels; Denmark, Finland, Germany, Luxembourg, Sweden, and the United Kingdom used a mix of both farm and regional payments.[10] At the date of their accession to the EC, the NMS-10 had to choose between implementing the direct payment schemes as they were applied in the EC-15, or applying the single area payment scheme (SAPS) for a maximum of five years up to the end of 2008.[11] Slovenia and Malta opted to implement the single payment scheme as from January 2007 at the regional level, while the other eight NMS decided to implement the SAPS. At the end of the transitional period, these eight NMS should implement the single payment scheme at the regional level. All NMS have the possibility to complement any direct payments by granting complementary national direct payments (CNDP).[12] It has been estimated that, in 2012, approximately 90% of the budgetary transfers, in the form of direct payments for arable crops, milk, beef, and sheep, will be part of the single payment scheme for the EC as a whole.[13] Box IV.1 describes the situation of agriculture and the food industry in the NMS-10 one year after enlargement.

11. On 19 October 2005, the European Commission adopted a Communication calling for an Action Plan during 2006, which will set out concrete measures.[14] One of the proposals is to amalgamate the various CMOs into a single CMO. The aim is to provide a single set of harmonized rules regarding market policy, such as intervention, private storage, import tariff quotas, export refunds, safeguard measures, promotion of agricultural products, state aid rules, without changing the substance of the existing instruments and mechanisms.[15]

12. On the basis of its latest notification to the WTO, in the marketing year 2001/02, the EC-15's total Aggregate Measurement of Support (AMS) amounted to €39,281 million (the commitment level was €67,159 million), while domestic support through green box and blue box measures reached € 20,661 million and €23,726 million, respectively.[16] The EC has undetaken to submit a new notification in due. According to the Commission, in the marketing year 2003/04, the AMS was reduced to €30,884 million, and domestic support through green box and blue box measures amounted to €22,074 million and €24,782 million, respectively.

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[9] The budget for the scheme reveals a decoupling rate of almost 90%, *Agra Europe*, 25 August 2006.

[10] The 2003 CAP has greater market orientation with the previous CAP, mainly because of the significant decoupling of payments from production. For the same reason, income transfer efficiency is improved and the administrative burden is reduced. These benefits would have been maximized if all Member States had made full use of the scope for converting commodity-linked payments into the new single payment scheme (OECD, 2005a).

[11] The SAPS is a single payment per ha, which is the result of dividing the annual national financial envelope (the sum of all direct payments) by the national agricultural area determined for the purposes of the SAPS. In 2004, the average payment across the eight NMS concerned was €46.04 per ha. The SAPS amount is specific to each of the eight NMS, and increases each year according to the phasing-in of direct payments in the NMS. The SAPS payment is decoupled from production, since there is no obligation to produce or to employ the factors of production. However, the land should be maintained in good agricultural and environment conditions.

[12] The CNDP amounts and conditions are subject to authorization by the European Commission.

[13] The rate would be higher for milk (100%) and arable crops (93%), and lower for beef (78%) and sheep (73%) (European Commission, 2005e).

[14] COM(2005) 509 final.

[15] EC Press Release IP/05/1309, 19 October 2005.

[16] WTO document G/AG/N/EEC/51, 4 November 2004.

Box IV.1: The situation in the NMS-10 one year after enlargement

The situation in the new Member States (NMS-10) one year after enlargement appears generally positive; however there is a marked difference between northern and southern Members. In most NMS-10 (notably Poland, the Baltic States, and Slovenia) opportunities seem to outweigh the challenges on the single market. The situation in some southern NMS-10 appears relatively mixed, and largely affected by the record cereal harvest, marketing infrastructure problems, and the late operation of the Community intervention system.

Most NMS-10 have been able to expand trade with the EC-15, with higher imports and exports and there are strong indications that membership has been very positive for trade integration among the NMS-10.

Farm income increased by 56% in nominal terms in 2004 compared to 2003, thanks to improved prices as well as the granting of EC direct payments. This figure however hides some of the institutional effects of the date of payment of these funds, which, in a number of countries took place only at the beginning of 2005.

Investment activities of farms (as well as of food industries) appear to be higher than expected, and requests for national and EC funds far outstrip availability in most countries. The financial sector may have started to become more flexible as regards lending to agriculture, since the risks are now perceived as lower than before membership. In some NMS-10, banks have established specific credit schemes for farmers taking part in the Rural Development Programmes.

Land prices seem to have increased in the NMS-10, though land purchase by foreigners remains generally restricted. This is in line with expectations on the increasing profitability of agriculture after enlargement and the impact of the direct payments. Farmers in countries with a high share of land leasing have been particularly affected.

Producer prices have generally increased for livestock, meat, and dairy products. Pork prices have especially benefited from the generally favourable market situation in the EC linked to the pork cycle. High quality beef prices increased significantly through strong demand from the old Member States for live animals. In the course of year, low quality beef prices increased as bovine animals became in short supply on domestic markets. On average, beef prices are significantly higher than before enlargement. Domestic demand for beef continues to be very weak as a response to the price levels and availability of quality meat. Poultry prices have increased in a number of NMS-10, supported by sustained export opportunities to the old Member States. On the contrary, poultry prices in Hungary have declined significantly since enlargement.

Milk markets are still characterized by strong competition for high quality milk in particular in Poland, Lithuania, Latvia, and Hungary. The spread between low and high quality milk prices is very high in these countries. Milk producers face some of the burdens of adjustment of the dairy sector, notably in Slovakia, Slovenia, Hungary, and Poland. Hungary is one of the few countries where milk prices have picked up again recently.

Cereal prices tend to be lower than in 2003; this can be attributed more to the abundant cereal harvest in 2004 than to enlargement. Contributing to this was the significant shortage of intervention stock capacity of Hungary, and some shortages in the Czech Republic and Slovakia, as well as the late operation of the intervention system. Infrastructure difficulties resulting in high transport costs seem to have restricted the competitiveness of cereals produced in this region on EC and world markets. Producer prices declined most in Hungary as a result of early sales by farmers who had insufficient storage capacity to bridge the gap between the harvest and the intervention period. Current market stocks appear to have reached a very high level, which might lead to continuous regional price pressure during the next marketing campaign. The northern NMS-10 appear to have been less affected by these problems, though cereal prices are also lower than in the drought year 2003.

The situation of the food industry in the NMS-10 is mixed: in most, investment, consolidation, and concentration have been increasing thanks to foreign direct and domestic investments. Challenges appear particularly strong in the milk industry and in the meat processing sector, where lack of standards, and marketing difficulties seem to be the main issues. Favourable market opportunities in the EC, in particular for live animals, have helped to ease the negative impact of the low competitiveness of meat processors.

Consumers in Central Europe have been affected quite differently by food prices since enlargement. In most countries, only a limited number of products have had a significant price increase. These are mainly sugar, beef (which is not important in the diet), pork, poultry, bananas, and oranges. Prices of other products , such as imported high value added dairy products, have fallen. Prices increased mostly in countries with limited competition among retailers and processors. The Czech Republic, Hungary, and Slovakia seem to be the counter-examples where food prices remained on average at the same level as in 2003 or declined slightly. In Slovenia and Malta, food prices fell as a result of a general decline in agricultural raw product prices following enlargement.

Source: European Commission (2005), *Prospects for agricultural markets in the EU*, Brussels.

13. According to the OECD, the producer support estimate (PSE) of the EC[17], as a percentage of total production value, declined, on average, from 41% of the value of production in 1986-88 to 34% in 2003-05. It went from 36% in 2003 to 32% in 2005 due to lower domestic prices and higher border prices; this is still above the OECD average of 30%. Support by commodity ranges between 6% and 69%. Since 1986-88, there has been a significant move from market price support to payments based on area planted and animal numbers, which accounted for 25% of the PSE in 2003-05. Since 2004, payments based on historical entitlements have partially replaced these earlier payments; they accounted for 16% of the PSE in 2005. The combined share of market price support relating to output and input (the most distorting), fell from 97% of the PSE in 1986-88 to 63% in 2003-05.[18]

14. The EC's rural development regulation (second pillar of the CAP) includes accompanying measures (e.g. agri-environmental measures, early retirement schemes, afforestation, and payments to assist farmers in least-favoured areas). These and other measures, such as aid for investment, training, promotion, and diversification of agriculture, are to some extent co-financed by EC Member States, with about half of the financing coming from the EC budget. Funding for this second pillar was €52.5 billion for the EC-15over 2000-06. In 2005, the EC adopted its strategic guidelines for rural development during 2007-13, focusing on three main areas: competitiveness for farming and forestry; environment and countryside; and quality of life and diversification of the rural economy.[19] A single European Agricultural Fund for Rural Development (EAFRD) is to be set up, and the total budget allocated for the EC-25 is €77.7 billion over 2007-13 (Table IV.3).[20]

15. The EC also finances Leader+, an initiative to encourage and support a series of small-scale pilot approaches to integrated rural development, at the local level in selected areas of the EC. The EC total contribution over 2000-06 is more than € 2 billion, financed under the European Agricultural Guarantee and Guidance Fund (EAGGF).

16. On 6 October 2004, the Commission adopted a regulation on "de minimis" aid for agriculture and fisheries, which entered into force on 1 January 2005.[21] The regulation exempts national aid of up to € 3,000 per enterprise in agriculture or fisheries (over three years) from the requirement of prior notification. To avoid large-scale support operations, any Member State granting such aid has to respect an overall ceiling roughly equal to 0.3% of its annual agricultural or fisheries output.[22]

17. In April 2004, Regulation (EC) No. 1829/2003 on genetically modified (GM) food and feed came into force, introducing a labelling requirement for GM feed, as well as an exemption from labelling GM food and feed containing adventitious or technically unavoidable traces of GMOs up to 0.9%. Regulation (EC) No. 1830/2003 on the traceability and labelling of GMOs and the traceability

[17] The PSE is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from all policy measures that support agriculture.

[18] Prices received by farmers were 29% higher than those on the world market in 2003-05, compared to 78% in 1986-88 (OECD, 2006).

[19] Council Regulation (EC) No. 1698/2005.

[20] Rural areas make up 90% of the territory of the enlarged EC (EC online information. Viewed at: http://europa.eu.int/comm/agriculture/capreform/rdguidelines/index_en.htm [18 July 2006]).

[21] Commission Regulation (EC) No. 1860/2004 of 6 October 2004, on the application of Articles 87 and 88 of the EC Treaty to "*de minimis*" aid in agriculture and fisheries.

[22] If all Member States use this possibility fully, average "*de minimis*" aid would amount to around €290 million per year for the whole EC, i.e. 2.2% of the annual value of agricultural state aids of € 13 billion (WTO, 2004).

of food and feed goods produced from GMOs entered into force in 2004. It introduced specific requirements on the traceability and labelling of GM food and feed.[23]

Table IV.3
EC support for rural development, 2007-13
(€ million)

	2007	2008	2009	2010	2011	2012	2013	Total
Austria	628.2	594.7	550.5	557.6	541.7	527.9	511.1	3,911.5
Belgium	64.0	64.0	60.2	59.7	59.3	57.0	54.5	418.6
Cyprus	26.7	24.8	22.7	23.1	22.4	21.8	21.0	162.5
Czech Republic	396.6	392.6	388.0	400.9	406.6	412.7	418.0	2,815.5
Denmark	62.6	66.3	63.8	64.3	63.4	62.6	61.6	444.7
Estonia	95.6	95.6	95.7	100.9	104.6	108.9	113.3	714.7
Finland	335.1	316.1	292.4	296.4	287.8	280.5	271.6	2,079.9
France	931.0	942.4	898.7	909.2	933.8	921.2	905.7	6,442.0
Germany	1,185.0	1,186.9	1,147.4	1,156.0	1,159.4	1,146.7	1,131.1	8,112.5
Greece	461.4	463.5	453.4	452.0	631.8	626.0	619.2	3,707.3
Hungary	570.8	537.5	498.6	509.3	547.6	563.3	578.7	3,805.8
Ireland	373.7	355.0	329.2	333.4	324.7	316.8	307.2	2,339.9
Italy	1,142.1	1,135.4	1,101.4	1,116.6	1,271.7	1,266.6	1,258.2	8,292.0
Latvia	152.9	147.8	142.5	147.8	148.8	150.2	151.2	1,041.1
Lithuania	261.0	248.8	236.9	244.7	248.0	250.3	253.6	1,743.4
Luxembourg	14.4	13.7	12.7	12.8	12.5	12.2	11.8	90.0
Malta	12.4	11.5	10.7	10.5	10.3	10.5	10.7	76.6
Netherlands	70.5	72.6	69.8	70.5	68.7	67.8	66.6	486.5
Poland	1,989.7	1,932.9	1,872.7	1,866.8	1,860.6	1,857.2	1,850.0	13,230.0
Portugal	562.2	562.5	551.2	559.0	565.1	565.2	564.1	3,929.3
Slovak Republic	303.2	286.5	268.0	256.3	263.0	275.0	317.3	1,969.4
Slovenia	149.5	139.9	129.7	128.3	123.0	117.8	112.0	900.3
Spain	1,012.5	1,030.9	1,006.8	1,013.9	1,057.8	1,050.9	1,041.1	7,213.9
Sweden	292.1	277.2	257.0	260.4	253.0	246.8	239.2	1,825.6
United Kingdom	264.0	283.0	274.6	276.6	273.3	270.7	267.4	1,909.6
EC-25	11,357.3	11,182.2	10,734.7	10,827.1	11,238.9	11,186.5	11,136.0	77,662.8

Note: In the Interinstitutional Agreement (including Bulgaria and Romania), € 69.75 billion (in 2004 prices) were allocated for rural development for the period 2007-13. The table includes the money transferred from direct aid to farmers to rural development under so-called "Modulation" and other agreed transfers (cotton and tobacco).

Source: Information provided by the EC Commission.

18. An Action Plan for organic farming, proposed in 2004, includes 21 different actions covering market policy, public policy and organic farming, and standards and inspection.[24] In 2005, The Commission adopted a proposal for a new Council Regulation on organic production and labelling of organic products based on the Action Plan.[25]

19. A total of €51.4 billion was spent on the CAP in 2005 (i.e. 45.5% of Community expenditure), of which 86.8% was agriculture spending; the remainder was allocated for rural development and supporting measures.[26] Expenditure is channelled mainly through the European Agricultural Guidance and Guarantee Fund (EAGGF) managed by Member States and monitored by the Court of Auditors. Appropriations for the guarantee and guidance section of the EAGGF for 2004

[23] Amending Directive 2001/18/EC.
[24] OECD (2005a).
[25] COM (2005) 671 final.
[26] European Commission (2006c).

were €48.1 billion. France receives the largest share of EAGGF assistance, in line with its biggest share in overall EC agricultural production[27], followed by Spain, Germany, and Italy (Table IV.4).

Table IV.4
Guarantee and guidance expenditure by member State, and national expenditure on agriculture, 2004

	EAGF guarantee (€ million)	EAGF guidance (€ million)	EAGGF total (€ million)	Share in total EAGGF (%)	National expenditure on agriculture (€ million)
Austria	1,141.9	19.3	1,161.2	2.4	902
Belgium	1,072.7	10.0	1,082.7	2.3	255
Cyprus	22.5	0.0	22.5	0.0	53
Czech Republic	168	38.8	206.8	0.4	166
Denmark	1,217.1	2.8	1,219.9	2.5	272
Estonia	45.8	13.1	58.9	0.1	26
Finland	868.8	42.8	911.6	1.9	1,652
France	9,389.1	133.6	9,522.7	19.8	2,291
Germany	6,033.7	512.5	6,546.2	13.6	2,007
Greece	2,777.6	515.6	3,293.2	6.9	132
Hungary	181.7	73.1	254.8	0.5	317
Ireland	1,829.6	26.1	1,855.7	3.9	554
Italy	5,022.5	571.6	5,594.1	11.6	1,100[a]
Latvia	98.7	24.0	122.7	0.3	26
Lithuania	147.9	32.0	179.9	0.4	98
Luxembourg	37.6	0.4	38.0	0.1	35
Malta	8.1	1.0	9.1	0.0	17
Netherlands	1,261.9	14.2	1,276.1	2.7	813
Poland	873.1	278.6	1,151.7	2.4	900
Portugal	823.3	331.5	1,154.8	2.4	350
Slovak Republic	120.9	42.3	163.2	0.3	5
Slovenia	84.7	5.5	90.2	0.2	113
Spain	6,319.3	874.2	7,193.5	15.0	721
Sweden	849.1	23.4	872.5	1.8	323
United Kingdom	3,986.6	74.0	4,060.6	8.5	978
EC-25	**44,382.7**	**3,660.4**	**48,043.1**	**100.0**	**14,106**
EC-15	**42,630.8**	**3,151.9**	**45,782.7**	**n.a.**	**12,385**

a Data do not include regional expenditures.

n.a. Not applicable.

Source: DG Agriculture online information, Tables 2.0.1.2, 3.4.2 and 3.4.10. Viewed at: http://europa.eu.int/comm/agriculture [1 August 2006].

20. In terms of products, the largest share of EAGGF expenditure was devoted, to arable crops in 2006 (17.4%, down from 38.6% in 2004), followed by beef and veal (7.2%, down from 17.4% in 2004), and milk products (5.4, up from 4.5% in 2004). Direct aid of a horizontal nature represented

[27] Over a quarter of agricultural payments go to just 5% of France's farmers, according to the *Groupe d'Economie Mondiale* at the Paris *Insititut d'Etudes Politiques*. It calculates that the 30 largest French farmers receive, on average, over € 390,000 each year, that is 217 times the average received by the 180,000 or so smallest farmers (i.e. about 40% of France's total) (*The Economist*, 10 December 2005).

31.9% of total EAGGF spending (non-existent in 2004), while rural development constituted 11% (up from 10.6% in 2004) (Table IV.5).

Table IV.5
Guarantee expenditure, by product, 2004-06

Products 2005 budget heading	2004[a] € million	2004[a] %	2005[b] € million	2005[b] %	2006[c] € million	2006[c] %
Arable crops	17,296.6	38.64	17,367.3	34.96	8,965.3	17.44
of which refunds	72.4	0.16	288.0	0.58	333.0	0.65
of which intervention storage	44.7	0.10	60.0	0.12	478.0	0.93
of which intervention other than storage	209.4	0.47	78.0	0.16	78.0	0.15
of which aid	16,974.6	37.92	16,972.3	34.17	7,933.9	15.43
Rice	180.1	0.40	469.0	0.94	294.4	0.57
of which refunds	22.4	0.05	18.0	0.04	12.0	0.02
of wick intervention storage	47.6	0.11	21.0	0.04	14.0	0.03
of which aid	110.1	0.25	430.0	0.87	268.4	0.52
Sugar	1,283.5	2.87	1,770.1	3.56	1,682.0	3.27
of which refunds	988.3	2.21	1,479.1	2.98	1,397.0	2.72
of which intervention storage	296.0	0.66	..	..	..	..
Olive oil	2,372.4	5.30	2,296.7	4.62	2,271.0	4.42
of which refunds	0.0	0.0	..	..	..	..
of which intervention storage and other	29.1	0.07	..	..	..	..
of which production aid	2,343.3	5.24	2,274	4.58	2,236.0	4.35
Textile plants, of which:	851.0	1.90	912.9	1.84	997.5	1.94
fiber flax and hemp	17.9	0.04	28.0	0.06	24.0	0.05
cotton	835.3	1.87	883.9	1.78	973.0	1.89
silkworms	0.3	0.00	1.0	0.00	0.5	0.00
Fruit and vegetables	1,572.9	3.51	1,814.0	3.65	1,886.2	3.67
of which refunds	25.8	0.06	41.0	0.08	30.0	0.06
of which other	1,552.8	3.47	1,773.0	3.57	1,856.2	3.61
Other plant products and measures	720.0	1.61	737.0	1.48	585.6	1.14
Wine	1,092.0	2.44	1,227.8	2.47	1,329.0	2.58
of which refunds	13.1	0.03	26.0	0.05	19.0	0.04
of which other	1,078.9	2.41	1,201.8	2.42	1,310.0	2.55
Tobacco	929.3	2.08	928.8	1.87	933.6	1.82
Milk products	1,993.4	4.45	3,804.5	7.66	2,787.0	5.42
of which refunds	1,494.9	3.34	1,433.5	2.89	1,214.0	2.36
of which other	498.5	1.11	2,371.0	4.77	1,573.0	3.06
Beef/veal	7,776.0	17.37	7,887.9	15.88	3,696.7	7.19
of which refunds	250.8	0.56	233.0	0.47	215.0	0.42
of which other	7,525.2	16.81	7,654.9	15.41	3,481.7	6.77
Sheepmeat and goatmeat	1,469.5	3.28	1,794.5	3.61	951.3	1.85
of which refunds	0.0	0.00	0.0	0.00	0.0	0.00
of which other	1,469.5	3.28	1,794.5	3.61	951.3	1.85
Pigmeat, eggs and poultry meat, and other measures in favour of animals products	173.2	0.39	197.0	0.40	171.0	0.33
of which refunds	130.6	0.29	80.0	0.16	53.0	0.10
of which other	30.0	0.07	117.0	0.24	118.0	0.23
Fishery products	23.9	0.05	33.2	0.07	33.2	0.06
Direct aids of a horizontal nature	0.0	0.00	1,388.0	2.79	16,375.0	31.85
Total market organizations	37,733.7	84.30	42,628.7	85.81	42,958.8	83.56
Rural development	4,748.9	10.61	4,910.0	9.88	5,675.0	11.04
Other measures	2,277.9	5.09	2,137.4	4.30	2,778.5	5.40
Total	**44,760.5**	**100.00**	**49,676.1**	**100.00**	**51,412.3**	**100.00**

.. Not available.

a Financial report 2004.
b Appropriations for commitments entered in the budget 2005 (EC-25).
c Appropriations for commitments entered in 2006 (doc Agri/D/12828/2005-Fr of the 27/04/05).

Source: DG Agriculture (2006), *The 2005 Agricultural Year*, Table 3.4.3.1, Brussels.

21. Overall, the EC's total agriculture transfers, as a share of its GDP, decreased from 2.77% in 1986-88 to 1.14% in 2005, partly as a result of the shift from market price support measures towards payments based on area planted and herd size. Reflecting the shift away from transfers paid by

consumers to budgetary payments, the implicit tax on consumers, as measured by the consumer support estimate (CSE), went from -37% in 1986-88 to -17% in 2005 (Table IV.6).[28]

Table IV.6
Transfers associated with agricultural policies in the EC, 1986-05[a]

		1986-88	2003-05	2003	2004	2005[b]
PSE	€ million	90,924	107,563	105,467	109,5774	107,644
	(%)[c]	41	34	36	33	32
CSE	€ million	-68,272	-47,712	-50,310	-50,775	-42,050
	(%)[d]	-37	-19	-21	-19	-17
Total transfers[e]	€ million	104,183	120,587	117,680	122,989	121,093
	(% of GDP)	2.77	1.23	1.24	1.20	1.14
Memo item:						
Total transfers for all OECD countries	(% of GDP)	2.32	1.14	1.15	1.11	1.10

a EC-12 for 1986-88; EC-15 up to 2003; EC-25 from 2004.
b Provisional.
c PSE as a percentage of total value of production (valued at domestic producer prices), adjusted to include direct payments and to exclude levies on production.
d CSE as a percentage of total value of consumption (valued at domestic producer prices).
e Total transfers are not the sum of PSE and CSE; they cover the total value of production and include not only transfers to agriculture, as measured by the PSE and CSE, but also other transfers associated with agricultural policies.

Source: OECD (2006), *Agricultural Policies in OECD Countries: At a Glance*, Paris.

22. The EC has 91 tariff quotas on agricultural products (compared with 89 in 2003); they are managed by the Commission through a licensing system based on: first-come-first-served (for 28 tariff quotas), historic imports (for 20), and mixed allocation methods (for 43).[29] The average fill ratio for tariff quotas was 62% in 2002. In the marketing year 2002/03, there was full utilization in imports of millet, chemically pure fructose, boneless high quality meat, fowls, butter, cheddar and cheese for processing, egg yolks, apples, grapes, fresh bananas, pears, apricots, broken rice, starch and sugar; while there was zero utilization for frozen boneless buffalo meat, swine carcasses fresh or frozen, sweet potatoes, preserved meat of domestic swine, preparation of malt, and barley.[30]

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

24. Using ISIC (Revision 2), the simple average MFN tariff on agriculture, hunting, forestry and fishing is 10.9%, with rates ranging up to 167.2% (Table AIV.2). In general, tariffs are lower on agricultural products not produced in the EC (e.g., coffee, tea, spices), but are considerably higher on some primary and processed agricultural products (Table AIII.1). Border protection and domestic support, together with the limited liberalization under the preferential agreements, have restricted the exposure of some products to competition (Chapter III(2)(vi)), and have encouraged surpluses. The policy has thus made subsidies indispensable for exports of some of the surpluses, as well as for exports of certain processed agricultural products.

[28] The CSE is an indicator of the annual monetary value of gross transfers to (from) consumers of agricultural commodities, measured at the farm-gate, arising from all policy measures that support agriculture.
[29] This includes methods involving licences issued on a first-come-first-served basis and systems where licences requests are reduced *pro rata* where they exceed available quantities.
[30] WTO document G/AG/N/EEC/48, 27 February 2004.

25. According to the latest data provided to the WTO, the EC granted a total of € 3.1 billions in export subsidies during marketing year 2002/03; the highest payments go to other milk products such as yoghurt, milk and cream and whole milk powder (19.0%), butter and butter oil (17.4%), incorporated products (13.2%), sugar (9.3%), and beef meat (9.1%).[31] Actual outlays were 58% below the EC export subsidies commitments in the WTO, i.e. an increase of 21.8% compared with the 2001/02 level (of about € 2.6 billion). The main increase occurred for milk products, while refunds for beef meat, wine, fruit, and vegetables declined. Ten items received actual subsidies of more than 50% of the specific commitments, with three receiving almost the entirety of the specific export subsidy commitments: poultry meat (99.8%), alcohol (94.1%) and "incorporated products" (99.7%). The subsidies cover the difference between the higher EC prices and the lower world market prices of the products; therefore, they change with world prices, exchange rate fluctuations, and domestic price levels.

26. Regarding safeguards on agricultural products, during 2004-05, the EC initiated one investigation (frozen strawberries), one review (citrus fruits), and imposed one definitive measure (citrus fruits) (Chapter III(2)(viii)(a)). Since the last TPR of the EC, Members have raised several questions in the WTO Committee on Agriculture, in areas such as the EC's tariff quota fill[32]; its enlargement with respect to tariff quotas, domestic support and export subsidy[33]; administration of the tariff quota for pig meat[34]; subsidies for restructuring and conversion of vineyards[35]; pest and disease control[36]; and payments for relief from natural disasters.[37]

27. Since mid 2004, some issues have also been raised in the WTO SPS Committee concerning the EC. In response to outbreaks of high pathogenic avian influenza (HPAI) or "bird flu" all over the world since 2003, the Commission established protective measures for EC poultry flocks to avoid the introduction of the disease into the Community, followed by actions to minimize the impact within the EC, following the first case of HPAI within the EC in mid-February 2006.[38]

(b) Policy by selected products

Cereals

28. Cereals are the EC's main agricultural product by volume (289.5 million tonnes in 2004, up from 259.7 million tonnes in 2000); France is the leading producer (24.2% of the total), followed by Germany (17.5%), Poland (10.2%), Spain (8.2%), and Italy (7.5%) (Table IV.7).[39] In 2005, production decreased to 266.5 million tonnes, mainly as a result of the drought. Cereals production accounts for over 20% of the EC's agricultural revenue; some 62% of EC cereals production is now used in feed for EC livestock.[40] Moreover, cereals provide major inputs for an expanding EC food-and-drink industry.

[31] WTO documents G/AG/N/EEC/44, 11 June 2003, and G/AG/N/EEC/52, 16 February 2005.
[32] WTO document G/AG/R/38, 28 May 2004.
[33] WTO documents G/AG/R/39, 16 July 2004, and G/AG/R/42, 25 May 2005.
[34] WTO document G/AG/R/40, 26 October 2004.
[35] WTO document G/AG/R/41, 17 February 2005.
[36] WTO document G/AG/R/42, 25 May 2005.
[37] WTO document G/AG/R/43, 2 September 2005.
[38] France's poultry subsector, the biggest in Europe, is losing US$48 million a month due to trade restrictions from 43 countries as a result of bird flu fears (*Financial Times*, 6 March 2006).
[39] In 2003, 56% of the EC-25's total arable land area (around 50.8 million ha) was used for the production of cereals; France, Poland, Spain, and Germany accounted for about 60% of the total (Eurostat, 2005d), *Yearbook 2005*, Brussels).
[40] Agritrade online information. Viewed at: http://www.agricta.org/agritrade/cereals/executive_

Table IV.7
Production of cereals, 1999-04
('000 tonnes)

	1999	2000	2001	2002	2003	2004
EC-25	**251,564.8**	**259,661.3**	**256,736.8**	**265,019.5**	**231,786.8**	**289,479.9**
EC-15	**200,832.8**	**213,819.5**	**199,732.7**	**211,637.1**	**186,765.4**	**225,444.1**
Austria	4,806.5	4,490.2	4,833.8	4,757.3	4,263.8	5,315.3
Belgium	2,406.6	2,512.9	2,358.5	2,639.3	2,613.2	2,951
Cyprus	127	48	127.4	141.8	151	80
Czech Republic	6,928.3	6,454.2	7,337,6	6,770.8	5,762.4	8,869.1
Denmark	8 775	9,412.7	9,423.1	8,803.7	9,050.9	8,963.2
Estonia	401.5	696.1	558.4	524.7	505.7	599.7
Finland	2,868.4	4,089.3	3,661	3,939.4	3,782.8	3,618.7
France	64,135.9	65,582.5	60,143.1	69,555.7	54,807.1	70,393.2
Germany	44,452	45,271.2	49,709.3	43,391.3	39,426	50,812.9
Greece	4,288	4,062	4,091.3	4,074.9	4,110	4,330.2
Hungary	11,384.9	10,026.5	15,039.2	11,695.9	8,758.4	16,557
Ireland	2,011.3	2,173.9	2,164.1	1,963.6	2,146.9	2,458.8
Italy	19,641.5	19,392.5	18,660.3	19,877.3	16,461.8	21,683.2
Latvia	783.4	923.6	928	1,028.5	932.4	1,059.5
Lithuania	2,048.6	2,657.7	2,345.3	2,539.1	2,631.8	2,859.4
Luxembourg	153.8	152.8	144.3	168.8	164,1	179
Malta	..	..	..	..	..	..
Netherlands	1,416.5	1,818.8	1,862.6	1,823.9	1,917.1	1,932.8
Poland	25,750.3	22,340.6	26,960.3	26,877.3	23,390.8	29,635.1
Portugal	1506	14,65.5	1,151.9	1,350,8	1,037.9	1,068.6
Slovak Republic	2,829.4	22,013	3,212	3,193.6	2,490.3	3,793.2
Slovenia	478.6	493.8	496	610.7	398.8	582.7
Spain	1,7 321	23,739.8	17,179.2	20,863.8	20,308.3	23,838.5
Sweden	4,931.3	5,670.3	5,390.7	5,461.9	5,352.1	5,511.7
United Kingdom	22,119	23,985	18,959.4	22,965.4	213,233	22,387

.. Not available.

Source: Eurostat (2005), *Yearbook 2005*, Europe in figures, Chapter 7, Brussels.

29. MFN tariffs on cereals average 55.2%, with rates ranging up to 116.6% (Table AIII.2). The CMO for cereals supports EC producers mainly through the intervention price.[41] Regarding support through direct payments, only France and Luxembourg opted for partial decoupling and retained 25% of their national ceilings for an additional payment granted to farmers producing arable crops. In those two Member States, direct payments of up to € 63 per tonne are available to cereals farmers in remote areas.[42] Intervention prices for cereals are € 101.31 per tonne; rye is excluded from the intervention system.

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brief.htm [2 August 2006].

[41] The intervention price is the guaranteed price below which an intervention body, designated by the Member State, buys and stores the quantities produced. Monthly increments for cereals eligible for intervention were reduced by 50% in the 2003 CAP reform. The intervention price can vary depending on the product quality. From November to June, it is increased by €0.46/t per month. The periods of intervention are from 1 August to 30 April for Greece, Spain, and Portugal; from 1 December to 30 June for Sweden; and from 1 November to 15 May for the other Member States (EC online information. Viewed at: http://europa.eu.int/scadplus/leg/en/lvb/l11078.htm [14 June 2006]).

[42] Specific aid of € 24/tonne, multiplied by the relevant yield coefficient, is paid to cereals farmers in difficult regions (i.e. Finland and Sweden north of the 62nd parallel, and some adjacent areas affected by comparable climatic conditions). This aid may be integrated into the single payment scheme (Agritrade online information viewed at: http://www.agricta.org/agritrade/cereals/executive_brief.htm [14 June 2006]).

30. The EC's projections for cereals over 2005-12 are moderately positive, with production and exports increasing to 270.9 million tonnes and 30.5 million tonnes, respectively (Table IV.8). This as a result of, inter alia, the impact of the 2003 CAP, the return to a higher set-aside level, and a rise in cereals yields in the NMS-10, which currently are, on average, at roughly half the EC-15's. The assumed return to a slightly weaker euro vis-à-vis the U.S. dollar is also expected to restore competitiveness for EC's cereals.[43]

Table IV.8
Total cereals market projections, 2005-12
(Million tonnes)

	2005	2006	2007	2008	2009	2010	2011	2012
Usable production	261.1	260.3	261.3	262.9	263.0	265.8	267.8	270.9
of which								
EC-15	206.2	206.1	206.9	208.1	209.1	211.2	212.3	214.2
NMS-10	54.9	54.2	54.4	54.7	53.9	54.6	55.6	56.7
Consumption	244.9	244.5	246.5	248.8	249.0	251.2	252.6	256.0
of which								
bioenergy	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
EC-15	198.1	197.5	199.5	201.9	202.1	204.3	205.8	209.1
NMS-10	46.7	47.0	47.0	46.9	46.9	46.9	46.8	46.9
Imports	9.9	9.6	10.2	10.9	11.2	11.1	11.2	11.3
Exports	27.8	27.9	27.6	27.5	25.0	27.1	29.0	30.5
Beginning stocks	61.1	58.8	55.8	52.7	49.2	48.2	45.7	41.9
Ending stocks	58.8	55.8	52.7	49.2	48.2	45.7	41.9	36.4
of which								
intervention	12.3	13.4	13.1	10.5	11.0	9.8	7.4	3.0

Source: European Commission (2005), *Prospects for agricultural markets in the EU*, Brussels.

Beef and veal

31. The EC's beef and veal market was severely affected by the Bovine Spongiform Encephalopathy (BSE) scares of 1996 and 2000/01, and by measures taken in response to these crises. It is estimated that during 1996-04, more than 8 million animals were withdrawn from the slaughter schemes, and around 6 million calves were subject to emergency supply-side schemes[44], in an effort to keep supply as close as possible to falling consumption. Moreover, the total cow herd declined by more than 1.6 million animals over 2001-04 due to the joint effect of constant milk quotas and increasing milk yields.[45] As a result, EC beef and veal production fell from 8.4 million tonnes in 1999 to 8 million tonnes in 2004.[46] The EC has become a net importer of beef and veal since 2003, and its exports of beef and veal have decreased since 2004. Exports refunds in this subsector were cut on several occasions during 2005, and export refunds for live cattle for slaughter were abolished in December.

[43] The strengthening of the euro against the U.S. dollar in recent years has undermined the competitiveness of EC's cereals exports.

[44] The culling linked to the outbreaks of foot and mouth disease (FMD) in the United Kingdom, and to a much lesser extent in the Netherlands, France, and Ireland in 2001, concerned around 850,000 cattle (WTO, 2002).

[45] For the EC as a whole, some two thirds of the beef produced is derived directly or indirectly from dairy herds. Meat from dairy herds swells overall agricultural output by some 10% (EC online information viewed at: www. europa.eu.int/comm/agriculture/markets/beef/index_en.htm [14 June 2006]).

[46] The NMS-10 contribute around 8% of EC-25 beef and veal production and 6% of consumption (European Commission, 2005e).

32. MFN tariffs on meat products average 25.3%, with rates ranging up to 427.9% (Table AIV.2). The CMO for beef and veal supports aid for private storage. Regarding direct payments, Member States that opted for partial decoupling may keep up to 100% of the suckler cow premium"(€200 per animal) and up to 40% of the slaughter premium for adult bovine animals (€80 per animal).[47] Alternatively, they may keep 100% of the slaughter premium for adult bovine animals coupled, or instead, up to 75% of the special male premium (€150 or 210 per animal, depending on type). Also, Member States may retain up to 100% of the calf slaughter premium (€50 per animal) as a product-specific payment.[48] Payments for private storage of beef and veal are made when the average price on the EC market falls below 103% of the basic price (€ 2,224/tonne). Furthermore, a "safety net" storage intervention level applies when the average market price of juvenile cattle or steers in a Member State or a region of a Member State falls below € 1,560/tonne over two consecutive weeks.

33. The introduction of the decoupled single payment by some Member States as from 2005[49], combined with a slight relative increase in cereal feed prices, is expected to reduce the incentives towards intensive beef and veal production, causing a reduction in production to around 7.6 million tonnes by 2012. Beef and veal consumption is projected to stagnate at around 8.2 million tonnes over the medium term, largely due to price increases and low consumer preference for beef meat.[50] The EC is anticipated to increase its imports of beef and veal to over 0.7 million tonnes by 2012, while its exports are expected to fall significantly, partly because of lower competitiveness in world markets (Table IV.9).

Table IV.9
Beef and veal meat market projections, 2004-13
('000 tonnes)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross indigenous production	8,135	7,901	7,967	7,866	7,736	7,639	7,587	7,549	7,531	7,492
Live imports	9	8	8	8	8	8	8	8	8	8
Live exports	103	68	43	34	32	31	29	28	26	25
Net production	8,041	7,841	7,932	7,840	7,711	7,617	7,565	7,529	7,512	7,475
EC-15	7,446	7,272	7,346	7,296	7,171	7,083	7,036	7,002	6,986	6,952
NMS-10	595	569	586	544	540	533	530	527	526	524
Import	504	520	515	540	598	633	650	678	702	727
Exports	328	218	157	118	99	86	74	55	53	48
Stocks changes	-34	0	0	0	0	0	0	0	0	0
Consumption	8,251	8,143	8,290	8,262	8,210	8,163	8,141	8,153	8,161	8,155
EC-15	7,725	7,670	7,806	7,813	7,751	7,701	7,674	7,682	7,689	7,680
NMS-10	526	473	484	449	459	462	467	471	472	475
Per capita consumption	18.0	17.9	17.9	17.9	17.8	17.7	17.6	17.5	17.5	17.5
Ending stocks (intervention)	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Source: Information provided by the EC Commission.

[47] The suckler cow premium is support income paid to producers who are specialized in beef production. The slaughter premium compensates for the reductions in the intervention price.

[48] The extensification payment (€ 40 to 100 per animal according to the density chosen by the Member State), additional payments, and the deseasonalization premium are to be fully decoupled.

[49] In December 2004, slaughtering was 10% higher than (on average) during past years because some Member States decided to apply the single payment scheme as from 2005 (European Commission, 2005e).

[50] Beef prices in the NMS-10 increased by 10-30% upon enlargement. During the last ten years beef consumption has fallen by up to 50% in the NMS-10, in line with the strong reduction in beef production and price increases (European Commission, 2005e).

Sugar

34. The EC is a key player on world sugar markets, with a 14% share of production (third largest producer), 12% of consumption, 12% of exports and 5% of imports. The EC is a net sugar exporter, with net exports representing, on average, 20% of its sugar production and 2-3.5% of its exports of agri-food products. Sugar is produced throughout the EC, with the exception of Cyprus, Estonia, Luxembourg, and Malta; France, Germany, and Poland account for half of the EC's sugar production. In 2004/05, production reached almost 20 million tonnes; the efficiency of sugar production varies significantly across Member States (Table IV.10). There are 420,000 farmers growing sugar beet, covering more than 2 million ha, and providing about 2% of EC's agricultural output in value.

Table IV.10
Selected sugar indicators, 2005

	Production under quota		Out of Quota	Total production 2004-05	Yield 2004-05	Share in production (%)
	Quota A	Quota B				
EC-25[1]	**14,371,747**	**2,389,790**	**3,066,635**	**19,828,172**	**9.09**	**100.0**
Austria	314,029	73,298	57,872	445,198	10.24	2.3
Belgium	674,906	144,906	176,432	996,244	10.87	5.1
Czech Republic	441,209	13,653	83,675	538,537	8.02	2.7
Denmark	325,000	95,746	50,772	471,518	9.81	2.4
Finland	132,806	13,280	7,963	154,049	4.79	0.8
France	2,536,487	752,260	928,421	4,217,168	11.94	21.4
Germany	2,612,913	803,951	911,785	4,328,649	9.83	21.9
Greece	259,500	0	0	259,500	7.91	1.3
Hungary	400,454	1,230	51,261	452,945	7.47	2.3
Ireland	181,145	18,115	13,918	213,178	6.88	1.1
Italy	1,149,054	0	0	1,149,054	6.43	5.8
Latvia	66,400	105	606	67,111	4.94	0.4
Lithuania	103,010	0	28,131	131,141	5.43	0.8
Netherlands	684,112	180,447	157,203	1,021,762	10.47	5.3
Poland	1,579,969	91,923	329,523	2,001,415	6.72	10.2
Portugal	63,380	6,338	0	69,718	8.83	0.4
Slovakia	189,760	17,627	9,025	216,457	6.75	1.2
Slovenia	37,994	0	0	37,994	6.23	0.3
Spain	957,082	39,879	24,742	1,021,703	9.80	5.3
Sweden	334,784	33,478	15,856	384,118	7.91	2.0
United Kingdom	1,035,115	103,512	220,531	1,359,158	10.22	7.0

1 Except Cyprus, Estonia, Luxembourg, and Malta, which do not produce sugar.

Source: Information provided by the EC Commission.

35. MFN tariffs on sugar and sugar products average 39.2%, with rates ranging up to 84.6% (Table AIV.2). On 24 November 2005, the EC Agriculture Ministers agreed to reform the CMO for sugar over a four-year period (2006/07 to 2009/10). Some of the main reasons for changing the EC sugar regime are: continual decline in prices due to chronic world over-supply of sugar; sugar from the EC is not competitive on world markets, with subsidies in the order of 75% of the intervention price to make exports take place; growing stocks of sugar (under unchanged internal demand conditions) due to constraints on subsidized exports under the WTO Agreement on Agriculture; and high costs of the regime to consumers.[51] In October 2004, the EC also lost a WTO panel, which that

[51] The current sugar regime, which has so far stayed outside the CAP reform process, expires in 2006. Sugar producers benefit from a system that combines border protection, supply control, and price support. The intervention price for sugar is set at € 631.9 per tonne for refined sugar and € 523.7 per tonne for raw sugar

ruled that the EC can no longer subsidize extra sugar exports to balance out preferential imports, mainly from ACP countries. In April 2005, the WTO Appellate Body upheld the findings of the Panel.[52]

36. Some of the key elements of the sugar reform are: (i) the reference price will be reduced by 20% in 2006/07, 27.5% in 2007/08, 35% in 2008/09, and 36% in 2009/10 to ensure sustainable market balance[53]; (ii) farmers will be compensated for, on average, 64.2% of the price cut (based on the final price cut of 36%) through a decoupled payment[54]; (iii) Member States that give up more than 50% of their production quota will be entitled to an additional coupled payment of 30% of the income loss for a maximum of five years, plus possible limited national aid; (iv) merging of "A" and "B" quotas into a single production quota[55]; (v) abolition of the intervention system after a four-year phase-out period, and replacement of the intervention price by a reference price; (vi) introduction of a private storage system as a safety net in case the market price falls below the reference price; and (vii) a voluntary restructuring scheme for EC sugar factories, and isoglucose and inulin syrup producers, consisting of a payment to encourage factory closure and renunciation of the quota (€730/tonne in years one and two, €625/tonne in year three, and € 520 in the final year).

37. Developing countries will continue to have preferential access to the EC market, and those ACP countries that need it will be eligible for an assistance plan worth € 40 million for 2006; this will pave the way for further assistance. The new sugar regime will be valid until 2014/15, and there is no review clause.[56]

(3) Fisheries

(i) Main features

38. In 2003, the EC's production of fishery products (7.3 million tonnes, 80.8% of which were total catches and 19.2% from aquaculture) represented 5% of total world production. Spain, Denmark, France and the United Kingdom accounted for 56% of the total, with the NMS-10 contributing 9%. The value of output of the processing subsector is nearly twice the value of production of the catching subsector. Total employment by fisheries exceeds half a million people. Pelagic fish, such as herring, sandeels, sprat, horse mackerel, sardines, and mackerel, make up about 50% of total catches. However, cod or larger pelagic fish, are more important economically even though they represent less

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(unchanged since 1993/94). The EC market price has been two to three times higher than international reference prices over recent years (WTO, 2004).

[52] WTO document WT/DS265,266,283/AB/R, 28 April 2005.

[53] Reference prices should be fixed for standard qualities of white sugar and raw sugar. These standard qualities should be average qualities representative of sugar produced in the Communities, and defined on the basis of criteria used by the sugar trade.

[54] This decoupled payment will be linked to the respect of environmental and land management standards, and added to the single payment scheme (EC Press Release IP/05/1473, 24 November 2005.

[55] There are two types of sugar quota on: "A" quota (initially determined in accordance with domestic consumption), and a "B" quota (additional amount to fulfil export potential). They represent the maximum quantity of sugar eligible for price support. The total EC production quota is 17.4 million tonnes (82% for A, and 18% for B); Member States may produce more, but the over-quota production ("C") has to be sold outside the EC without subsidy. To maintain a certain production in the current "C" sugar producing countries, an additional 1.1 million tonnes will be made available against a one-off payment corresponding to the amount of restructuring aid per tonne in 2006/07 (European Commission, 2005f).

[56] Financing will come from a specific amount charged over three years on all sugar, isaglucose. and inulin syrup quotas. The rates proposed are: €126.40/tonne in 2006/07, €92.3/tonne in 2007/08, a €64.5/tonne in 2008/09 (European Commission, 2005f).

than 10% of the volume of total catches. MFN tariffs on fishing products average 9.1%, with rates ranging up to 23% (Table AIV.2).

39. In 2004, the EC's fishing fleet consisted of 92,422 vessels; 6,713 were vessels from the NMS-10[57]; which have an average age of 19 years. Before the accession of the NMS-10, the number of vessels and their capacity in terms of tonnage and engine power had fallen, largely due to the EC policy to cut fleet overcapacity to reach a better balance between fishing efforts and available fish resources.[58] The EC has a 200-mile fishing zone off the coastal areas of the North Atlantic and the North Sea, which is fished by EC vessels, as well as vessels from countries that have concluded bilateral agreements with the EC (section (ii) below).

40. In 2004, the EC recorded a €9.6 billion trade deficit in fishery products (down from €10.2 billion in 2003), with imports of €23.8 billion and exports of € 14.2 billion.[59] Norway is the primary supplier (15% of the EC fishery imports), and Japan is the main consumer of EC fishery exports (16%). Spain has been increasingly the main exporter and importer of fishery products *vis-à-vis* third countries; while Denmark is the main exporter and France the main importer in terms of intra-EC trade.

(ii) Common Fisheries Policy (CFP)

41. Since 1 January 2003, the EC has operated a new CFP, aimed at addressing some of the main problems faced by the industry, including the overexploitation of certain fishing stocks. The main changes introduced are: the adoption of a long-term approach to fisheries management, including the setting of multi-annual recovery plans for stocks outside safe biological limits, and of multi-annual management plans for stocks; a new fleet policy; socio-economic measures; access to waters and resources; control and enforcement; and involvement of stakeholders in decision-making.[60]

42. The CMO for fishery and aquaculture products comprises: common marketing standards on quality, grades, packaging, and labelling of both EC and imported fresh fisheries products; producers' organizations (POs) (composed of fishermen) established in each Member State, and implementing the supply-side instruments of the CMO; a price support system that sets minimum prices below which fish products cannot be sold; and rules for trade with non-EC countries.[61] For 2006, €18.2 million was budgeted for price support interventions; some €14.5 million was spent in 2005. As from 1 January 2002, the CMO requires that consumers be informed about the production method, the catch area, and the exact commercial designation of the product they buy; it also introduces some elements of traceability of fisheries products. These requirements also apply to imports from third countries.

43. The EC's commercial policy on fishery products has led to the opening of new autonomous tariff quotas for the processing industry (Table IV.11). The Community tariff quotas on all fishery products are managed on a first-come-first-served basis. In certain cases, the tariff reduction cannot be invoked when the import price is below a reference price; in these cases, the full tariff is applied.[62]

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[57] Eurostat (2005b).
[58] WTO (2004).
[59] Eurostat (2005b).
[60] For a description of the main elements of the CFP, see WTO (2004).
[61] The key characteristics of the five main intervention mechanisms of the CMO in fishery and aquaculture are described in WTO (2004).
[62] The reference prices, below which tariff reductions do not apply, may be fixed for products that are the subject of: (i) tariff reduction or suspension arrangements; (ii) autonomous tariff suspensions for an indefinite period, adopted within the framework of the reform of the CMO; and (iii) other trade arrangements

Preferences are granted under bilateral and regional trade agreements (notably European Economic Area (EEA) and the Cotonou Agreement) and the GSP.

Table IV.11
Tariffs and tariff quotas on fishery products, 2006

Product	Tariffs and tariff quotas
Alaska Pollack, frozen fillets and meat	Imports of an unlimited amount at 0% (for an indefinite period)
Alaska pollack, frozen	An autonomous quota opened for 3 years. Quota for 2004-06: 10,000 tonnes at 0% for each year
Cod, fresh, chilled or frozen, excluding liver and roes	Imports of an unlimited amount at 3% (for an indefinite period)
Cod livers and fish liver of the species *Boreogadus saida*, fresh or chilled	An autonomous quota opened for 3 years. Quota for 2004-06: 300 tonnes at 0% for each year
Cod and fish of the species *Boreogadus saida*, salted or in brine, but not dried or smoked	An autonomous quota opened for 3 years. Quota for 2004-06: 50,000 tonnes at 0% for each year
Tubes of squid *(Ommastrephes spp. — excluding Ommastrephes sagittatus —, Nototodarus spp., Sepioteuthis spp.) and Illex spp*., frozen, with skin and fins	An autonomous quota opened for 3 years. Quota for 2004-06: 30.000 tonnes at 3.5% for each year
Squid *(Ommastrephes spp. — excluding Ommastrephes sagittatus —, Nototodarus spp., Sepioteuthis spp.)* and *Illex spp.*, frozen whole, tentacles and fins	An autonomous quota opened for 3 years. Quota for 2004-06: 1.500 tonnes at 3% for each year
Surimi, frozen	Imports of an unlimited amount at 3.5% (for an indefinite period)
Surimi, frozen	An autonomous quota opened for 3 years. Quota for 2004-06: 30,000 tonnes at 0% for each year
Blue Grenadier, frozen fillets and meat	Imports of an unlimited amount at 3.5% (for an indefinite period)
Prawns, in shell, fresh, chilled or frozen	Imports of an unlimited amount at 0% (for an indefinite period)
Shrimps and prawns, cooked and peeled	An autonomous quota opened for 3 years. Quota for 2004-06: 7,000 tonnes at 6% for each year
Tuna loins	An autonomous quota opened for 3 years. Quota for 2004-06: 4,000 tonnes at 6% for each year
Herring, fresh, chilled or frozen	An autonomous quota opened for 3 years. Quota for 2004-06: 20,000 tonnes at 0% between 1 November and 31 December of each year
Hake *(Merluccius spp. excluding Merluccius merluccius, Urophycis spp.)*, frozen	An autonomous quota opened for 3 years. Quota for 2004-06: 20,000 tonnes at 0% for each year
Blue grenadier *(Macruronus spp.)*, frozen fillets and other meat	An autonomous quota opened for 3 years. Quota for 2004-06: 15,000 tonnes at 0% for each year
Rock lobster *(Palinurus spp., Panulirus spp., Jasus spp.)*, frozen	An autonomous quota opened for 3 years. Quota for 2004-06: 1,500 tonnes at 6% for each year
Southern blue whiting *(Micromesistius australis)*, frozen fillets and other meat	An autonomous quota opened for 3 years. Quota for 2004-06: 2,000 tonnes at 0% for each year
Anchovies *(Engraulis anchoita)*, salted or in brine, but not dried or smoked	An autonomous quota opened for 3 years. Quota for 2004-06: 2,000 tonnes at 0% for each year
Herring, spiced/vinegar cured, in brine, preserved in barrels of at least 70 kg. net drained weight	An autonomous quota opened for 3 years. Quota for 2004-06: 6,000 tonnes at 6% for each year

Source: Information provided by the EC Commission.

44. An important aspect of the EC's fisheries policy, in the light of fragile fish stocks within its territorial waters and fleet over-capacity, remains the development of fishing opportunities elsewhere, either through bilateral agreements[63], or on the high seas, through regional fisheries organizations (RFOs).[64] The EC's "Southern" agreements are mainly with African and Indian Ocean countries, and provide for access by EC fishing vessels in exchange for EC financial assistance and fees from vessel

that provide for compliance with a reference price and are in line with EC international undertakings (Commission Regulation 2574/2001).

[63] The EC has bilateral fisheries agreements with four Northern European countries, and 18 African and Indian Ocean countries (DG Fisheries online information. Viewed at: http://europa.eu.int/comm/fisheries/doc_et_publ/factsheets/facts/en/pcp4_2.htm [14 July 2006]).

[64] The EC is a contracting party to the 11 RFOs (DG Fisheries online information. Viewed at: http://europa.eu.int/comm/fisheries/doc_et_publ/factsheets/facts/en/pcp4_3.htm [3 July 2006]).

operators. The tuna agreements provide for no direct competition between EC and local fishing fleets. The "Northern" agreements exchange fishing opportunities between EC fleets and the fleets of third countries and/or territories; financial compensation is provided by the EC to Greenland. The EC budget for fisheries agreements was €62 million for 2006, down from €183 million in 2003.

45. The placement of fishery products on the EC market, whether of domestic or foreign origin, is subject to sanitary regulations to protect the health of consumers. A Commission Decision sets the conditions for imports into the EC from each third country based on a report of a mission of experts.[65] A Commission Decision sets out a list of 113 countries from which imports of fishery products are permitted; imports are not permitted from countries not on the list.[66] Part I of the list identifies 85 origins ("fully harmonized" countries) with practices and legislation considered to be in line with the EC's; imports from these origins are authorized, subject only to spot checks and verification. Part II of the list identifies the other 28 "pre-harmonized" countries, from which guarantees have been received concerning their inspection systems and their legal sanitary requirements, but which have not been verified by an on-the-spot inspection.[67] Imports are authorized provisionally, on the basis of documentary evidence, and EC inspection is carried out. Part II was extended to 31 December 2005, due to delays and the possibility of revised legislation as a result of the White Paper on Food Safety.

46. Since 1 January 2006, the EC has been applying a new "hygiene package" on food safety, including for fishery products, which replaced the legislation from the early 1990s. The new package consists of five EC Regulations (the same text applies in all Member States), four of which concern fishery products: No. 852/2004 sets out general hygiene principles; No. 853/2004 sets out specific hygiene rules for food of animal origin (specific requirements for fishery products in Annex III Section VIII and for live bivalves in Section VII); and Nos. 854/2004 and 882/2004 specify rules for official controls. This hygiene legislation, taken together with the General Food Law, aims to ensure an effective food safety system.[68]

47. The Financial Instrument for Fisheries Guidance (FIFG) remains the leading form of financial assistance to the subsector (€3.7 billion in 2000-06).[69] As from 2007, the European Fisheries Fund (EFF) will succeed FIFG, and will operate on a similar basis.[70] The EFF is aimed at , *inter alia*: better supporting the major objectives of the CFP, in particular the sustainable exploitation of fisheries resources, including aquaculture; strengthening the competitiveness and viability of operators in the subsector; and promoting environmentally friendly fishing and production methods. The EFF budget for 2007-13 is €3.8 billion. In addition, €2.3 billion will be allocated to finance the so-called second

[65] The test applied to imports is whether the hygiene conditions under which production is carried out in the country of origin can be considered to be equivalent to that required from EC producers; there must also be a competent authority responsible for the public health aspects of fishery products (WTO, 2004).

[66] Commission Decision 97/296/EC.

[67] Council Decision 95/408/EC, as amended.

[68] EC Regulation No.1642/2003.

[69] The main purposes of the FIFG: to assist in fishing-reduction efforts decided by the Council, which sets out (for each Member State) the objectives for fleet restructuring and the means to achieve them; to finance investment, including in fleet renewal and modernization of fishing vessels; and to counter the social, economic, and regional consequences of the restructuring of the EC fishing industry through the new CFP.

[70] Most existing measures under the FIFG will be revised, and new measures (e.g. encouragement of selective fishing methods and the funding for local development strategies to foster the sustainable development of fisheries areas) will also be introduced. It will be up to Member States to decide how they allocate funds between the different priorities set (EC online information. Viewed at: http://ec.europa.eu/fisheries/cfp/structural_measures/arrangements_2007_2013_en.htm [1 August 2006]).

instrument of the CFP, i.e. all budgetary means for fisheries not covered by the EFP, such as the conservation, control and surveillance, governance, and international aspects.[71]

48. The European Regional Development Fund (ERDF) supports several fishing activities, and fisheries-dependent regions. During 2000-06, these regions received €83.1 million (0.4% of the total ERDF funding, of €19.2 billion). Moreover, the European Social Fund (ESF) supports various transnational projects, mainly in Spain, France, Italy, and Portugal, dealing with training and diversification in fisheries and aquaculture. During 2000-06, ESF allocations to fisheries-dependent regions totalled €5.2 billion. Planned expenditure for agriculture and fisheries activities under EAGGF during 2000-06 was €11.4 billion.[72]

(4) ENERGY

49. The EC is an energy-intensive economy; it accounted for about 15% of world energy consumption in 2000. As the world's largest energy importer, and the second largest consumer, the EC's demand for primary energy grew by 10% between 1990 and 2000. In 2002, the United Kingdom was the leading producer of primary energy (28.5% of the EC's total production), while Germany was the largest consumer (19.4% of final energy consumption) (Table IV.12). Industrial demand for energy has been relatively stable, but demand from households and the tertiary sector has increased as a result of the transition to a more service-oriented economy.

50. The EC's own energy supply covers barely half of its needs; fossil fuels (oil, coal, and natural gas) make up four fifths of total energy consumption and almost two thirds of imports.[73] Nuclear power accounts for about 15% of current consumption. Renewable energy sources contribute only 6%, though the aim is to increase this share to 12% by 2010[74]; the EC has also set a target of 21% renewable electricity by 2010. In real terms, between 1996 and 2004, gas prices for household consumers rose by 20% while electricity prices fell by 6%.[75] The differences in energy prices are very small between old and new Member States. Imports of electricity are duty free (Table AIV.2).

51. On the basis of the Green Paper adopted by the Commission in March 2006, the three main policy aims of the EC in energy are: completion of a fully competitive internal market; assuring the security of energy supply; and achieving environmentally sustainable, clean, and efficient energy supply and use.[76] Overall policy measures comprise full market opening to all consumers and producers by 2007; further interconnection of European energy grids; extension of the energy market to neighbouring countries and regions; further diversification of energy forms, sources, and supply routes; increases in clean indigenous energy production including renewable energies and other low carbon energy sources; greater energy efficiency; increased and more effective energy technology development; and greater coordination of external energy policy and the promotion of such policy

[71] EC online information. Viewed at: http://ec.europa.eu/fisheries/cfp/structural_measures/arrangements_2007_2013_en.htm [1 August 2006].

[72] WTO (2004).

[73] Oil accounted for some 38% of the EC's total energy supplies in 2001, followed by natural gas (23%). Natural gas from the Russian Federation alone represents nearly 20% of EC's total energy consumption. The EC has 8 years of oil reserves, 20 years of natural gas reserves, and 40 years of uranium reserves (Eurostat, 2005d).

[74] DG for Energy and Transport (2005).

[75] In more recent years, electricity prices have been rising due to the increase in gas prices, as gas has become one of the major fuel sources for electricity generation, and the introduction of the CO_2 emission trading scheme in 2005 (European Commission (2005d).

[76] COM(2006) 105 final, 8 March 2006.

approaches on a global basis. The Green Paper will be followed by reviews, which will propose further specific actions to achieve these aims.

Table IV.12
Production and consumption of energy, 1998-02
('000 toe)

	Total production of primary energy					Final energy consumption				
	1998	**1999**	**2000**	**2001**	**2002**	**1998**	**1999**	**2000**	**2001**	**2002**
EC-25	**895,988**	**903,344**	**891,819**	**892,951**	**892,201**[a]	**1,069,245**[a]	**1,071,036**[a]	**1,070,960**[a]	**1,096,899**[a]	**1,084,653**[a]
EC-15	**751,496**	**765,565**	**756,118**	**753,877**	**751,569**[a]	**942,025**[a]	**947,204**[a]	**950,129**[a]	**972,631**[a]	**961,754**[a]
Austria	8,631	9,257	9,382	10,167	10,293	22,216	21,821	22,117	24,513	25,204
Belgium	12,033	13,274	13,065	12,637	12,900	37,092	36,931	36,931	37,219	35,825
Cyprus	43	44	45	44	45	1,531	1,575	1,634	1,689	1,700
Czech Republic	30,437	27,642	29,497	30,146	30,346	24,444	23,139	24,060	24,156	23,838
Denmark	20,308	23,690	27,587	26,978	28,452	14,997	14,933	14,608	14,947	14,708
Estonia	3,243	2,976	3,168	3,420	3,620	2,609	2,355	2,362	2,517	2,586
Finland	13,125	15,153	14,809	15,065	15,666	24,172	24,637	24,555	24,739	25,489
France	124,162	126,347	130,579	131,305	132,662	150,825	150,719	15,1624	158,652	154,101
Germany	131,597	134,535	132,095	131,363	131,613[a]	224,450[a]	219,934[a]	213,270[a]	215,174[a]	210,485[a]
Greece	10,038	9,463	9,946	9,942	10,541	18,159	18,157	18,508	19,112	19,497
Hungary	11,467	11,378	11,127	10,763	11,047	15,598	15,851	15,799	16,400	16,915
Ireland	2,479	2,611	2,111	1,730	1,499	9,308	9,835	10,520	10,932	11,227
Italy	30,100	28,939	26,780	25,580	26,206	118,451	123,073	123,005	125,625	125,163
Latvia	383	1,497	1,259	1,718	1,831	3,525	3,471	3,268	3,643	3,628
Lithuania	4,406	3,459	3,161	4,118	4,847	4,343	3,956	3,639	3,778	3,903
Luxembourg	50	46	57	50	56	3,183	3,341	3,544	3,689	3,732
Malta	..	..	..	..	..	529	551	522	445	445[a]
Netherlands	62,684	59,209	56,912	60,634	60,131	49,307	48,470	49,745	50,775	50,641
Poland	86,775	82,829	78,441	79,362	79,053	60,378	58,843	55,572	56,198	54,396
Portugal	3,036	2,656	3,109	3,895	3,643	15,421	15,982	16,937	18,069	18,342
Slovakia	4,701	5,093	5,966	6,357	6,478	9,991	9,739	9,499	10,883	10,868
Slovenia	3,036	2,861	3,037	3,146	3,364	4,272	4,352	4,477	4,558	4,620
Spain	31,289	30,305	31,245	32,860	31,771	71,750	74,378	79,411[a]	83,221[a]	85,379[a]
Sweden	33,178	33,257	30,144	33,685	31,849	34,251	34,076	34,532	33,132	33,668
U.K.	268,787	276,823	268,299	257,986	254,287	148,443	150,917	150,821	152,833	148,294

.. Not available.

a Preliminary.

Source: Eurostat (2005), *Yearbook 2005*, Europe in figures, Chapter 6, Brussels.

52. Since the last TPR of the EC, other important energy policy developments include the adoption of a Green Paper on energy efficiency, a Directive on energy end-use efficiency and services, and the signing of the Energy Community Treaty. Faced with increasing oil prices and the prospects of having to import 70% of its energy needs by 2030, on 22 June 2005, the EC adopted the Green Paper on Energy Efficiency, seeking to save 20% of its energy consumption by 2020 through changes in consumer behaviour and energy efficient technologies (the EC estimates that it could save

€100 billion on its energy bill).[77] In October 2006, the Commission adopted an ambitious Action Plan for Energy Efficiency, comprising 75 measures in ten priority areas, which together with previous measures (including the Energy End-use Efficiency and Energy Services Directive), should achieve energy savings of about 1.5% per year. On 25 October 2005, the Energy Community Treaty was signed between the EC and nine south-east European countries, constituting the largest internal market for electricity and gas in the world.[78]

53. About €25 million per year was budgeted to support the development of the trans-European energy network (TEN-E) during 2000-06, and €155 million has been allocated for 2007-13.[79] In addition, around €30 million per year has been budgeted to finance several other energy-related programmes: Carnot (clean and efficient use of solid fuels); Sure (safe transport of radioactive materials); Altener (promotion of renewable energy sources); Save (promotion of energy efficiency); Synergy (promotion of international cooperation in energy); and Etap (studies, analyses and forecasts on energy). Moreover, some €20 million has been allocated annually to support activities related to nuclear energy.[80]

54. The 2005 Commission Report on the functioning of the electricity and gas market concluded that[81]: (i) market integration is still insufficient, with important price differences within the internal market (differences of more than 100% for some industrial customers), and low level of cross-border trade in electricity and gas[82]; (ii) the industry is characterized by concentration and lack of real competition and, with few exceptions, the largest three national companies have over 75% share of the market; (iii) several Member States missed the deadline of 1 July 2004 to implement recent Directives[83]; and (iv) dominant positions and insufficient unbundling, especially in gas transmission and in gas and electricity distribution, seem to discourage consumers from switching supplier. Lack of transparency undermines the position of new entrants and aggravates mistrust by industry and consumers in the pricing of energy.[84]

55. Following the designation of a regulatory authority in Germany in July 2005, all Member States now have electricity and gas regulators. In December 2003, the Commission set up the European Regulators Group for Electricity and Gas (ERGEG); however, on 14 March 2006, EC

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[77] Half of the savings could be achieved through full implementation of legislation already adopted (or about to be adopted) on buildings, domestic appliances or energy services. To save the other 10%, the EC needs to be "imaginative and proactive" (EC Press Release IP/05/774, 22 June 2005).

[78] The nine countries are: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Albania, the FYR of Macedonia, Romania, Bulgaria, and Kosovo. Negotiations with Turkey are ongoing. Moldova, Ukraine, and Norway (currently observers) have applied to join (MEMO/05/397, 25 October 2005).

[79] MEMO/06/213, 24 May 2006.

[80] European Communities (2005).

[81] In July 2005, the Commission launched an inquiry aimed at identifying distortions to competition in the electricity and gas subsectors. Initial findings were published in November 2005, and final results are expected in the second half of 2006 (MEMO/05/427, 14 November 2005).

[82] In 2004, cross-border flows of electricity increased by only two percentage points compared with 2000. In 2002, the European Council agreed that all Member States must have interconnection capacity equivalent to at least 10% of their national consumption; this objective has not yet been achieved. Therefore, electricity and gas markets, except in Nordic countries, remain national in scope (MEMO/05/427, 14 November 2005).

[83] A large number of Member States were as much as a year late in implementing the Directives, while others have still not done so and are now or will shortly be before the European Court of Justice (Spain (electricity and gas), Luxembourg (electricity and gas), Greece (electricity), Estonia (gas), Portugal (electricity), Ireland (gas)). Some Member States have taken a "minimalist" approach in implementing the Directives (COM (2005) 568 final).

[84] European Commission (2005d).

energy ministers rejected a Commission proposal for a single EC-wide regulator.[85] The possibilities for sector-specific regulatory authorities to take decisions and enforce them differ between Member States. Effective regulation is also undermined by the fact that some Member States have set up several regulators, at national and regional levels, and in some cases power is split between the sector-specific regulator, the competition authority, and the ministry.[86] Furthermore, steps taken by EC regulators to open up national energy markets to competition have been seriously undermined by a flurry of cross-border takeovers and bids, which, in some cases, may result in some of the largest energy groups in the world.[87]

(5) MANUFACTURING

(i) Overview

56. Productivity growth in EC manufacturing has been decreasing over time.[88] Nevertheless, it still provides around one-fifth of the EC's output, and employs some 34 million people. Manufacturing also accounts for some three quarters of the EC's merchandise exports; over 80% of private sector R&D expenditure is spent in manufacturing; and the sector is closely inter-linked with services industries to which it supplies key inputs. Some 23 million small and medium-sized enterprises (SMEs) participate in the EC economy, notably in the manufacturing sector, i.e. 99% of total SMEs, and 58% of manufacturing employment.[89]

57. The Lisbon European Council of 23 and 24 March 2000 set a new strategic policy objective for the EC: "to become the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustained economic growth with more and better jobs and greater social cohesion". Achieving this depends, to a great extent, on the ability of the EC to develop the competitiveness of its manufacturing industry. To this end, on 5 October 2005, the Commission set out a new industrial policy to create better framework conditions for manufacturing industries in the coming years, and on 10 November 2005, it tabled a new comprehensive policy for SMEs to help make them more competitive by streamlining EC policy instruments.

58. The new EC industrial policy will complement work at Member State level, and includes the following seven major horizontal policy initiatives: improving the IPRs framework and reducing counterfeiting; establishing a high-level group on competitiveness, energy, and the environment;

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[85] The Commission had called for a Europe-wide energy regulator seeking to counter national monopolies and reduce bills (*International Herald Tribune*, 15 March 2006).

[86] European Commission (2005).

[87] On 27 February 2006, France announced its support for the € 73 billion merger between state-controlled Gaz de France and Suez (the French power and water group). The merger, expected by the end of 2006, would create the world's second-largest utility by market value, behind Electricité de France. In a different case, the Commission has threatened legal action against Spain for seeking to keep its electricity and natural gas industry in national hands by blocking the € 35 billion takeover of Endesa by Germany's E.ON (*International Herald Tribune*, 27 February 2006).

[88] Developments in EC manufacturing showed considerable diversity during 1979-02: employment and output declined in textiles and clothing, and leather and footwear; whereas some other industries (e.g. chemicals, rubber and plastics, telecommunications equipment, office machinery and electrical equipment) showed marked increases (WTO, 2004).

[89] A new definition of SMEs has been in use since 1 January 2005. According to the new definition, micro companies have less than ten employees, and a turnover/or balance sheet of up to €2 million (previously undefined); small enterprises have less than 50 workers, and a turnover/balance sheet of up to €10 million (previously €7 million and €5 million, respectively); and medium-sized companies employ less than 250 workers, have a turnover of up to €50 million (€40 million), or balance sheet of up to €43 million (€27 million) (EC Press Release IP/05/1404, 10 November 2005).

developing and implementing a strategy to tackle market access barriers in selected sectors and countries; simplifying existing legislation (e.g. automotive, construction); improving industrial skills (e.g. in engineering, textiles and leather); managing structural changes (in textiles, leather, furniture, footwear, ceramics, printing, motor vehicles, shipbuilding, steel, and certain food industries); and establishing an integrated European approach to industrial research and innovation.[90] In addition, the new industrial policy includes seven sector-specific initiatives[91], and the screening of opportunities and challenges for 27 individual industries grouped into four broad categories (food and life sciences, machine and systems, fashion and design, and basic and intermediate.[92]

59. The new policy for SMEs proposes specific action in five areas: promoting entrepreneurship and skills; improving SME's access to markets, including to public procurement and standardization; cutting red tape, for example related to State aids, and SME's participation in EC programmes; promoting SME's growth potential, such as fostering their innovation and research capacity, and increasing financial support to SMEs; and strengthening dialogue and consultation with SMEs stakeholders.[93]

60. The manufacturing sector is a major beneficiary of state aid. Various support programmes and instruments are available to SMEs, and are different in nature, rules, and time frames (Table IV.13). Financial instruments are intended to increase the volume of credit or equity offered to SMEs and to encourage banks to develop their SME lending capacity. Other programmes consist mostly of subsidies to businesses or to business support organizations. They include € 21 billion budgeted in structural funds during 2000-06.

61. On the basis of ISIC (Revision 2), MFN customs tariffs on manufactured goods average 6.8%, with rates ranging up to 427.9% on certain food products (Chart IV.1 and Table AIV.2). Specific tariffs are levied on products such as alcoholic beverages, and products of the milling industry; compound duties are applied on, *inter alia*, preparations of cereals and vegetables; alternate duties on, *inter alia*, sugar confectionary, ice cream, clocks and watches; and variable tariffs on, *inter alia*, edible vegetables, edible fruit, and preparations of cereals. Overall, in industries requiring inputs (agricultural commodities in particular) that are also produced by the EC, the tariff shows mixed escalation; because of the lack of competitiveness partly resulting from high tariff protection of these inputs, exports of these manufactured goods require subsidies. In industries requiring inputs that are not produced by the EC (certain agricultural and mineral products in particular), the tariff shows positive escalation, i.e. high effective rate of protection (Chapter III(2)(ii)).

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[90] MEMO/05/352, 5 October 2005.

[91] These refer to: pharmaceuticals (developing a single market); biotechnology strategy; high-level group on chemicals and defence industries; European space programme; taskforce on information and communication technologies (ICT); mechanical engineering policy dialogue; and a series of competitiveness studies (MEMO/05/352, 5 October 2005).

[92] The basic and intermediate industries (e.g. chemicals, steel, and pulp and paper) are largely energy-intensive, and account for some 40% of EC manufacturing value-added. As suppliers of key inputs, these industries can be an important source of innovation for other activities. Growth rates in these industries have ranged from low to medium over the last few years, with the exception of chemicals and rubber, where growth has been strong.

[93] COM(2005) 551 final, 10 November 2005.

Table IV.13
Main SME support programmes and instruments, 2000-06
(€ million)

Community action	Estimated amount allocated to SMEs
Financial instruments	
SME element of EIB Global loans (2003)	4,771
Financial support of the Multiannual Programme for Enterprises and Entrepreneurship, in particular SMEs (managed by the European Investment Fund) (2001-05)	355
Structural funds	
Objectives, Community initiatives, and innovation actions (2000-06)	21,000
Research and development	
6th RTD Framework Programme (2002-06)	2,200
of which collective and cooperative measures	473
Vocational training	
Leonardo da Vinci (2003)	9.9
Environment	
LIFE environment (2003-04)	30
International cooperation and export promotion	
AL-Invest (2002-06)	46
Asia-Invest (2002-07)	35
Gateway to Japan	3.5/year

Source: European Commission (2005), *The activities of the EU for SMEs: SME Envoy Report*, Brussels.

(ii) Selected industries

(a) Aerospace

62. The aerospace subsector in the EC grew by about 50% during 1995-04, well above the overall manufacturing sector rate of 19%. The aerospace market is cyclical, depending largely on the acquisition plans of airlines, which fluctuate considerably especially in times of economic uncertainty and global security concerns. In 2002, the subsector employed 363,900 persons, generated €29 billion in value added, and had a turnover of €92 billion (Table IV.14). The manufacture of large civil aircraft contributed 43.4% to the subsector's total turnover in 2002, followed by military aircraft (25.9%), helicopters (9.9%), spacecraft (7.7%) and missiles (7.3%).[94]

63. The aerospace industry is one of the EC's cutting-edge high-technology and research-intensive industries.[95] It is also highly concentrated, as the United Kingdom, France and Germany accounted for over 80% of the value added in the subsector in 2002, compared with an average of 55% in manufacturing. Transport equipment accounted for 22% of total EC exports (€30.5 billion) in 2003, and 35% of its imports (€29 billion). Tariff protection on aircraft manufacture is relatively low, with tariffs averaging 1.5% and ranging up to 3.9% (Table AIV.2).

64. The EC is currently involved in two dispute settlement cases with the United States on trade in large civil aircraft under the WTO Agreements, one as complainant and one as defendant.[96] The EC's trade relations in the subsector are governed, at the bilateral level, by the 1992 EC/U.S. Agreement on Trade in Large Civil Aircraft.[97] The main objective of this bilateral agreement is to regulate the level of both direct and indirect government support to the aircraft industry.

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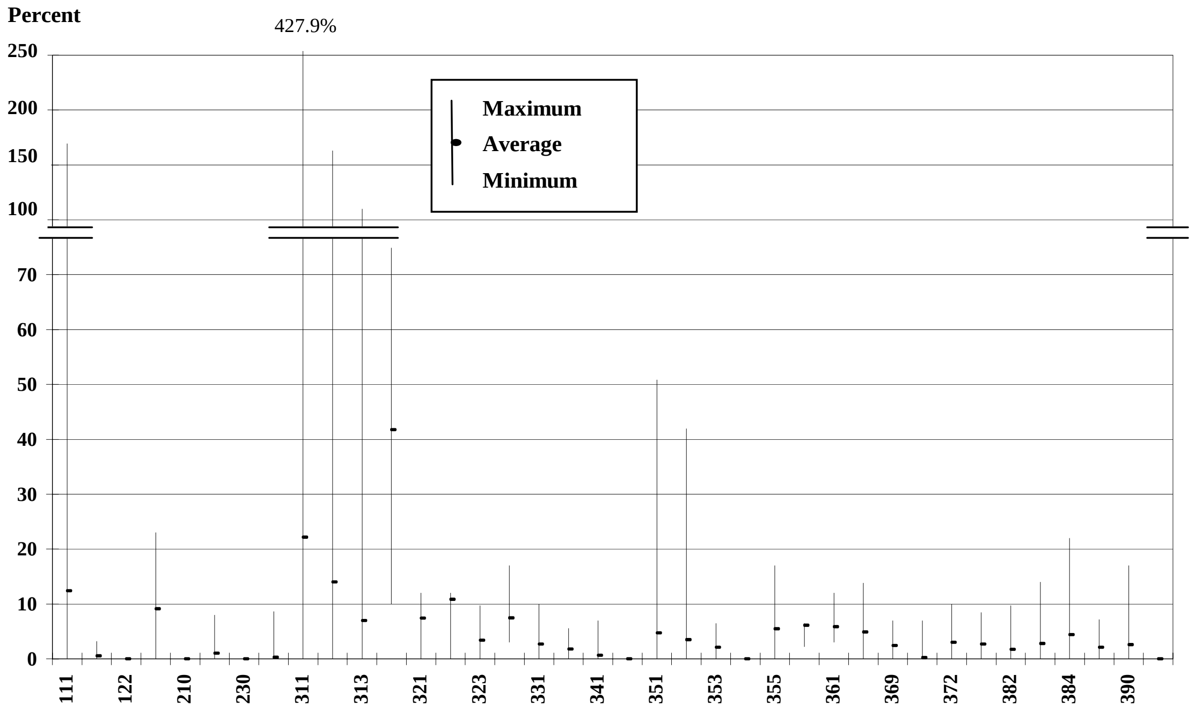
[94] Eurostat (2006c).

[95] Between 1996 and 2002, the growth in patent applications in "aircraft, aviation, cosmonautics" grew by 117%, compared with 46% in manufacturing on average. Germany, the United Kingdom and France accounted for around 80% of total EC patent applications (Eurostat, 2006c, *Manufacture of Aerospace equipment in the European Union).*

[96] WTO documents WT/DS316 and WT/DS317, 20 July 2005.

[97] Large civil aircraft industry is dominated by Airbus and Boeing. Airbus's world market share has increased steadily since the early 1970s; it currently exceeds 50% of all new orders (Eurostat, 2006c), *Manufacture of Aerospace equipment in the European Union).*

Chart IV.1
EC tariff by ISIC classsification, 2006



International Standard Industrial Classification, Revision 2

	Description		Description
111	Agricultural and livestock production	351	Industrial chemicals
121	Forestry	352	Other chemicals, including pharmaceutical
122	Logging	353	Petroleum refineries
130	Fishing	354	Manufacture of miscellaneous petroleum and coal products
210	Coal mining	355	Manufacture of rubber products n.e.s.
220	Crude petroleum and natural gas production	356	Manufacture of plastic products n.e.s.
230	Metal ore mining	361	Pottery, china and earthenware
390	Other mining	362	Manufacture of glass and glass products
311	Food production	369	Other non-metallic mineral products
312	Other food products and animal feeds	371	Iron and steel basic industries
313	Beverages	372	Non-ferrous metal basic industries
314	Tobacco manufacturing	381	Fabricated metal products, except machinery and equipment
321	Textiles	382	Non-electrical machinery including computers
322	Manufacture of wearing apparel, except footwear	383	Electrical machinery apparatus, appliances and supplies
323	Leather products, except footwear and wearing apparel	384	Transport equipment
324	Footwear, except vulcanized rubber or plastic footwear	385	Professional and scientific equipment
331	Wood and wood products, except furniture	390	Other manufacturing industries
332	Manufacture of furniture and fixtures, except primarily of metal	410	Electrical energy
341	Paper and paper products		
342	Printing, publishing and allied industries		

***Source*:** **WTO Secretariat calculations, based on EC *Official Journal* L286, 28 October 2005.**

Table IV.14
Main indicators of aerospace equipment manufacturing, 2002

	Value-added at factor cost (€ million)	Persons employed	Number of enterprises	Turnover (€ million)	Apparent labour productivity in manufacturing (€ 000)	R&D spending (% value added)	Investment (% value added)
Austria	18	397	36	36	60.7	26	6
Belgium	603	7,621	54	1,364	65.2	11	16
Czech Republic	82	8,142	100	353	13.0	21	21
Denmark	29	503	35	77	58.2	..	11
Finland	38	679	9	62	68.7	0	5
France	6,379	82,247	392	37,631	51.5	28	19
Germany	5,711	75,028	209	15,341	56.5	17	15
Hungary	21	1,349	95	58	13.9	0	68
Italy	2,013	28,563	126	5,401	42.5	..	17
Lithuania	2	320	11	6	6.2	0	11
Netherlands	246	4,668	65	724	63.8	..	9
Poland	162	14,400	40	275	16.1	..	23
Portugal	31	2,235	25	67	20.0	0	15
Slovak Republic	4	568	7	9	9.8	12	26
Slovenia	1	59	11	3	17.4	0	14
Spain	847	13,321	110	2,225	41.5	..	32
Sweden	655	10,440	151	1,501	54.8	29	8
United Kingdom	11,231	106,117	716	25,225	59.7	17	10
EC	**29,086**	**363,900**	**2,255**	**91,841**	**45.3**	**..**	**..**

.. Not available.

Note: Data unavailable for Greece, and confidential for Ireland, Estonia, Latvia, Luxembourg and Malta. There is no economic activity in this subsector for Cyprus.

Source: Eurostat (2006), *Statistics in Focus: Manufacture of Aerospace equipment in the European Union*, Table 1, Brussels.

(b) Automotive

65. The automotive industry is a key subsector for the EC economy, contributing 3% to GDP, 7% to total manufacturing value added (more than €100 billion), and 6% to total manufacturing employment (over 2 million workers). It also provides indirect employment to 10-11 million people; however, a number of car manufacturers have recently announced job cutting programmes. In 2003, most of the workers in the industry were employed in Germany (over 40% of total EC workers in the auto industry), followed by France (16%), the United Kingdom (13%), Spain (11%), and Italy (7%). Despite a decline in motor vehicle production, from 17.2 million units in 2001 to 16.8 million units in 2003, mainly due to a reduction in demand as a result of the worsening economic situation, the EC is the largest automotive production region in the world (34%). By 2010, the EC car fleet is expected to increase substantially, mainly as result of rising car ownership in the NMS-10.[98]

66. The automotive industry has, undergone a long period of consolidation through mergers and acquisitions. It accounts for over 20% of manufacturing R&D (e.g. hybrid cars and hydrogen technologies) in the EC (over €20 billion). Traditionally, the industry has enjoyed a trade surplus (€35.8 billion in 2002, with €66.2 billion in exports).[99] Tariff protection on motor vehicles is relatively low, with tariffs averaging 6.4%, but ranging up to 22% (Table AIV.2).

67. The EC's automotive industry is highly regulated with over 90 Directives ranging from the construction to the functioning of motor vehicles, including in the fields of safety and environment.

[98] European Commission (2006b).

[99] EC online information. Viewed at: www.europa.eu.int/comm/enterprise/automotive_en.htm [14 July 2006].

The lack of an internal market and of harmonization in certain areas (e.g. technical regulations on motor vehicles and parts, and vehicle taxation) has also been repeatedly criticized for distorting the market and increasing costs. The EC's auto industry lags behind the United States and Japan in terms of productivity.[100]

68. On 12 December 2005, the EC adopted a ten-year roadmap aimed at increasing the competitiveness of its automotive industry. The following four major recommendations were agreed to make cars cleaner and safer, and to simplify the EC's legal framework: (i) simplification and better regulation through, *inter alia*, the replacement of 38 Directives by UN Economic Commission for Europe (UNECE) regulations; (ii) promoting the environment to reduce pollutant emissions from vehicles; (iii) improving road safety with specific measures (e.g. electronic stability control, seatbelt reminders, and brake assist systems); and (iv) better market access in third countries, particularly in China, through the DDA complemented by bilateral approaches. Proposals on the follow-up to these recommendations are due by the end of 2006, and there will be a mid-term review of progress, and technological developments in 2009.[101]

(c) Chemicals

69. The EC is the world's leading chemicals producing area; it has a turnover of €440 billion, and accounts for 28% of world production. In 2001, chemicals was the EC's main manufacturing subsector in terms of value added (12% of manufacturing value added), and contributed 2.4% to total GDP. The chemical industry is capital intensive, but still employs 1.9 million people. It comprises some 27,000 enterprises, 96% of which are SMEs, and is a key supplier to virtually all sectors of the economy. About 30% of chemicals is further processed within the industry.[102] MFN tariffs on industrial chemicals and basic industrial chemicals average 4.7%[103], with rates ranging up to 50.9% (AVE) (Table AIV.2).

70. Chemicals represents about one quarter of the EC's entire manufacturing trade surplus: in 2004, exports amounted to € 102 billion, while imports reached € 62 billion. Germany is the largest chemicals producer in Europe, and together with France, Italy, and the United Kingdom produce 61% of the EC's chemicals output. Environmental expenditure in the chemicals, rubber and plastics industries amounts to 3.5% of their value added, and accounts for 23% of EC environmental protection expenditure for all industries.[104]

71. The chemicals subsector is heavily regulated with over 40 Directives and Regulations. The key policy objective is to ensure a smooth transition from the existing legislation to the new regulatory framework for chemicals called REACH (registration, evaluation, and authorization of chemicals). The aim of REACH is to secure a high level of protection for human health and the environment, while ensuring the efficient functioning of the internal market, and stimulating

[100] The existence of a large home market is a major competitive advantage for EC manufacturers. However, recent data indicate that labour costs are approaching levels in the United States, and remaining higher than in Japan and Korea (Rep. of), partly due to labour market inflexibility in the EC. Car manufacturers in the EC have also only recently started to address the challenge of mass motorization in low income, emerging economies (European Commission, 2005c).

[101] EC Press Release IP/05/1564, 12 December 2005.

[102] EC online information. Viewed at: www.europa.eu.int/comm/enterprise/chemicals/index_en.htm [14 June 2006].

[103] The EC participates in the Chemical Tariff Harmonization Agreement.

[104] European Commission (2005c).

innovation and competitiveness.[105] The REACH legislation is expected to be adopted by the end of 2006, with entry into force around April 2007. The new European Chemical Agency, established by REACH, has to be fully operational one year after the entry into force of the legislation. The agency's tasks are, *inter alia*, to ensure the consistent application of the system, and to manage the database of all registered chemicals. The direct costs of REACH to the chemicals industry are estimated at €2.3 billion over an 11 year period.[106]

(d) Textiles and clothing

72. The EC is the world's largest importer of textiles and clothing products, and exporter of textile goods; it ranks second in the world in terms of exports of clothing products.[107] In 2004, the subsector accounted for 6% of total EC trade: imports amounted to €75.6 billion (€77.6 billion in 2002), and exports to €83.8 billion (€85.4 billion in 2002). In 2004, China was the origin of 22% of textile and clothing imports (13.9% in 2002). The subsector accounts for 4% of total EC manufacturing production and employs over 2.5 million people (8% of manufacturing's work force). In 2004, 197,858 firms, mostly SMEs, had a combined turnover of €208 billion.

73. Since 1995, there have been steady declines in both value added (-1.2% per year) and employment (-3%), but accompanied by productivity gains (2%). Because of its labour-intensive character, the subsector has around half the productivity of manufacturing, with textiles displaying much higher productivity than clothing due to respective capital intensity. Within the EC, productivity varies widely (it is lower than average in all NMS-10), and there is strong regional concentration within Member States.[108] MFN tariffs on textiles average 7.4%, with rates ranging up to 12% (Table AIV.2).

74. The textile and clothing subsector does not enjoy any specific incentives. However, like any manufacturing industry, it can benefit from incentives listed in the guide of "Grants and Loans from the EC". In addition, it can take advantage of actions that specifically target sub-contracting activities (10-60% of total activities in the subsector).[109]

75. The EC does not apply quotas on imports of textile and clothing products from WTO Members, except for certain textile products originating in China, where specific agreed levels have been set until the end of 2007. Under bilateral agreements with non-WTO members, quantitative restrictions are in place for Belarus (Chapter III(2)(vii)).[110] In 2004, EC imports of textiles and clothing under quota represented less than 10% of total imports of these products.[111]

[105] Key elements of REACH include increasing the threshold for registering new substances from 10 kg. to 1 tonne, and the maximum time-limit for exemption from registration for R&D from 6 to 15 years (WTO, 2004).

[106] EC Press Release IP/03/1477, 29 October 2003.

[107] The competitive advantages of the EC in the subsector lie in high quality production in technical, aesthetic, and fashion-related terms; the development of highly demanded brands with a strong image; and the speedy, flexible, and reliable delivery of products (European Commission, 2005c).

[108] For example, northern Portugal and the Flanders textile district in Belgium account for close to 80% of their respective national textile and clothing employment (European Commission, 2005c).

[109] Subcontracting is present in all areas of the textiles and clothing subsector, but it is of particular importance in the finishing, knitting, and clothing industries (WTO, 2004).

[110] In 2005, the EC and China agreed to limit Chinese export growth of textile and clothing products until 2007 (European Commission, 2005c).

[111] European Commission (2004).

(6) SERVICES

(i) Overview

76. In 2005, the services sector (including construction services) accounted for 77.7% of the EC's gross value added, and represented a similar proportion of overall employment (156 million people).[112] The size of the sector varies considerably across Member States, and there is wide dispersion of service price levels within the EC.[113] Moreover, services is now the priority as regards the completion of the single market, accounting for only 20% of intra-EC trade. The EC remains the world's leading exporter and importer of commercial services (Chapter I(3)(ii)). The most important barriers to trade in services in the EC, include monopolies and differences in regulation across Member States (Box IV.2).[114]

77. On 13 January 2004, the Commission presented its proposal for a Directive on Services in the Internal Market (the "Services Directive"). It aims to set out a framework for creating a genuine internal market for services through the removal of the remaining regulatory and administrative hurdles between Member States by 2010, on the basis of two key elements: freedom to establish a business in another Member State, and free-trade between Member States.[115] The Services Directive builds on the "fundamental freedoms" of the EC Treaty, including the freedom of establishment and the free-movement of services.[116] The Commission regards the Services Directive as the most important framework for reforms since it is expected to increase the EC's real GDP by 1.8 percentage points and create 2.5 million jobs. Despite these anticipated benefits, the Services Directive met heavy opposition from various parties, in particular labour unions fearing "social dumping".[117]

[112] Between 2003 and 2005, employment in the services sector (including construction) increased by more than 2.2 million persons (Eurostat online information. Viewed at: www.epp.eurostat.ec.europa.eu [October 2006]).

[113] In 2003, the highest levels of service prices were found in Ireland, Finland, and France, and the lowest were in Greece and Portugal. The price dispersion shows that Member States, which had different starting points regarding service prices, are still in the process of converging towards the best performers in the single market (OECD, 2005c).

[114] The fact that nearly 90% of all SMEs in the EC are in services industries makes the situation more problematic since SMEs normally cannot afford the extra costs of engaging in cross-border activities.

[115] The 2010 deadline was set by the Lisbon Strategy. The Services Directive covers around 50% of all economic activity in the EC, but does not include some subsectors (e.g. financial services, transport, and telecoms) which are subject to other EC initiatives. The directive proposes, *inter alia*, mutual recognition between Member States for documents that allow companies to provide services; the introduction of "one stop shops" for permits to do business in each Member State by 31 December 2008; and a ban on requiring permits unless they are justified in the general interest. Other elements of the Services Directive are described in WTO (2004).

[116] The free movement of services has been one of the founding principles of the EC since 1957. The relevant provisions of the EC Treaty remove restrictions to the provision of services between Member States, whenever a cross-border element is present.

[117] Even though the free movement of workers is covered by other EC legislation and not by the services directive, fears have been expressed that the directive would prompt movement of workers from the new to the old Member States, not least since the implementation of the Services Directive would coincide with the ending of transitional arrangements restricting migration flows from the NMS-10 (OECD, 2005e).

Box IV.2: Identified barriers to trade in services in the EC

Monopolies in some Member States have the effect of preventing the establishment of service providers from other Member States. The monopoly concerned may be one that is entrusted to a specific body (e.g. postal services or energy utilities), a monopoly on the distribution of certain products, or activities reserved exclusively for certain operators.

Quantitative restrictions on access to service activities (e.g. quotas or rules governing the number of service providers, rules on maximum surface area, or geographic distance limits between service providers), can place established national operators at an advantage over new entrants, for example, rules that limit opticians to one per 10,000 inhabitants or driving schools to one per 15,000 inhabitants.

Territorial restrictions may require authorization to engage in services activities to a specific region or locality, so that service providers wishing to cover the entire national territory are obliged to establish in several regions. Nationality requirements exist in several Member States with respect to shareholders, managemen,t and staff of service enterprises, and with respect to some regulated professions.

Residence requirements, particularly those relating to managers of service enterprises, may give rise to problems. For example, depending on the country, two thirds, one half, or at least one of the members of the management board must be resident.

Some service activities are subject to *rules designed to ensure independence and autonomy* between different activities, preventing them from being exercised jointly. In one Member State, for example, estate agencies are prohibited from engaging in other professional activities (e.g. property management, financial consultancy).

Regulations governing *professional qualifications* differ. For example, a service provider from a Member State that has no requirement for a professional diploma, who wishes to become established in another Member State that has such a requirement will not find it easy to have professional qualifications recognized.

The different *company tax regimes* result in obstacles for cross-border establishment of service providers. Numerous problems result from the requirements to conform with 25 different fiscal regimes. There is a risk of double taxation and compliance costs increase.

Price regulations applicable to a certain number of services, whether providing for maximum prices, minimum prices or prices set or recommended by Member States or professional bodies, are liable to cause problems in the case of cross-border service provision.

It is often necessary to open a bank account in the Member State in which a particular service is provided in order to facilitate payments, but this involves making a declaration of residence or non-residence, which in turn gives rise to tax declarations and causes administrative delays and costs.

Accounting rules are designed, *inter alia*, to meet tax inspection needs; for this reason, they differ markedly across Member States. An enterprise that is active in several Member States is thus obliged to maintain parallel accounting systems, while ensuring consistency in the accounting of the enterprise as a whole.

The *payment and reimbursement of VAT* also causes problems. The rule under which services are subject to VAT in the country of establishment of the supplier is subject to exceptions, to ensure that taxation occurs at the place of consumption. This gives rise to complex situations in the context of cross-border supplies, and results in numerous service providers (e.g. furniture removal supplied to final consumers to be taxed at the place of departure) being subject to VAT obligations in Member States other than the one in which they are established. These difficulties could be mitigated if the Council adopted the proposal for a directive concerning the one-stop shop scheme.

More *favourable tax treatment for services by local providers* is a major hindrance to the provision of services. For example, in some Member States the costs of professional training are tax-deductible only if the courses take place within the Member State). Similarly, life insurance and additional insurance policies, pension fund and investment fund contracts can be offset against tax only if concluded with local insurance companies.

Difficulties encountered in the context of *debt collection* are exacerbated by long delays of cross-border payments. One difficulty relates to the use of debt collection agencies and the protection of creditors' rights in the event of bankruptcy in other Member States. An enterprise cannot use its debt collection agency if the latter is not established in other Member States: approval formalities for debt collection agencies differ between Member States and sometimes from one region to the next.

Authorization for the *reimbursement of medical costs* incurred in another Member State is only granted by national authorities under certain conditions, and this may discourage persons insured under social security schemes from turning to service providers established in another Member State. Often, persons who decide for various reasons to travel to another Member State to receive medical treatment will not be reimbursed.

Source: OECD (2005), *The EU's Single Market: at your Service?*.

78. On 4 April 2006, the Commission adopted an amended version of the proposal for a services directive, eliminating the country of origin rule, which was designed to allow service providers to

observe the laws of their own country when operating in a different EC Member State; this clause has been replaced by a provision on the freedom to provide services. The revised version covers all services subsectors, with a few exceptions, most of which are dealt with under specific sectoral EC regulations: financial services, telecommunications, transport, port services, healthcare, social services relating to social housing, childcare and support of families and persons in need, activities connected with the exercise of official authority, temporary work agencies, private security services, gambling, and audiovisual services.[118] It will enter into force two years after its publication, although an additional year is foreseen to achieve the move to electronic administrative procedures, and to put in place single contact points.[119]

79. Since the last TPR of the EC, some of the major developments in services are the completion of the Financial Services Action Plan (FSAP) 1999-05, and the launching of a new financial services strategy 2006-10; progress on the implementation of both the telecoms regulatory framework adopted in 2002, and the Postal Directive aimed at completing the internal market for postal services by 1 January 2009; and progress on the Action Plan for transport 2002-10. However, many other services activities are not subject to a comprehensive internal market policy; these include tourism, distribution, construction, engineering and consultancy, certification and testing services, and employment agencies.[120]

80. Under the GATS, the EC scheduled commitments across virtually all major service categories, and ratified the GATS Fourth and Fifth Protocols on basic telecommunications and financial services.[121] The EC maintains MFN exemptions under Article II of the GATS. The existing GATS schedules and lists of MFN exemptions of EC-12, EC-15 and, where relevant, the individual schedules of the Member States, are being replaced with consolidated documents covering the EC-25. Regarding the consolidated schedule of commitments, the negotiations pursuant to Article XXI (Modification of Schedules) of the GATS were concluded in September 2006[122], and the new schedule will enter into force following the completion of the certification procedure in the WTO and the internal decision-making procedure of the EC and its Member States, where applicable. The EC tabled its revised conditional offer in the ongoing services negotiations in June 2005.[123]

(ii) Financial services

(a) Overview

81. In 2004, the contribution of financial services to gross value added was particularly high in Luxembourg (36.5%) and Ireland (12.8%), while in the other Member States it ranged from 2% to 9%. The EC's financial services are dominated by banks (banking assets amounted to 214% of GDP in 2003), followed by insurance and securities. In 2004, 3.6 million persons were employed in financial

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[118] European Commission Press Release IP/06/442, 4 April 2006.

[119] On 24 July 2006, the Council adopted a common position on the Services Directive. The text agreed by Member States maintained the political agreement reached in the European Parliament at the first reading, and reflected the Commission's amended proposal. The European Parliament approved the Directive on 15 November 2006, and the Council in December 2006.

[120] These services activities are subject to the relevant provisions of the EC Treaty on the freedom to provide services and, where applicable, also to the provisions of the new Services Directive (European Commission, 2003b).

[121] See WTO (2004).

[122] In March 2006, the United States and the EC indicated that they had signed a deal over the trading impact of EC enlargement (*WTO News Summary*, 23 March 2006).

[123] WTO document TN/S/O/EEC/Rev.1, 29 June 2005.

services in the EC-25.[124] Accessing a bank account is the entry point for most consumers to financial services and markets. The price of certain services depends on the way they are supplied: estimates show that a 10% drop in bank-based financing (in favour of capital market financing) would reduce financing costs by the equivalent of 0.3% of the EC's GDP.[125]

82. The FSAP 1999-05 was the EC's central tool for fostering financial market integration through ensuring a single market for wholesale financial services, state-of-the-art prudential rules and supervision, and opening and securing retail markets.[126] Despite the progress achieved through the FSAP, institutional differences and cross-border barriers between Member States continue to hamper the development of a unified market for financial services. The Commission has indicated that a further boost in the efficiency of pan-European markets for long-term savings products is needed urgently; the retail financial market is still fragmented[127]; and a better functioning risk capital market is required to promote new and innovative firms and to raise economic growth. At the same time, the EC's major structural economic challenge, its pensions deficit, needs to be financed.[128]

83. A new five-year financial services strategy was launched on 5 December 2005. Its motto is "dynamic consolidation", and its key objectives are to consolidate the progress made under the FSAP; enhance supervisory convergence and cooperation; remove remaining barriers to fully integrate financial services markets; expand the EC's external influence in the world's financial markets; and implement a better regulation process based on open consultations, transparency, impact assessment, and evidence-based policy-making. Overall, the strategy aims to provide the most advanced legislative apparatus for EC financial services providers, and to lower the cost of financing for all users of financial services.[129]

84. As part of the new strategy, the Commission is currently working with Member States and stakeholders on a Code of Conduct on cross-border clearing and settlement of transactions to improve their safety and efficiency and to lower their cost.[130] The Commission has also proposed a directive to improve the transparency and legal certainty of the supervisory approval of acquisitions in the banking, insurance, and securities subsectors. Concerning banking legislation, the Commission has started to review large exposure limits, and the definition of capital and supervisory arrangements. Under the framework of the latter, the Commission will review issues like liquidity, crisis management, deposit guarantee schemes, lender of last resort, winding up, and reorganization. The Commission is expected to publish a White Paper outlining the next steps for an efficient investment fund market before the end of 2006. In retail banking, two directives are currently under discussion: one to create a single market in consumer credit, while ensuring high levels of consumer protection; and the other to enhance competition and lower costs in the payments area, with the aim of creating a Single Euro Payments Area (SEPA) by 2010. A White Paper concerning mortgage credit will also be

[124] According to the Labour Force Survey (Classification of Economic Activities in the EC (NACE) Division 65), in 2004, Germany (20.9% of the EC-25 workforce) and the United Kingdom (19.5%) had the largest financial intermediation workforces in the EC-25, nearly twice the size of those in Italy (11.8%) and France (11.3%).

[125] European Commission (2003a).

[126] The main elements of the FSAP and other complementing measures are described in WTO (2004).

[127] Retail financial services, for individuals and SMEs, are still not well integrated, as suggested by the limited convergence of interest rates (IMF, 2005).

[128] European Commission (2005h).

[129] EC Press Release IP/05/1529, 5 December 2005.

[130] The reasons for the high cost of cross-border transactions are technical, legal, and fiscal obstacles, e.g. double taxation of income flows of associated companies established in different Member States (European Commission, 2005h).

published in 2007. Moreover, the Commission is examining the obstacles impeding users' mobility concerning bank accounts.

85. In May 2005, banking supervisors, central banks and finance ministries agreed on a Memorandum of Understanding on cooperation in financial crisis situations, which entered into force on 1 July 2005. It applies to crisis situations with a potential for both cross-border and systemic consequences affecting credit institutions, banking groups or banking components of financial groups, as well as to other systemic disturbances with cross-border implications in the financial markets, including those affecting payment systems or other market infrastructures.

(b) Banking

86. The number of credit institutions in the EC-15 declined from 8,084 in 2001 to 7,444 in 2003, mainly as a result of mergers and acquisitions, while the number of persons employed in banking remained relatively stable at about 2.8 million. About half of the total number of EC-15 banks are in Germany and France, but this proportion is decreasing due to the drop in the number of cooperative enterprises. In terms of density, Spain has the highest number of local units per million inhabitants (about 1,000).

87. According to the ECB[131], the most important structural developments in the EC banking subsector since 2004 include: (i) whereas the pace of consolidation has declined steadily since the end of 2002, there are some indications of a possible revival of large crossborder deals[132]; banking profits have increasingly been generated by retail activities; increasing evidence of a change in funding structures, with on-balance-sheet and off-balance-sheet lending growing faster than deposits; banks appear to be transferring more risks to other sectors in the economy, instead of purely mediating between lenders and borrowers; and the role of banks seems to be moving away from the integrated provision of financial services towards a greater focus on core activities. There are still significant differences between the structures of banks across EC countries but these are expected to diminish over time.[133]

88. The Committee of European Banking Supervisors (CEBS) started operating on 1 January 2004[134], as part of a set of measures to improve EC financial market regulation. The main tasks of the CEBS are: providing advice to the European Commission on EC legislation in the banking sector; contributing to consistent implementation of EC legislation across the EC; and promoting convergence of supervisory practices and of cooperation between supervisors.[135]

89. The regulation of the banking system in the EC continues to be based on the single European passport principle, and prudential supervision of banks according to the home country control principle.[136] Member States must not apply more favourable EC provisions to foreign bank branches

[131] European Central Bank Press Release, 7 October 2005.

[132] In some Member States, domestic consolidation among large banks may be gradually coming to an end since the respective banking markets are already very concentrated. Therefore, cross-border consolidation has become the main expansion strategy, despite the remaining barriers.

[133] According to the ECB, these differences (e.g. in terms of concentration, ownership structure, foreign presence) are expected to diminish gradually both as a consequence of increased mergers and acquisitions, and due to the increasing importance that banks have been attaching to the creation of shareholder value. In the long-term, this might affect EC banks' performance and risk-return trade-offs, with a possible bearing on the capacity of banks to absorb shocks.

[134] Decision 2004/5/EC, 5 November 2003.

[135] CEBS online information. Viewed at: http://www.c-ebs.org/ [8 June 2006].

[136] According to the principle of home-country control, banks in the EC are regulated by, and conform to, the regulation and legislation of their home country. If a bank does business in another Member State, the

than those applied to branches of credit institutions having their head office within the EC. However, the EC may agree to apply identical provisions to branches having their head office within or outside the EC when the principle of reciprocity is observed by the country in which the head office of the foreign bank branch is based.[137] In addition, banks are subject to EC rules on competition and state aid (Chapter III(4)(ii)).

90. Although the single passport has fostered cross-border branching (the market share of cross-border branches in the EC reached 24% of GDP in 2002), banking in the EC remains somewhat fragmented. Furthermore, only some 5% of bank credit is granted across borders, and the variety of mortgage products is still limited in many Member States. As a result, three major retail banking initiatives are under way: (i) on 10 October 2005, a modified proposal for a Directive was published, aimed at creating a genuine internal market for consumer credit and improving consumer protection; (ii) a White Paper will be released in 2007 with measures to integrate the EC mortgage credit market; and (iii) a Single European Payment Area (SEPA) is to be created by 2010.[138]

91. The revised framework for the International Convergence of Capital Measurement and Capital Standards (Basel II[139]) was released in June 2004. Basel II has been introduced into EC legislation by recasting the Codified Banking Directive and the Capital Adequacy Directive. Member States will have to amend national law to incorporate the news rules, which will become applicable as from 2007.[140]

92. According to EC legislation, Member States shall not treat branches of third country credit institutions more favourably than those having their head office in the EC. However, the EC may enter into agreements with third countries and, accordingly, treat branches of third country credit institutions in an identical way throughout the EC.

(c) Insurance

93. In 2004, 1.3 million people were employed in the EC-25 insurance and pension fund subsector.[141] According to the latest available data, the insurance subsector has continued to consolidate[142], while total investments of insurance companies increased from €4,595 billion in 2000 to €4,670 billion in 2001. These enterprises wrote € 764 billion of gross premiums in 2001 (excluding reinsurance), up from € 759 billion in 2000, making the EC-15 insurance market the third largest in the world, behind the United States and Japan. Life insurance represented 63% of total direct gross premiums in 2001; when growth decreased slightly, for the first time since 1994. On a per capita

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regulatory authorities of the host country recognize the primacy of the home country. According to the "single passport", a bank licensed to do business in any Member State is allowed to do business an any other Member State on whatever basis it considers most advantageous. A bank, including foreign banks, may establish a branch or subsidiary, or may acquire another bank, in another Member State. Subsidiaries thus incorporated in a Member State can then have a sub-branch – or provide banking services directly – in another Member State, while remaining under the regulatory/supervisory control of the Member State where they are incorporated.

[137] Directive 2006/48/EC.

[138] European Commission (2005h).

[139] Basel II is a global regulatory framework designed to encourage best practices in risk management and minimum capital requirements in banking.

[140] The European Parliament and the EC Council adopted the final legislative text in September and October 2005, respectively. At the end of 2005, the Basel Committee on Banking Supervision undertook a fifth quantitative impact study of the new capital rules.

[141] Classification of Economic Activities in the EC (NACE) Division 66) (Eurostat, 2006a).

[142] In 2001, there were 4,608 insurance companies in the EC-15 (down 2.1% from 2000) handling: non-life insurance (56.3%), life insurance (25%), specialist reinsurance (13%), and composite insurance (5.7%) (WTO, 2004).

basis, average spending on life insurance is highest in the United Kingdom and in Finland, and lowest in Greece and Austria; average spending is more uniform in the non-life area.[143]

94. According to the ECB, the euro area insurance industry further improved its profitability and capital base in 2005, despite significant losses incurred by reinsurers as a result of the damage caused by hurricanes.[144] Non-life insurers' balance sheets were strengthened by an improvement in the profitability of the underwriting business, which was the result of strict pricing discipline. In life insurance, lower guaranteed rates of return on savings products contributed to the improvement in profitability, as did cost savings. Furthermore, ongoing reforms of public pension schemes in the euro area favoured the placement of private savings in life insurance products. A decline in the values of policies sold contributed to a decrease in profitability for reinsurance. The creation of 12 new start-up reinsurers was announced in 2005. The additional capacity that may be brought to the global reinsurance sector, from mostly private equity funds, would be about US$ 8-12 billion.[145]

95. Insurance undertakings have also benefited from the single passport since 1994. The EC has two objectives in the subsector: to provide all EC citizens with access to the widest possible range of insurance products on offer in the EC, while guaranteeing them the legal and financial protection required; and to guarantee that an insurance company, authorized to operate in any of the Member States, can pursue its activities throughout the EC in terms of the rights to establish and to supply services. In order to achieve such objectives, the EC has dealt with life insurance and non-life insurance separately to take account of their specific characteristics. In addition, the EC has separate legislation on specific areas: motor vehicle liability insurance, annual accounts and consolidated accounts of insurance undertakings, and legal protection insurance, and credit and suretyship insurance.

96. The key legislative development under-way in the subsector is the Insurance Solvency II project, which intends to overhaul EC regulation and supervision, and make it compatible with Basel II and other international developments in supervision and financial reporting. Risk-based calculations of the solvency requirements for insurance undertakings are to be introduced, and calculation of insurance liabilities (technical provisions) will be harmonized, while fostering the convergence of supervisory practices. The Commission plans to table its proposal in mid 2007.[146]

97. A Reinsurance Directive, adopted by the EC Council on 7 November 2005, allows reinsurance undertakings authorized by their home Member State to undertake business throughout the EC through the single passport.[147] To obtain such authorization, EC reinsurers will need to meet strict requirements. The Directive aims to fill the gap in current European insurance legislation, which does not provide for regulation of specialized reinsurers. It also updates EC life, non-life, and insurance directives in line with the supervision rules for reinsurance undertakings.

98. The EC Insurance Directives provide for rules regarding third country insurance undertakings only as far as establishment of branches and agencies in the EC is concerned. The freedom to provide services in third countries is not regulated at EC level. Matters not dealt with in EC legislation remain within the competence of the Member States, subject to the general provisions of the EC Treaty.

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[143] Spending in Luxembourg is inflated by the premiums written for non-residents.
[144] European Central Bank (2006).
[145] European Central Bank (2005).
[146] European Commission (2005h).
[147] Directive 2005/68/EC, amending Council Directives 73/239/EEC, 92/49/EEC, 98/78/EC and 2002/83/EC. Following its adoption, Members States have two years to implement Directive 2005/68/EC.

(d) Securities

99. The stock exchanges of five Member States – London, Euronext Paris, Deutsche Börse, Italy, and Euronext Amsterdam – are among the world's ten largest in terms of market capitalization of domestic companies, but in each case, well below that of the New York Stock Exchange (NYSE), the world leader.[148] Following a sharp decrease in the value of market capitalization during 2000-03, European equity markets have improved as a result of, *inter alia*, better performance of technology, media, and telecommunication companies. Recent developments suggest that consolidations involving some leading European exchanges are likely to take place, even in a wider trans-Atlantic context.

100. The establishment of the EC's single securities market was to be completed in 2004.[149] To fulfil this objective, the Markets in Financial Instruments Directive (MiFID) was adopted on 27 April 2004, replacing the 1993 Investment Services Directive (ISD).[150] The MiFID gives investment firms an effective single passport, allowing them to operate throughout the EC on the basis of authorization in their home country. It also aims to ensure that investors enjoy a high level of protection when employing investment firms, wherever they are located in the EC, and to establish a comprehensive regulatory framework governing investor transactions by exchanges, other trading systems and investment firms.[151] The MiFID implementing measures, which were adopted by the European Commission in August 2006, are aimed at ensuring harmonized implementation across the EC. Member States have until 31 January 2007 to implement the MiFID; firms are required to comply as from 1 November 2007.[152] Furthermore, the EC has developed securities legislation referring to prospectuses (Prospectus Directive and its implementing measures, in force as of 1 July 2005) and preventing insider trading and market manipulation (Market Abuse Directive and its implementing measures, in force as of 12 October 2004).

101. Mutual funds (known as undertakings for collective investment in transferable securities (UCITS)) are also under the single passport regime. Since 1986, mutual funds licensed by their home countries have been able to offer units for sale throughout the EC. New UCITS rules entered into force (UCITS III Directive) in 2004, aimed at, *inter alia*, making UCITS more competitive by expanding the range of assets eligible for investment (e.g. derivatives and money market instruments). However, a single market for investment funds is still to be completed, as only 14% were considered "true" crossborder funds in 2005 (38% of net inflows). As a result, in July 2005, the Commission adopted a Green Paper on the enhancement of the EC framework for investment funds, which defines the future agenda for investment funds in the EC on the basis of four main objectives: (i) ensuring good implementation of the existing legal framework[153]; (ii) exploring ways to improve the efficiency

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[148] On 1 June 2006, the merger of Euronext Paris and the NYSE was announced. The new group is to be called NYSE Euronext, and will create the world's biggest global stock exchange, with a market value of € 15 billion. BBC News, 1 June 2006.

[149] This deadline was agreed during the Stockholm European Council meeting of March 2001, following the presentation, on 15 February 2001, of the final report of the Committee of Wise Men chaired by Alexandre Lamfalussy. The report criticized current legislation for being complex and ill-adapted to requirements, owing to the lack of harmonization. WTO (2002), *Trade Policy Review of the European Union*, Geneva.

[150] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council, and repealing Council Directive 93/22/EEC and Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field.

[151] European Commission Press Release IP/04/546, 27 April 2004.

[152] On 15 June 2006, the draft MiFID was endorsed by the European Parliament, and on 26 June 2006, it was approved by the European Securities Committee (ESC). European Commission Press Release IP/06/846, 26 June 2006.

[153] According to the Commission, this objective has already been met.

of the fund industry on a Pan-European basis (e.g. streamlining the passport procedure, cross-border fund mergers, and management company passport); (iii) ensuring that investors' interests are at the heart of the distribution process; and (iv) addressing the issue of the scope of the UCITS Directive, considering the developments of new products outside its framework, such as alternative investments and real estate funds. The next steps for its implementation will be set out in a White Paper due at the end of 2006.

102. Under the current ISD, which will remain in force until November 2007, Member States are not expected to treat branches of third-country investment firms more favourably than those having their head office in the EC. Under the MiFID, which will replace the ISD as from November 2007, branch authorization procedures already operating in the Member States should continue to apply. The MiFID is to carry on the ISD system, provided that there is no competitive disadvantage for EC firms. There is no authorization requirement for third-country firms under the MiFID.

(iii) Telecommunications and postal services

103. The EC's telecommunications services market was valued at € 291 billion in 2005 (up from € 270 billion in 2003), roughly on a par with the United States market. In 2005, revenue from the subsector increased by around 2.2%, due largely to an increase in mobile and broadband investments (Table IV.15).[154] However, growth has been uneven across Member States, and 23 percentage points separate the best from the worst in terms of broadband penetration.[155] During 1998-05, the cost of national calls in the EC fell by 17%, while the price of international calls decreased by 45%.[156] The differences in telecoms prices are very small between old and new Member States.[157]

104. Competition is driving fixed and mobile telecommunications operators to invest in new technologies to reduce costs and position themselves in a converged environment. Operators are beginning to offer a portfolio of services, with different combinations of low-cost voice (including mobile), internet access, and audiovisual content to attract and retain customers. The value of cross-border investment, including mergers and acquisitions, is estimated at more than €70 billion in 2005, its highest level since 2000.[158] Capital expenditure by incumbent operators reaches approximately 15% of their revenue. The number of public fixed voice telephony operators rose from 635 in 1998 to 1,237 in 2004, but the number of major competitors remains low in most Member States.[159] However, at September 2005, almost 32% of EC-15 subscribers use an alternative provider to route international calls, while 23% were using alternative providers for local calls. Competition in the EC's fixed voice market is still largely based on indirect access to wholesale products such as carrier-preselection (CPS) and carrier-selection (CS).[160] In the mobile market, competition has increased as the leading operators' market shares have declined over the last few years. Local loop unbundling, both full and

[154] Almost 93% of EC consumers now have a mobile phone, 47% are connected to the internet, and 15% of the population had a broadband subscription.

[155] European Commission (2005b).

[156] Since 2000, the EC's weighted average charge for a 3 minutes call has decreased by 65%, while that of a 10 minutes call has fallen by 74%.

[157] European Commission (2005d).

[158] The largest EC incumbent players had 15% non-domestic EC revenue shares on average in 2005. European Commission (2005b).

[159] European Commission (2005d).

[160] CPS and CS services allow customers to use an alternative operator for calls, while still using the access line provided by the incumbent operator. As such, these wholesale products have been key to the development of retail competition in the EC's fixed voice market. Following strong early growth, the percentage of subscribers using alternative providers has begun to slow down. Direct access competition, where the alternative operator provides the voice services over a line forming part of its own network to the customer (e.g. a cable line, an unbundled line or some other means of access as wireless), is still relatively weak.

shared access, is the main wholesale access for new entrants, followed by bitstream. Prices for both full unbundled and shared access lines are declining, although unevenly, across the EC. The number of operators offering VoIP services has recently increased significantly, and these services are now available in most Member States.[161]

Table IV.15
Selected telecommunications indicators, 2005

	Main telephone lines ('000)	Main lines per 100 inhabitants	Cellular mobile subscribers ('000)	Cellular subscribers per 100 inhabitants	Internet users ('000)	Internet users per 100 inhabitants	PC's ('000)
Austria	3,705	45.32	8,160	99.82	4,000	48.93	4,996
Belgium	4,801	45.96	9,460	90.80	4,800	46.07	3,627
Cyprus	420	50.30	719	86.09	298	36.93	249
Czech Republic	3,217	31.48	11,776	115.22	5,100	49.97	2,450
Denmark	3,350	61.69	5,469	100.71	2,854	52.55	3,543
Estonia	442	33.26	1,445	108.75	690	51.92	650
Finland	2,120	40.39	5,231	99.66	3,286	63.00	2,515
France	35,700	59.01	48,058	79.44	26,154	43.23	35,000
Germany	55,046	66.57	79,200	95.78	37,500	45.35	45,000
Greece	6,303	56.69	10,042	90.31	1,955	17.62	986
Hungary	3,356	33.24	9,320	92.30	3,000	29.71	1,476
Ireland	2,033	49.01	4,210	101.49	1,147	27.64	2,011
Italy	25,049	43.12	72,200	124.28	27,900	48.03	18,040
Latvia	731	31.69	1,872	81.13	1,030	44.65	501
Lithuania	801	23.39	4,353	127.10	1,222	35.67	533
Luxembourg	245	52.58	720	154.83	315	67.74	290
Malta	202	50.40	324	80.79	127	31.73	67
Netherlands	7,600	46.63	15,834	97.15	10,000	61.63	11,110
Poland	11,803	30.63	29,166	75.70	10,000	25.95	7,362
Portugal	4,234	40.35	11,448	109.09	2,951	28.03	1,402
Slovak Republic	1,197	22.16	4,540	84.07	2,500	46.29	1,929
Slovenia	816	41.50	1,759	89.44	1,090	55.41	808
Spain	18,322	42.92	41,328	96.81	15,119	35.41	12,000
Sweden	6,447	71.54	8,437	93.31	6,800	75.46	6,861
United Kingdom	33,700	56.35	61,091	102.16	37,600	62.88	35,890
EC-25	**9,266**	**45.05**	**17,847**	**99.08**	**8,298**	**45.30**	**7,972**
Bulgaria	2,484	32.14	6,245	80.83	1,592	20.60	461
Romania	4,391	20.22	13,354	61.51	4,500	20.76	2,450

Source: ITU (2006), *Telecommunications Indicators*, Geneva.

105. The deadline for implementing the telecoms regulatory framework was 25 July 2003 for EC-15 and 1 May 2004 for NMS-10.[162] However, some Member States missed this deadline, forcing the Commission to take measures to bring them into line with the applicable legislation. By October 2006, most Member States had notified to the Commission their telecoms market reviews, as required by the new regulatory framework.[163] On 29 June 2006, the Commission tabled plans to boost competition among telecoms operators and build a single market for services that use radio

[161] Voice over Internet Protocol (VoIP) allows voice calls via a broadband internet connection, instead of a regular (or analog) phone line.

[162] In 1999, the Commission launched a major review of the telecoms subsector. The review resulted in the adoption of a new regulatory framework in March 2002.

[163] EC Press Release IP/06/1439, 20 October 2006.

spectrum[164]; while in July 2006, the Commission tabled a legislative initiative to further reduce the cost of using mobile phones when travelling within the EC.[165] For that reason, the EC recently launched a roaming website with the aim of increasing transparency, and bringing more competitive pressure to bear. The EC is also currently discussing the possibility of adopting specific regulations to bring down international roaming prices. The EC's telecoms regulatory framework is based on the regulation of markets rather than of technologies, and is aimed at, *inter alia*, establishing a harmonized regime across Member States; promoting more competitive markets as a means to promote innovation and investment; applying technology-neutral regulation; and guaranteeing basic consumer interests, in areas such as universal service, processing of personal data and rights to privacy.[166]

106. The EC's electronic communications regulatory framework consists of six directives: (i) Framework Directive setting out the key principles, objectives, and procedures; (ii) Authorization Directive introducing a light system of general authorization for electronic communication services and networks (e.g. fixed and mobile networks, data and voice services), instead of individual licences, to facilitate entry in the market and reduce administrative burdens on operators; (iii) Access and Interconnection Directive stipulating procedures and principles for imposing pro-competitive obligations (regarding access to, and interconnection of, networks) on operators with significant market power (SMP)[167]; (iv) Universal Service Directive requiring a minimum level of availability and affordability of basic electronic communication services and guaranteeing a set of basic rights for users and consumers of electronic communication services; (v) Privacy and Electronic Communications Directive setting out rules for the protection of privacy and of personal data processed in relation to communications over public communication networks; and (vi) Commission Competition Directive, which consolidates the legal measures that have liberalized the telecommunications subsector over the years.[168]

107. Other legislative instruments of the telecoms regime include: the Radio Spectrum Decision, which establishes principles and procedures for the development and implementation of an internal and external EC radio spectrum policy (it does not require transposition by Member States); the Commission guidelines on market analysis and the assessment of SMP, which set out a common methodology and principles for the national regulatory authorities (NRAs) charged with these tasks[169]; and the Commission recommendation on relevant markets, which defines a list of 18 relevant electronic communications markets to be examined.

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[164] The Commission proposes to phase out ex-ante regulation in at least 6 of the existing 18 telecoms market segments, including those for national and international calls. For markets where competition is not yet effective (e.g. broadband supply), the Commission wants EC rules applied more effectively so as to step up competition throughout the single market. The Commission intends to propose legislative measures to Parliament and Council at the end of 2006 (EC Press Release IP/06/874, 29 June 2006).

[165] The Commission wants to reduce costs by up to 70% by ensuring that prices paid by consumers for roaming services within the EC are not unjustifiably higher than those for calling within their own country. Provided that the Parliament and Council support the Commission proposal, the new EC regulation could come into effect by summer 2007 (EC Press Release IP/06/978, 12 July 2006).

[166] The basic rights and obligations of the telecoms regime are described in WTO (2004).

[167] An undertaking is deemed to have SMP if, either individually or jointly, it enjoys a position equivalent to dominance.

[168] The Commission is currently undertaking a review of the electronic communications framework to examine how well it has achieved its objectives, and whether it should be changed in the light of recent and forthcoming technological and market developments.

[169] National regulators, in cooperation with the Commission, monitor the regulatory regime, along with the national competition authorities, and ensure that rules are applied consistently in all Member States.

108. Four institutions are in charge of the management, implementation, and further development of the new regulatory framework: (i) the Communications Committee has regulatory and advisory functions on implementation issues arising from the six Directives; (ii) the Radio Spectrum Committee deals with technical implementing measures aimed at harmonizing frequency allocation and developing common external radio spectrum policy objectives; (iii) the European Regulators Group contributes to consistent application of the new framework in all Member States; and (iv) the Radio Spectrum Policy Group provides a platform for high-level national decision-makers to coordinate their views on radio spectrum policy, and to provide the Commission with relevant policy advice.

109. According to the Commission, the independence of the NRAs from commercial interests has in general been ensured, although concerns remain in some Member States as regards separation of ownership and regulatory functions.[170] Generally, the NRAs have ensured that the necessary regulation is in place for competition purposes, and reference unbundling offers, for example, are now available across the EC. Nevertheless, the Commission is examining, *inter alia*, issues related to: (i) local loop unbundling; (ii) effective interconnection; and (iii) cost accounting systems suitable for ensuring interconnection.[171]

110. Implementation of EC rules relating to transparent and non-discriminatory granting of rights of way is also a concern in a number of Member States. As regards designation of the universal service provider, the Commission has concerns that certain Member States have *a priori* excluded players (mainly new entrants). Currently, the Commission is reviewing the legal instruments (including the Recommendation on Relevant Markets) that make up the electronic communications framework. It is examining the framework's principles and implementation. The three main areas where the Commission is considering revision are: (a) putting in place an effective market-oriented strategy for spectrum management in the internal market; (b) streamlining the market review procedure, to make it faster and less burdensome; and (c) consolidating the single market, by ensuring that EC rules and remedies are applied consistently across all Member States.

111. According to the latest available figures, EC postal revenues amounted to €90 billion in 2004 (almost 1% of EC GDP) in 2004, with the subsector providing over 4.5 million jobs. The EC framework for postal services, set out by the Postal Directive[172], is aimed at improving the quality of service, maintaining the universal postal service for EC citizens, and completing the internal market for postal services by 1 January 2009.[173] Other key elements of the Postal Directive are: further opening of the market, including progressive reduction of the reserved area by 1 January 2006[174], and the liberalization of outgoing cross-border mail, except for Member States with exceptional circumstances; the prohibition of cross-subsidization of universal services (outside the reserved area)

[170] There are also concerns relating to possible limits to the powers of NRAs to enforce their decisions, due to limits on the level of fines that can be imposed (European Commission, 2005b).

[171] The Commission considers that the cost accounting systems put in place in a number of Member States are still underdeveloped or lack transparency (European Commission, 2005b).

[172] Directive 97/67/EC as amended by Directive 2002/39/EC.

[173] In 2006, the Commission will complete an evaluation, for each Member State, of the impact on universal services of the completion of the internal market in 2009. On the basis of the study, the 2009 deadline is to be confirmed (or changed) with the agreement of both the European Parliament and the Council (Com (2005) 595 final). Under the current regulatory framework for electronic communications, the NRAs should, under the supervision of the Commission, carry out market analyses for each of the relevant markets included in the Commission recommendation.

[174] As of 2006, the reserved area is limited to the distribution of correspondence items weighing less than 50 g and whose price is less than 2.5 times the basic tariff. Germany, the Netherlands, which together account for almost half of Community letter post, are considering the possibility of abolishing the reserved area before the end of 2007. According to the Commission, the UK has already abolished the reserved area.

with revenues from services in the reserved area, unless this is strictly necessary to fulfil specific universal service obligations; and the application of the principles of transparency and non-discrimination whenever universal service providers apply special tariffs. According to the Commission, Member States have largely completed the transposition of the postal framework. Growth of postal revenues has recently been strong in most EC countries, with some Member States improving their profitability by more than four percentage points between 2002 and 2004. Nonetheless, the performance of some countries has deteriorated recently.[175]

(iv) Transport

(a) Overview

112. Transport accounts for 7% of EC GDP, around 5% of employment (more than 10 million jobs), and 71% of total oil consumption.[176] During 1995-04, transport demand grew by 2.8% a year for goods and 1.9% for passengers. However, there is unequal growth in the different modes of transport. Road transport accounted for 44% of the goods transport market over the period, followed by 42% for waterborne transport (39% for short-sea shipping routes[177], and 3% for inland waterways), 10% for rail, and 0.1% for intra-EC air; on the passenger transport market, road accounted for 84%, rail for 7%, and air for 8% (Table IV.16). Some of the main problems faced by the subsector include congestion on the main road and rail routes, in cities, and at certain airports; environmental and public health concerns; poor road safety; security threats; and, in general, difficulties in implementing the Treaty of Rome common transport policy.

113. The 2001 White Paper, "European transport policy for 2010: time to decide", proposes an action plan aimed at bringing about substantial improvements in the subsector by developing a modern, sustainable, transport system for 2010. It suggested about 60 measures to make transport efficient, of high-quality, and safe; and, at the same time, to shift the balance between modes of transport by revitalizing the railways, promoting sea and inland waterway transport, controlling the growth in air transport, and developing intermodality by combining road-rail, sea-rail or rail-air (for passenger) transport.[178] On 22 June 2006, the mid-term review of the White Paper concluded that additional measures are required, including: the definition of an action plan on logistics by 2007; reviewing the legislation working conditions in road transport by 2007; removing technical barriers on rail transport interoperability and promoting rail freight corridors by 2006-07; completing the "single European sky" framework by 2007; adopting White Paper on a Common European Maritime Space by 2008; publishing an Urban Transport Green Paper by 2007; and achieving better representation of EC interests in international organizations.[179]

[175] European Commission (2005d).

[176] Road transport uses 60% of all oil consumed in the EC and air transport accounts for some 9%; rail transport uses roughly 75% of electricity and 25% of fossil fuels. EC online information. Viewed at: www.ec.europa.eu/transport/transport_policy_review/doc/2006_transport_policy_review_en.pdf [1 July 2006].

[177] Short-sea shipping is the transport of goods between EC-25 ports. A wider Eurostat definition also includes Bulgaria, Romania, and Norway on one hand, and ports located in geographical Europe, or the Mediterranean and Black Seas on the other. Using this wider definition, in 2004, short-sea shipping in the EC amounted to 1.8 billion tonnes of goods (63.4% of total EC maritime transport) (Eurostat, 2005c), "Maritime Transport of Goods and passengers 1997-2003".

[178] WTO (2004).

[179] DG Energy and Transport (2006).

Table IV.16
Transport by mode, 1995-04
(Per cent unless otherwise specified)

	Road	Rail	Waterborne	Airborne
Employment (million)				
Passenger transport	1.7	1.2	0.2	0.4
Freight transport	2.6	..	..	..
Share in total freight transport	44	10	42	0.1
Share in total passenger transport	84	7	1	8
Growth between 1995-04				
Passengers	24	9	..	55
Freight	35	6	29	..
Container	..	..	13.5	n.a.
Share in total energy consumption	25.2	0.8	0.5	4.0
Vehicle efficiency (toe/Mpkm)	trucks 72.4 cars 37.8 public 14.5	passengers 16.0 freight 5.5	17.5	n.a.

.. Not available.
n.a. Not applicable.

Source: Commission of the European Communities (2006), *Keep Europe moving: Sustainable mobility for our continent, Mid-term review of the European Commission's 2001 Transport White Paper*, Brussels.

114. The Marco Polo and Galileo programmes are two of the key measures that resulted from the White Paper. Some of the main objectives of Marco Polo, adopted on 22 July 2003, are to reduce road congestion, to improve the environmental performance of the freight transport system, and to enhance intermodality. To achieve this, Marco Polo supports actions in all segments of freight transport, logistics, and other relevant markets.[180] On 15 July 2004, the Commission proposed Marco Polo II, with a budget of €400 million over the period 2007-13. It includes new action, such as motorways of the sea, and traffic avoidance measures. Galileo is a joint initiative by the EC (represented by the Commission), and the European Space Agency (ESA).[181] It is to be fully operational from 2010, and is the first global satellite navigation system designed, *inter alia*, to resolve mobility and transport problems by providing positioning services. Financial aid of €1,005 million is envisaged for developing Galileo during 2007-13.[182]

115. All modes of transport in the EC have been liberalized since 1993. However, a few restrictions remain; for example, there is not yet cabotage in rail freight transport, nor market opening in rail passenger transport. Liberalization of cabotage in the other modes of transport in the EC occurred in stages: 1 January 1993 for inland waterway transport; 1 April 1997 for air cabotage, 1 July 1998 for road transport; and 1 January 1999 for maritime cabotage.[183]

[180] Marco Polo should help to regain the 1998 freight levels between the various transport modes, by shifting the expected aggregate increase in international road freight traffic of 12 billion tonnes annually to short-sea shipping, rail, and inland waterways, or to a combination of modes of transport in which road journeys are as short as possible. Marco Polo had a budget of € 75 million for the EC-15 during 2003-06, with each NMS-10 contributing to the budget (WTO, 2004).

[181] The European Commission is responsible for the political dimension of Galileo and for setting objectives; ESA is responsible for the technical definition, development, and validation of Galileo. The Galileo Joint Undertaking will be responsible for the development of the Galileo programme and the selection of a commercial operator. Galileo will comprise 30 satellites orbiting at an altitude of nearly 24,000 km. Ground stations will be responsible for management and control (WTO, 2004).

[182] EC Memo 06/213, 24 May 2006.

[183] See WTO (2004).

116. The European Regional Development Fund (ERDF) and the Cohesion Fund contribute to the financing of transport infrastructure in the EC . Moreover, financial aid of €8,013 million is envisaged for developing the Trans-European Transport Network (TEN-T) over the period 2007-13 (for EC-27), almost double the amount available during 2000-06.[184] The European Investment Bank (EIB), which is geared towards regional development, also funds transport infrastructure.

117. Foreign companies that establish themselves as legal entities in the EC are subject to the same transport regulatory framework as EC companies. On air transport, the Commission is responsible for negotiating EC air service agreements to replace existing bilateral agreements concluded by its Member States. The provision of maritime transport services in the EC, and between its Member States and third countries, was liberalized in 1986. Cargo sharing is incompatible with EC law. The liberalization of maritime transport between ports of the same Member State has made it possible for any EC ship-owner to provide services in another Member State. The majority of agreements with third countries include measures on market access to maritime transport services, and on the right of establishment of maritime companies.

(b) Road transport

118. Road transport dominates the carriage of goods and passengers in the EC, and freight transport is estimated to increase by 50% by 2010. The EC has about 58,000 km of motorways (up from 54,000 km in 2000), with Germany, France, and Spain accounting for almost 60% of the total. In 2004, Germany had a 22% share of the total intra- and extra-EC international transport in tonnage terms, followed by France (15%), Belgium (11%), and the Netherlands (11%).[185] In 2004, international intra-EC road freight transport totalled 790 million tonnes. The average road freight vehicle load was 12.9 tonnes (15.9 tonnes for international transport and 12 tonnes for national).[186]

119. Cabotage on EC territory nearly doubled between 1999 and 2004, with a 24% increase from 2003 to 2004.[187] In 2004, one third of all cabotage transport in the EC was in France (4.6 billion tonne kilometres (tkm)), and a quarter in Germany (3.8 billion tkm). Cabotage transport by hauliers from all Member States (except Greece and Malta) reached 14.6 billion tkm in 2004, an overall 20% increase for the period 2003-04. Cabotage by the NMS-10 was only 6% of the total for the EC-25, and over half of this was carried out by Polish hauliers (half a billion tkm). This is because hauliers from most of the NMS-10 still face legal restrictions.[188]

120. In order to further improve the functioning of road transport, the Commission has made proposals on, *inter alia*, the initial and periodic training of professional drivers; harmonized rules for national driving bans on lorries; and charging heavy goods vehicles for the use of certain infrastructures. In addition, new rules on working times for professional drivers have been introduced, as well as a "driver's certificate" to make it possible to check that the driver is lawfully employed. Moreover, the Commission is considering adopting other measures, such as: addressing the excessive

[184] EC Memo 06/213, 24 May 2006.

[185] Eurostat (2005c) "Road Freight Transport by Origin".

[186] Road transport accounts for 84% of CO_2 emissions attributable to the transport subsector (WTO, 2004).

[187] Cabotage by road is the carriage of goods in a country by hauliers whose vehicles are registered in another country. Half or more of the international transport tonnage in Belgium, France, Italy, Sweden and the United Kingdom is taken by carriers from other EC countries (Eurostat, 2005c), "Road Freight Transport by Origin".

[188] Eurostat (2006c), "Road Freight Transport 1999-04: Cabotage and Transport with non-EC Countries".

differences in road tax levels among Member States; and implementing an integrated approach to road safety, focusing on issues such as vehicle design and technology.

(c) Rail transport

121. The total length of railway lines in the EC is over 200,000 km. The share of goods carried by rail in the EC-15 has decreased from 21% in 1970 to about 8% currently.[189] Nevertheless, between 2003 and 2004, goods transported by rail in the EC increased by 4.3%.[190] New high-speed rail services have resulted in a significant increase in long-distance passenger transport. Rail transport is key for achieving a balanced intermodal transport system in the EC. The Commission has identified a number of structural obstacles to the competitiveness of rail transport, such as: low levels of interoperability, lack of mutual recognition of rolling stock and products, weak coordination of infrastructure and interconnection of IT systems, and the problem of single wagon loads.[191]

122. The EC aims to establish an integrated European railway area by, *inter alia*, completing the legal framework for rail freight transport by 2007; liberalizing cross-border passenger rail services by 2010; and joining the Intergovernmental Organization for International Carriage by Rail (OTIF).[192] To achieve this, two rail infrastructure packages have been adopted since 2001, and a third was proposed by the Commission on 3 March 2004.[193] The Commission is also considering implementing the rail transport *acquis* with the help of strong regulatory bodies in Member States; removing technical and operational barriers to international rail activities with the help of the rail industry and the European Railway Agency; promoting a rail freight oriented network within a broader transport logistics policy; and rail market monitoring including a scoreboard.[194]

(d) Maritime transport

123. The EC is very dependent on maritime transport (including inland waterway transport), which accounts for over 90% and 40% of its external and internal trade, respectively. The subsector, including shipbuilding, ports, fishing and related industries and services, employs over 2.5 million people in the EC. Maritime companies of EC nationals control one third of the world fleet; the EC shipbuilding industry holds approximately 20% of the world capacity.[195] In 2003, 413 million persons passed through EC ports (up from 335 million in 2000)[196], while the transport of goods through EC-25 ports reached 3,393 million tonnes (up from 3,211 million tonnes in 2001).[197] With 556 million tonnes, the United Kingdom handled the most seaborne goods (16.5% of the entire EC-25 maritime

[189] A freight train in the EC travels at an average speed of 18 km per hour. Rail must improve speed and service levels if it is to attract freight traffic from (EC Press Release IP/03/378, 14 March 2003 and WTO, 2004).

[190] The highest increases of goods transported by rail were recorded in Germany (7,946 million tkm) and the United Kingdom (3,818 million tkm), while a decline was recorded in France, the Czech Republic, the Slovak Republic and Spain (Eurostat, 2006c), "Rail Goods Transport between 2003 and 2004".

[191] European Commission (2006e).

[192] The OTIF drafts regulations on, for example, the carriage of dangerous goods by rail.

[193] WTO (2004).

[194] European Commission (2006e).

[195] In 2005, 7,205 new orders for merchant ships were received (compared with 2,341 in 2002). The annual turnover of shipyards represented by the Community of European Shipyards Associations (CESA) in 2003 was € 14.4 billion in merchant shipbuilding, and €2.1 billion in ship repair (CESA Press Release, 9 February 2006).

[196] Passengers are counted twice, once as they embark and again as they disembark, overestimating the actual journeys made.

[197] Eurostat (2005c), "Maritime Transport of Goods and passengers, 1997-2003".

transport), followed by Italy (14%), the Netherlands (12%), and Spain (10%). Nevertheless, maritime transport capacity in the EC remains largely under-used.[198]

124. On 7 June 2006, the EC adopted a Green Paper on maritime policy, with the main aim of developing an integrated maritime transport strategy around a "common maritime space".[199] Some of its key objectives are: removing remaining obstacles to internal trade; permitting the EC to set high social, environmental, safety, and security standards; and promoting a competitive infrastructure and industry. The Commission is also considering other actions, such as: establishing a comprehensive European ports policy; reducing pollutant emissions from waterborne transport; further fostering short-sea shipping routes and motorways of the sea, with particular emphasis on landward connections; and implementing the action plan on river transport.[200]

125. Differences between the international maritime transport system (MARPOL Convention) and the United States maritime transport system, meant that, as from 2005, single-hull oil tankers banned from United States waters on account of their age started operating in other parts of the world, including the EC. As a result, an Agreement within the International Maritime Organization (IMO) was reached in 2004 to ban single-hull oil tankers.[201] An EC Regulation was thus adopted to accelerate the phasing-in of the double hull or equivalent design requirement for single-hull oil tankers, entering into force on 7 January 2005.[202]

126. In September 2006, a block exemption from EC competition law, afforded to liner shipping conferences (through which carriers have been able to jointly decide on capacity and prices), was lifted, with effect as from October 2008. This decision aims to bring greater economic benefits through lower prices and more competitive exports by stimulating competition. Prior to the removal of the exemption, the Commission intends to issue guidelines to explain how the maritime subsector may operate in compliance with EC competition rules.

(e) Air transport

127. Air transport of passengers in the EC-25 reached 650.4 million in 2004 (590 million in 2003), with the United Kingdom accounting for 29.6% of the total, followed by Germany (20.9%), Spain (20%), France (15.7%), and Italy (12.6%). The top ranked EC airport in terms of passenger numbers in 2004 was London/Heathrow with 67 million (10% of total EC-25 air passenger transport), followed by Paris/Charles de Gaulle (51 million), and Frankfurt (50 million).[203] Air freight transport (including mail) in the EC-25 rose to almost 10.7 million tonnes in 2004 (9.7 million tonnes in 2003), with France, Germany, the Netherlands, and the United Kingdom accounting for over three quarters of the total.[204] The low-cost airline market in the EC has expanded significantly since 11 September 2001; it now accounts for 25% of all scheduled intra-EC air traffic.[205] This, in turn, has stimulated the growth

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[198] Maritime transport also plays a key part in intermodality, since it allows a way around bottlenecks such as in the Pyrenees between France and Spain, or in the Alps between Italy and the rest of Europe.

[199] COM (2006) 275 final, 7 June 2006.

[200] European Commission (2006e).

[201] In single-hull vessels, oil in the cargo tanks is separated from the seawater only by a bottom and a side plate, while double-hull tankers surround the cargo tanks with a second internal plate at a sufficient distance from the external plate.

[202] EC Regulation No. 2172/2004, 17 December 2004, amending EC Regulation No. 417/2002.

[203] In terms of number of passengers, Heathrow was ranked third worldwide in 2005, Charles de Gaulle seventh, and Frankfurt eighth.

[204] Eurostat (2006c), "Air Transport in Europe in 2004".

[205] The main low-cost carriers are Ryanair and Easyjet. In 2005, Ryanair carried 35 million passengers on 346 routes across 22 European countries with a fleet of over 100 aircraft and 3,500 staff; Easyjet carried 29.6 million passengers on 258 European routes with a fleet of over 100 aircraft.

of regional airports. The restructuring process of airlines has continued, including through mergers and alliances.[206]

128. Air transport in the EC has been liberalized in three successive stages, in the ten years up to 1997; air carriers established in the EC free have access to the market to provide services within the EC, including cabotage within individual Member States. Air carriers can set fares and rates freely, and no longer have to submit them to national authorities for approval. Since the applied regulatory framework is over a decade old, the Commission adopted a proposal for its revision on 18 July 2006, seeking to address shortcomings, as well as modernizing and simplifying, in a single legislative text, the legal framework of the EC's aviation market.

129. The completion of a "single European sky" is the main EC policy aim in the subsector. The following measures are envisaged: reduction of fragmentation in the sky through the creation of airspace blocks that extend beyond national frontiers; establishment of a strong EC regulator; gradual integration of civil/military management; introduction of interoperability standards; and better coordination of human resources policy on air traffic control activities. To this end, the EC has adopted several regulations since it last TPR.[207] In addition, the Commission is considering other actions, such as: continuing to monitor the state aid and competition aspects of restructuring and integration; reviewing the functioning of the internal market and proposing adjustments where needed; implementing modernization of air traffic management; and developing policy measures to contain emissions from air transport services.[208]

130. On 17 February 2005, common rules entered into force on compensation and assistance to air passengers in the event of denied boarding and cancellation or long delay of flights.[209] The legislation covers scheduled and non-scheduled flights, and applies to all airlines leaving an EC airport, and all airlines licensed by an EC Member State and flying from outside the EC to the EC. Airlines are obliged to inform passengers of their rights under this regulation, which could include financial compensation, reimbursement or re-routing, meals and hotels, as well as general assistance.[210]

131. To enhance European air safety and passenger protection, and following a series of aircraft accidents involving EC citizens, a common air transport policy entered into force in January 2006.[211] It authorized the Commission to ban or restrict the activities of unsafe airlines within the EC. An initial list was established of airlines considered to be unsafe, and therefore not permitted to fly passenger or cargo in the EC or operate within European airspace.[212]

132. In October 2006, the Commission revised the block exemption for passenger tariff conferences for the purpose of interlining[213], as well as for slot allocation and airport scheduling.[214]

[206] In July 2005, the European Commission approved the takeover of Swiss by Lufthansa (Lufthansa Press Release, 5 July 2005).

[207] The Framework Regulation No. 549/2004; the Service Provision Regulation No. 550/2004; the Airspace Regulation No. 551/2004; and the Interoperability Regulation No. 552/2004.

[208] European Commission (2006e).

[209] EC Regulation No. 261/2004.

[210] Airlines are not obliged to pay compensation if they can prove that the cancellation is caused by extraordinary circumstances that could not have been avoided even if all reasonable measures had been taken (e.g. political instability, meteorological conditions, security risks, and unexpected flight safety shortcomings).

[211] EC Regulation No. 2111/2005.

[212] EC Regulations No. 2111/2005, No. 474/2006; and No. 910/2006.

[213] Interlining occurs when a passenger travels with more than one airline or alliance on the same ticket. Most EEA airlines, including all flag carriers, are Members of IATA and take part in twice-yearly conferences where they agree fares for interline journeys (WTO, 2004).

For routes within the EC, tariff conferences will no longer be exempted as of 1 January 2007. The Regulation exempts tariff conferences on routes between the EC and the United States or Australia until 30 June 2007, and routes between the EC and other non-EC countries until 31 October 2007. However, airlines benefiting from the block exemption on routes between EC and non-EC countries must provide the Commission with data on interlining to allow it to consider whether the exemption for those routes should be extended beyond those dates. The new Regulation will also end the block exemption for International Air Transport Association (IATA) slots and scheduling conferences.[215]

(v) Tourism

133. The EC maintains its leading position in world tourism, both as a main source and destination of international tourist flows. It accounted for 55% (414 million) of arrivals worldwide in 2004, including both tourists travelling between EC countries and tourists travelling from outside the EC. Six EC countries (France, Spain, Italy, the United Kingdom, Austria, and Germany) are among the ten leading tourist destinations in the world. However, tourist arrivals are growing at a lower rate than world average, and the EC's share in the world market has declined by around three percentage points since 2004.[216] The subsector contributes about 4% to the EC's real GDP, and accounts for 30% of the total value of external trade in services.[217] About two million tourism enterprises, 99% of which are SMEs, employ around 4% of the EC's labour force, representing close to eight million jobs. As regards tourism by EC citizens, on average, three out of four remain within the EC every year. The accommodation structure remained relatively stable after EC's enlargement, with the number of bed places increasing from 9.9 million in 2003 to about 11 million currently.[218]

134. On 21 March 2006, the Commission tabled a new strategy to boost tourism in the EC. It is based on: (i) more policy coordination between Member States and tourism stakeholders; (ii)

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[214] The new regulation supersedes Commission Regulation (EC) No. 1105/2002, of 25 June 2002, on agreements and concerted practices concerning joint planning and coordination of schedules, joint operations, consultations on passenger and cargo tariffs on scheduled air services, and slot allocation at airports.

[215] Consultation with industry revealed that, in their present form, these conferences are compatible with EC competition rules.

[216] EC Press Release IP/06/344, 21 March 2006.

[217] Tourism also has an important indirect effect on employment in transport and other related services. If these related activities are taken into account, tourism contributes close to 11% to real GDP and provides more than 24 million jobs (12% of the EC's labour force). According to the Commission, travel and tourism jobs will increase by 2 million during the next decade (EC online information. Viewed at: www.europa.eu.int/comm./enterprise/services/tourismeu.htm).

[218] The NMS-10 added about 800,000 beds, i.e. around 8% of the EC-15 capacity (WTO, 2004).

improved use of available EC financial instruments; (iii) the Commission will present, by 2007, a proposal for an "Agenda 21 for tourism"; (iv) better regulation; (v) enhancing understanding of the importance of tourism by providing all decision-makers with high quality data; (vi) improving the visibility of tourism through events organized, *inter alia*, by the EC presidencies and the Annual European Tourism Forum; and (vii) better promotion of EC destinations.[219]

135. Numerous tourism initiatives receive funding from EC programmes; the most important programmes are the Structural Funds (i.e. ERDF, ESF and EAGGF). During 2000-06, about € 8 billion was allocated to the subsector through the Structural Funds (compared with ECU 7.3 billion over 1994-99). In addition, many local tourism activities benefit from financial support through other EC programmes, such as those aimed at improving the competitiveness of SMEs, restoration of cultural heritage, and environmental protection. With the exception of most actions under the Structural Funds, the Commission decides on projects or actions to be supported on the basis of co-financing, with resources from national, regional, and local sources, both public and private.

[219] As many tourists see Europe as a single destination, the Commission has launched a new web portal (www.visiteurope.com) to promote EC destinations. It will be managed by the European Travel Commission (EC Press Release IP/06/344, 21 March 2006).

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APPENDIX TABLES

Table AI.1
Exports by destination, 2000-05
(US$ billion and per cent)

	2000	2001	2002	2003	2004	2005
World (US$ billion)	793.8	804.1	855.9	1,001.0	1,204.6	1,328.2
			(per cent)			
America	37.0	36.7	35.9	33.5	31.8	31.6
United States	27.4	27.0	27.0	25.4	24.0	23.5
Other America	9.7	9.7	8.9	8.1	7.9	8.0
Canada	2.4	2.5	2.5	2.4	2.2	2.2
Mexico	1.6	1.7	1.7	1.6	1.5	1.6
Brazil	1.9	2.0	1.7	1.4	1.4	1.5
Europe	18.4	17.7	18.0	19.0	19.7	20.1
EC(25)	0.0	0.0	0.0	0.0	0.0	0.0
EFTA	11.6	11.6	11.2	11.2	11.0	11.2
Switzerland	8.4	8.4	8.0	8.0	7.7	7.8
Norway	3.0	3.0	3.0	3.1	3.1	3.2
Other Europe	6.8	6.0	6.9	7.7	8.6	8.9
Turkey	3.5	2.3	2.8	3.3	3.8	3.9
Romania	1.1	1.3	1.4	1.7	1.8	2.0
Commonwealth of Independent States	3.8	4.9	5.3	5.9	6.7	7.5
Russian Federation	2.6	3.4	3.7	4.1	4.7	5.3
Ukraine	0.6	0.8	0.8	1.0	1.1	1.2
Africa	7.6	7.7	7.6	7.8	7.7	8.0
South Africa	1.4	1.4	1.3	1.5	1.6	1.7
Middle East	6.8	7.2	7.3	7.6	7.7	8.2
United Arab Emirates	1.4	1.5	1.6	1.8	1.9	2.4
Saudi Arabia	1.4	1.5	1.6	1.5	1.3	1.4
Israel	1.8	1.6	1.4	1.3	1.3	1.3
Iran Islamic Rep.	0.6	0.7	0.9	1.1	1.2	1.2
Asia	23.2	22.7	22.7	23.2	23.5	23.2
China	3.0	3.4	3.8	4.6	4.9	4.8
Japan	5.2	5.0	4.7	4.5	4.4	4.1
Six East Asian Traders	9.5	9.1	8.7	8.3	8.3	8.2
Hong Kong, China	2.4	2.4	2.2	2.0	2.0	1.9
Korea, Rep. of	1.9	1.7	1.9	1.8	1.8	1.9
Singapore	1.8	1.7	1.6	1.6	1.6	1.6
Chinese Taipei	1.7	1.4	1.3	1.2	1.3	1.2
Other Asia	5.6	5.3	5.4	5.8	5.9	6.0
India	1.6	1.4	1.5	1.6	1.7	2.0
Australia	1.8	1.7	1.8	2.0	2.0	1.9
Other	3.1	3.1	3.3	3.0	2.8	1.5

Source: WTO Secretariat estimates, based on UNSD, Comtrade database SITC Rev.3.

Table AI.2
Imports by origin, 2000-05
(US$ billion and per cent)

	2000	2001	2002	2003	2004	2005
World (US$ billion)	920.1	881.2	891.4	1,064.6	1,280.2	1,461.6
			(per cent)			
America	27.8	28.0	26.7	24.2	22.9	21.4
United States	20.4	20.4	19.1	16.6	15.2	13.9
Other America	7.4	7.6	7.6	7.6	7.6	7.5
Canada	1.9	1.9	1.7	1.7	1.6	1.5
Brazil	1.8	2.0	1.9	2.0	2.0	2.0
Europe	14.4	15.2	16.0	16.3	16.6	17.0
EC(25)	0.0	0.0	0.0	0.0	0.0	0.0
EFTA	10.8	10.9	11.1	11.1	11.0	11.6
Norway	4.4	4.2	4.4	4.5	4.8	5.7
Switzerland	6.2	6.5	6.6	6.3	6.1	5.7
Other Europe	3.6	4.3	4.8	5.2	5.6	5.4
Turkey	1.8	2.2	2.5	2.7	3.0	2.8
Romania	0.8	1.0	1.2	1.3	1.4	1.3
Commonwealth of Independent States	6.5	6.8	7.2	7.8	8.8	11.2
Russian Federation	5.3	5.5	5.7	6.2	6.9	9.1
Africa	8.1	8.4	8.1	8.4	8.1	9.3
Algeria	1.3	1.2	1.2	1.2	1.1	1.8
Libyan Arab Jamahiriya	1.3	1.2	1.0	1.2	1.3	1.7
South Africa	1.4	1.6	1.6	1.6	1.5	1.4
Middle East	5.2	4.6	4.3	4.2	4.6	5.6
Saudi Arabia	1.6	1.3	1.3	1.4	1.6	1.9
Iran Islamic Rep.	0.9	0.7	0.6	0.7	0.8	1.0
Asia	33.6	32.7	34.2	35.8	36.2	35.0
China	7.4	8.3	9.5	11.2	12.3	13.4
Japan	9.2	8.2	7.7	7.6	7.2	6.2
Six East Asian Traders	11.2	10.2	10.6	10.7	10.6	9.8
Korea, Rep. of	2.7	2.3	2.6	2.7	2.9	2.8
Chinese Taipei	2.8	2.6	2.5	2.4	2.3	2.0
Singapore	1.6	1.4	1.5	1.6	1.7	1.5
Malaysia	1.6	1.5	1.7	1.7	1.5	1.4
Thailand	1.3	1.3	1.3	1.3	1.2	1.1
Hong Kong, China	1.2	1.1	1.1	1.0	1.0	0.9
Other Asia	5.8	6.1	6.4	6.3	6.0	5.6
India	1.3	1.4	1.4	1.5	1.6	1.6
Indonesia	1.2	1.2	1.2	1.1	1.0	0.9
Other	4.4	4.3	3.4	3.3	2.9	0.6

Source: WTO Secretariat estimates, based on UNSD, Comtrade database SITC Rev.3.

Table AI.3
Structure of exports, 2000-05
(US$ billion and per cent)

	2000	2001	2002	2003	2004	2005
World (US$ billion)	793.8	804.1	855.9	1,001.0	1,204.6	1,328.2
			(per cent)			
Total primary products	12.2	11.3	11.4	11.6	11.6	12.1
Agriculture	7.1	6.9	7.1	7.0	6.5	6.2
Food	5.9	5.8	5.9	5.8	5.3	5.1
Agricultural raw material	1.2	1.1	1.2	1.2	1.2	1.1
Mining	5.1	4.4	4.4	4.6	5.0	5.9
Ores and other minerals	0.5	0.5	0.5	0.6	0.7	0.7
Non-ferrous metals	1.2	1.2	1.1	1.0	1.2	1.2
Fuels	3.3	2.7	2.8	2.9	3.2	3.9
Manufactures	85.3	86.2	86.0	85.9	85.9	83.1
Iron and steel	2.0	2.0	2.0	2.1	2.4	2.8
Chemicals	13.9	14.6	15.7	16.1	15.8	14.9
5429 Medicaments, n.e.s.	2.2	2.7	3.3	3.4	3.3	3.2
5157 Other heterocyclic compounds; nucleic acids	1.6	1.8	1.8	1.7	1.6	1.5
5422 Medicaments with hormones of 541.5 but not antibiotics, etc.	0.4	0.5	0.6	0.6	0.6	0.7
5416 Glycosides; glands, etc. and extracts; antisera/vaccines, etc.	0.4	0.5	0.5	0.6	0.6	0.6
Other semi-manufactures	8.9	8.8	9.0	8.7	8.7	8.2
6672 Diamonds (excl. industrial, sorted) not mounted/set	1.8	1.7	1.8	1.5	1.5	1.5
Machinery and transport equipment	46.2	46.4	44.9	44.9	45.2	44.4
Power generating machines	3.3	3.5	3.1	2.8	2.8	2.8
7149 Parts of engines and motors of 714.41 and 714.8	1.2	1.3	1.1	0.9	0.9	0.9
7144 Reaction engines	0.9	1.0	0.7	0.7	0.6	0.6
Other non-electrical machinery	11.5	11.9	12.0	12.3	12.8	12.5
7284 Machinery and appliances for particular industries, n.e.s.	1.0	1.1	1.0	1.0	1.1	1.0
Agricultural machinery and tractors	0.5	0.5	0.5	0.5	0.5	0.6
Office machines & telecommunication equipment	10.7	9.7	8.3	8.3	8.3	8.9
7643 Radio or television transmission apparatus	1.4	1.2	1.3	1.3	1.5	2.2
7764 Electronic integrated circuits and microassemblies	2.2	1.9	1.5	1.6	1.6	1.5
7599 Parts and accessories of 751.1, 751.2, 751.9 and 752	1.4	1.4	1.3	1.2	1.0	1.1
7649 Parts and accessories for apparatus of division 76	1.5	1.3	1.0	1.0	1.0	1.0
Other electrical machines	4.8	4.8	4.7	4.7	4.8	4.7
7725 Switches, relays, fuses etc. for a voltage not exceeding 1000 V	0.7	0.7	0.6	0.6	0.7	0.6
Automotive products	9.0	9.4	10.2	10.6	10.5	10.0
7812 Motor vehicles for the transport of persons, n.e.s.	5.6	5.8	6.5	6.6	6.3	6.1
7843 Other motor vehicle parts and accessories of 722, 781 to 783	2.0	2.0	2.1	2.3	2.3	2.0
7821 Goods vehicles	0.5	0.5	0.5	0.6	0.6	0.6
Other transport equipment	6.7	6.9	6.3	6.0	5.8	5.5
7924 Aeroplanes, etc. (excl. helicopters), >15,000 kg unladen	1.9	2.2	1.9	1.8	1.7	2.1
7932 Ships, boats, etc. (excl. pleasure craft, tugs, etc.)	0.7	0.8	0.9	0.6	0.6	0.6
Textiles	2.2	2.2	2.2	2.1	2.0	1.8
Clothing	1.7	1.8	1.8	1.7	1.6	1.5
Other consumer goods	10.3	10.4	10.5	10.2	10.2	9.6
8722 Instruments used in medical, surgical or veterinary sciences	0.5	0.6	0.6	0.7	0.8	0.7
Other	2.6	2.4	2.6	2.5	2.6	4.8
9310 Special transactions and commodities not classified by type	2.0	2.0	2.3	2.2	2.2	4.5
Gold	0.4	0.3	0.2	0.1	0.2	0.2

Source: WTO Secretariat estimates, based on UNSD, Comtrade database SITC Rev.3.

Table AI.4
Structure of imports, 2000-05
(US$ billion and per cent)

	2000	2001	2002	2003	2004	2005
Total (US$ billion)	920.1	881.2	891.4	1,064.6	1,280.2	1,461.6
			(per cent)			
Total primary products	28.9	28.9	28.6	29.2	30.2	32.9
Agriculture	8.6	8.9	9.2	9.0	8.4	7.7
Food	6.2	6.7	7.0	7.0	6.5	6.0
Agricultural raw material	2.4	2.2	2.1	2.0	1.9	1.7
Mining	20.3	19.9	19.4	20.2	21.8	25.2
Ores and other minerals	1.8	1.8	1.7	1.6	1.9	1.9
Non-ferrous metals	2.4	2.3	2.1	2.0	2.2	2.1
Fuels	16.0	15.8	15.7	16.6	17.6	21.2
3330 Crude oils of petroleum and bituminous minerals	11.0	9.9	9.9	10.4	11.3	14.0
3432 Natural gas, in the gaseous state	1.8	2.3	2.2	2.5	2.2	2.0
3212 Other coal, whether or pulverized, not agglomerated	0.6	0.8	0.7	0.7	0.9	1.0
Manufactures	67.7	67.8	68.0	67.5	66.9	62.9
Iron and steel	1.3	1.3	1.2	1.4	1.9	1.9
Chemicals	7.1	7.8	8.6	8.5	8.5	8.0
5429 Medicaments, n.e.s.	0.8	1.1	1.4	1.4	1.5	1.3
Other semi-manufactures	5.8	6.0	6.0	5.6	5.6	5.4
6672 Diamonds (excl. industrial, sorted) not mounted/set	1.8	1.7	1.7	1.3	1.4	1.4
Machinery and transport equipment	37.3	35.8	34.9	34.8	34.3	31.8
Power generating machines	2.4	2.4	2.3	2.0	1.9	1.8
7149 Parts of engines and motors of 714.41 and 714.8	1.0	1.1	1.0	0.9	0.8	0.7
Other non-electrical machinery	5.0	5.0	4.7	4.5	4.5	4.3
Agricultural machinery and tractors	0.2	0.2	0.2	0.2	0.2	0.2
Office machines & telecommunication equipment	16.2	14.9	14.2	14.1	14.1	13.6
7599 Parts and accessories of 751.1, 751.2, 751.9 and 752	3.0	2.7	2.4	2.3	2.1	2.1
7643 Radio or television transmission apparatus	0.6	0.6	0.7	1.0	1.5	2.0
7764 Electronic integrated circuits and microassemblies	3.5	2.9	2.6	2.4	2.2	1.7
7649 Parts and accessories for apparatus of division 76	1.3	1.2	1.0	0.9	0.9	1.0
7522 Digital computers	0.6	0.6	0.6	0.8	0.9	1.0
7638 Sound/video or video recording/reproducing apparatus	0.3	0.4	0.5	0.5	0.5	1.0
7526 Input/output units for automatic data processing machines	1.2	1.2	1.2	1.3	1.2	0.9
7527 Storage units for data processing	1.2	1.2	1.2	1.0	0.8	0.7
7529 Data processing equipment, n.e.s.	0.3	0.4	0.5	0.5	0.6	0.6
Other electrical machines	4.7	4.4	4.2	4.3	4.3	3.9
Automotive products	3.5	3.5	3.9	4.1	4.1	3.7
7812 Motor vehicles for the transport of persons, n.e.s.	2.0	1.9	2.1	2.5	2.5	2.2
7843 Other motor vehicle parts/accessories of 722, 781 to 783	0.9	0.9	1.0	0.9	0.9	0.8
Other transport equipment	5.4	5.6	5.7	5.8	5.4	4.4
7924 Aeroplanes, etc. (excl. helicopters), >15,000 kg unladen	1.4	1.2	1.4	1.2	1.3	1.5
7932 Ships, boats, etc. (excl. pleasure craft, tugs, etc.)	0.4	0.5	0.6	0.9	0.6	0.6
Textiles	1.8	1.8	1.8	1.7	1.6	1.5
Clothing	4.7	5.0	5.3	5.4	5.1	4.9
Other consumer goods	9.7	10.1	10.3	10.1	9.8	9.4
Other	3.4	3.3	3.4	3.3	3.0	4.2
9310 Special transactions/commodities not classified by type	2.5	2.2	2.1	2.0	2.2	3.8
Gold	0.8	0.9	1.1	1.1	0.7	0.3

Source: WTO Secretariat estimates, based on UNSD, Comtrade database SITC Rev.3.

Table AIII.1
Selected State-Owned Enterprises in the EC

Country	Enterprises	Main activity	State Ownership	Likely Scenario
Austria	Austrian National Bank	Banking	50	..
	Austrian Federal Railways (ÖBB)	Railways	100	..
	Wiener Börse	Stock-Exchange	50	..
	Austrian Broadcasting Company	Telecom	100	..
	Österreichische Elektrizitätswirtschafts-AG	Utility	51	..
Belgium	Belgacom	Telecom	50(%) + 1	..
	Belgacom Mobile SA	Telecom	100	..
	Radio-Television of the Flemish Community	Telecom	100	..
	Radio-Television of the French Community	Telecom	100	..
	Radio-Television of the German Community	Telecom	100	..
	Société Nationale des Chemins de Fer Belges (SNCB)	Transport	100	..
	La Société des Transports Intercommunaux de Bruxelles	Transport	100	..
	Société Wallonne des Eaux	Utility	50(%) + 1	..
Cyprus	The Cyprus Development Bank Ltd.	Banking	88	..
	Cyprus Telecom Authority	Telecom	100	..
	Cyprus Broadcasting Corporation	Telecom	100	..
	Cyprus Airways	Transport	69.6	..
	Electricity Authority of Cyprus	Utility	100	..
	Water Development Department	Utility	100	..
Czech Republic	Czech Export Bank	Banking	69.7	..
	Český Telecom	Telecom	51	..
	Česká televize	Telecom	100	..
	Czech Railways	Transport	100	..
	Prague Public Transport Company, Inc	Transport	100	..
	Czech Airlines	Transport	100	..
	Czech Power Company	Utility	67.6	..
Denmark	Danish Broadcasting Corporation	Telecom	100	..
	TV2 Denmark A/S	Telecom	100	To be privatized
	Telia Mobile	Telecom	70.6	
	Danish State Railways	Transport	100	..
	Scandlines AG	Transport	50	..
	Danish Airlines	Transport	50	..
	DONG	Utility	100	..
Estonia	Estonian Grain Board	Agriculture	100	..
	Eesti Raadio	Telecom	100	..
	Eesti Televisioon	Telecom	100	..
	Eesti Energua AS	Utility	100	..
Finland	Altia Group[a]	Alcoholic beverages	100	..
	Telia Sonera	Telecom	52.8	..
	Finnish Broadcasting Company (YLE)	Telecom	99.9	..
	VR Group	Transport	100	..
	Finnish Road Enterprise	Transport	100	..
	Finnair Oy	Transport	100	..
	Kamijoki Oy	Utility	66.99	..
	Helsinki Water	Utility	100	..
	Fortum	Utility	51.8	
France	Caisse des depôts et consignations	Banking	100	..
	Société Générale	Banking	100	..
	Banque Fédérative du Crédit Mutuel	Banking	100	..
	Crédit Industriel et Commercial	Banking	80	..
	Charbonnages de France	Mining	100	..
	Entreprise Minière et Chimique	Mining and Chemicals	100	..
	France Telecom	Telecom	56.5	..
	Société Nationale de Radiodiffusion	Telecom	100	..
	Radio France International	Telecom	100	..
	Réseau France Outre-mer	Telecom	100	..
	France Télévisions	Telecom	100	..
	Arte France	Telecom	100	..
	Société Nationale des Chemins de fer Français	Transport	100	..
	Réseau Ferré de France	Transport	100	..
	Régie Autonome des Transports Parisiens	Transport	100	..
	Voies navigables de France	Transport	100	..

AIII.1 (cont'd)

Country	Enterprises	Main activity	State Ownership	Likely Scenario
	SeaFrance	Transport	100	..
	Air France	Transport	54	..
	Brit Air	Transport	53.5	..
	Electricité de France	Utility	100	..
	Gaz de France	Utility	78	..
Germany[b]	West LB	Banking	100	..
	Bayerische Landesbank	Banking	100	..
	KfW Kreditanstalt für Wiederaufbau	Banking	80	..
	Bankgesellschaft Berlin	Banking	81	..
	Deutsche Postbank	Banking	50(%) + 1	..
	HSH Nordbank	Banking	100	..
	Landesbank Baden-Württemberg	Banking	54.5	..
	Association of Public Law Broadcasting Organizations	Telecom	100	..
	Zweites Deutsches Fernsehen	Telecom	100	..
	Deutsche Bahn AG	Transport	100	To be privatized
	Hamburgische Electrizitäts-Werke AG	Utility	73	..
Greece	Agricultural Bank of Greece	Banking	100	..
	Elliniki Radiophonia Tileorassi	Telecom	100	..
	Athens-Piraeus Electric Railways	Transport	100	..
	Hellenic Railways Organization.	Transport	100	..
	Olympic Airlines	Transport	100	To be privatized
	Attiko Metro	Transport	51	..
	Thessaloniki Port Authority	Transport	74.3	..
	Piraeus Port Authority	Transport	74.6	..
	Petras Port Authority	Transport	100	..
	Public Power Corporation	Utility	84	..
	Public Gas Corporation	Utility	65	..
	The Hellenic Union of Municipal Enterprises for Water Supply and Sewerage	Utility	100	..
	Water Supply and Sewage Corporation of Athens	Utility	79.7	..
Hungary	Hungarian Development Bank	Banking	100	..
	Konzumbank RT	Banking	90.6	..
	Hungarian Export-Import Bank	Banking	100	..
	Földhitel- és Jelzálogbank Rt.	Banking	50%+1	being privatized
	Hungarian State Railways	Transport	100	..
	Railway of Győr-Sopron-Ebenfurth	Transport	61	..
	Hungarocontrol	Transport	100	..
	Hungarian Airlines	Transport	100	being privatized
	Hungarian Power Companies Ltd.	Utility	100	..
Ireland	Teagasc	Consultancy in agriculture	100	..
	IDA Ireland	finance	100	..
	Irish Productivity Centre	Management Consultancy	100	..
	An Post Savings and Investments	Post office, banking	100	..
	Radio Telefís Éireann	Telecom	100	..
	Córas Iompair Éireann	Transportation	100	..
	Aer Lingus Group Plc	Transportation	100	..
	Electricity Supply Board	Utility	100	..
	Bord Gáis Éireann	Utility	100	..
	Dept. of the Environment, Heritage and Local Government	Utility	100	..
Italy	RAI	Telecom	100	..
	Alitalia	Transport	62.3	..
	Ferrovie dello Stato SpA	Transport	100	..
	Gestore Dalla Rete di Trasmissione Nazionale	Utility	100	..
	Italgas	Utility	100	..
Latvia	Mortgage and Land Bank of Latvia	Banking	100	..
	Lattelekom	Telecom	51	..
	Latvijas Radio	Telecom	100	..
	Latvijas Televizija	Telecom	100	..
	Latvian Railway	Transport	100	..
	Liepaja Tram Ltd.	Transport	100	..
	Liepaja International Airport	Transport	100	..

AIII.1 (cont'd)

Country	Enterprises	Main activity	State Ownership	Likely Scenario
	AirBaltic Corporation	Transport	52.6	..
	Latvenergo	Utility	100	..
	Liepaja Water Ltd.	Utility	100	..
Lithuania	Turto Bankas	Banking	100	..
	Lithuanian Radio and Television	Telecom	100	..
	JSC Lithuanian Railways	Transport	100	..
	Lithuanian Shipping Co	Transport	73.24	..
	Lithuanian Airlines	Transport	100	..
	Lithuanian Power	Utility	96.6	..
	Rytu Skirtomieji Tinklai	Utility	100	..
Luxemburg	Société Nationale de Crédit et d'Investissement	Banking	100	..
Malta	Maltacom	Telecom	60	..
	Public Broadcasting Services	Telecom	100	..
	Air Malta	Transport	96.4	..
	Sea Malta	Transport	100	..
	Enemalta Corporation	Utility	100	..
	Water Services Corporation	Utility	100	..
Netherlands	Bank Nederlandse Gemeenten	Banking	50	..
	BVN TV	Telecom	100	..
	Radio Nederland Wereldomroep	Telecom	100	..
	Nederlandse Spoorwegen	Transport	100	..
	NV Nederlandse Gasunie	Utility	100	..
Poland	Bank of Food Economy	Banking	69.7	..
	National Economy Bank	Banking	100	..
	State Savings Bank	Banking	100	..
	Polish National Insurance Group	Insurance	55	..
	Polskie Radio	Telecom	100	..
	Telewizja Polska	Telecom	100	..
	Polish State Railways	Transport	100	being privatized
	Polish Motor Communications	Transport	100	..
	G8 Group of Electricity Distributors	Utility	100	partial privatization suspended in 2004
	Polish Power Grid	Utility	100	..
	Poludiniowy Koncern Energetyczny	Utility	85	..
	State Atomic Energy Agency	Utility	100	..
	Radioactive Waste Management	Utility	100	..
	Polish Oil and Gas Company	Utility	100	to be partially privatized
Portugal	Caixa Geral de Depósitos	Banking	100	..
	Radiotelevisão Portuguesa	Telecom	100	..
	Rede Ferroviara Nacional	Transport	100	..
	Cominhos Ferro Portugueses	Transport	100	..
	Air Portugal	Transport	100	..
	Portugalia Airlines	Transport	100	to be privatized
Slovenia	Nova Kreditna Banka Maribor	Banking	90.4	..
	Telekom Slovenije	Telecom	65.5	..
	Slovenke Ž eleznice	Transport	100	..
	Adria Airways	Transport	95	..
	Elektro-Slovenija	Utility	100	..
	Nuklearna Elektrarna p.o.	Utility	50	to be privatized
	GEO PLIN d.o.o.	Utility	100	..
Slovakia	Slovenská Televízia	Telecom	100	..
	Železnica Spolocnost	Transport	100	..
	Železničná spoločnosť, a.s.	Transport	100	..
	Slovenske electrarne	Utility	100	..
	Nafta a.s.	Utility	100	..
	Slovenský Plynárenský Priemysel	Utility	51	..
Spain	Instituto de Crédito Oficial	Banking	100	
	Agencia de Desarrollo Económico de Castilla y León	Banking	100	
	Sociedad para el Desarrollo Industrial de Extremadura	Banking	81.3	
	Instituto Gallego de Promoción Económica	Banking/consultancy	100	
	Sociedad para el Desarrollo de Navarra	Consultancy/banking	100	

AIII.1 (cont'd)

Country	**Enterprises**	**Main activity**	**State Ownership**	**Likely Scenario**
	Sociedad para el Desarrollo Económico de Canarias	Consultancy/Banking	100	
	SODEAN	Energy consultancy	100	
	Grupo Radio Televisión Española	Telecom	100	
	Administrador de Infrestructuras Ferroviarias	Transport	100	to be privatized
	RENFE Operador	Transport	100	being restructured
	ET/FV	Transport	100	
	Metro de Bilbao	Transport	100	
	Metro de Madrid	Transport	75	
	Transports Metropolit de Barcelona	Transport	100	
	SODIGA Galicia	Venture capital	67.3	
Sweden	SVT1	Telecom	100	..
	SVT 2	Telecom	100	..
	Statens Järnvägas	Transport	100	..
	Vattenfall	Utility	100	..
United Kingdom	National Savings and Investments	Banking	100	..
	Welsh Development Agency	Banking	100	..
	CDC (Capital for Development)	Banking	100	..
	Scottish Enterprise	Consultancy	100	..
	Parcel Force Worldwide	Courier	100	..
	Royal Mail Group plc	Postal	100	..
	Defence Science and Technology Laboratory	Research	100	..
	British Broadcasting Corporation	Telecom	100	..
	Northern Ireland Transport Holding	Transport	100	..
	Transport for London	Transport	100	..
	National Air Traffic Services	Transport	49+"golden share"	..
	Northern Ireland Transport Holding Company	Transport	100	..
	British Nuclear Group	Utility	100	..
	Department for Regional Development, Water Service (Northern Ireland)	Utility	100	..

a Operates as a marketing board as well

b The German banking system is made up of a large number of small state-owned banks. Only the major ones are presented in the table

Note: There are national state-owned enterprises, with more than one government controlling capital, such as SAS (Denmark, Norway and Sweden), Northern Finance Group (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden) and Airbus (France, UK, Spain). These are not considered to be owned by anyone of the member States.

Source: *The Europa World Year Book, 2004, Volumes I and II*, London.

Table AIII.2
Applied MFN tariff averages by HS2, 2006

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2005 (US$ million)
	Total/Average	9,843	9,741	6.9	0-427.9	14.0	1,461,431
01	Live animals	55	53	25.7	0-167.2	40.5	778
02	Meat and edible meat offal	231	199	30.0	0-427.9	43.4	3,931
03	Fish and crustaceans, molluscs and other aquatic invertebrates	322	322	9.8	0-23	5.8	13,958
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	170	138	39.5	0-134.4	29.0	1,010
05	Products of animal origin, not elsewhere specified or included	21	21	0.2	0-5.1	1.1	1,123
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	40	40	6.1	0-10.9	3.4	1,552
07	Edible vegetables and certain roots and tubers	107	107	14.2	0-207.2	26.2	3,534
08	Edible fruit and nuts; peel of citrus fruit or melons	119	119	10.4	0-105.1	11.7	13,912
09	Coffee, tea, maté and spices	42	42	3.1	0-12.5	4.3	5,670
10	Cereals	55	55	55.2	0-116.6	33.4	2,524
11	Products of the milling industry; malt; starches; insulin; wheat gluten	80	76	25.0	2.5-91	16.7	92
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	77	76	1.3	0-8.3	2.3	6,197
13	Lac; gums, resins and other vegetable saps and extracts	15	15	2.7	0-19.2	5.5	663
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	8	8	0.0	0-0	0.0	131
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	125	123	9.2	0-137.2	16.4	4,856
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	92	90	17.2	0-47.3	7.7	4,218
17	Sugars and sugar confectionery	47	45	27.3	0.1-163.8	32.8	2,179
18	Cocoa and cocoa preparations	27	27	18.7	0-112.1	19.6	3,876
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	51	51	21.8	7.6-65.7	12.2	933
20	Preparations of vegetables, fruit, nuts or other parts of plants	303	303	23.4	0-300.8	25.1	4,333
21	Miscellaneous edible preparations	42	42	11.4	0-47	8.9	1,810
22	Beverages, spirits and vinegar	177	158	6.5	0-105.9	13.8	5,034
23	Residues and waste from the food industries; prepared animal fodder	65	59	14.1	0-122	27.6	7,272
24	Tobacco and manufactured tobacco substitutes	30	30	19.7	5.2-74.9	20.8	2,384
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	89	89	0.4	0-8.6	1.4	4,975
26	Ores, slag and ash	47	47	0.0	0-0	0.0	17,757
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	111	111	1.4	0-8	1.9	331,309
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	265	265	4.4	0-5.5	1.9	10,366
29	Organic chemicals	530	530	4.3	0-50.9	4.2	40,694
30	Pharmaceutical products	59	59	0.0	0-0	0.0	31,015
31	Fertilizers	37	37	4.2	0-6.5	2.9	2,474

Table AIII.2 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2005 (US$ million)
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	65	65	5.4	0-6.5	2.1	4,503
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	59	59	2.9	0-17.3	3.6	4,508
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis	35	35	2.0	0-6.5	2.3	1,789
35	Albuminoidal substances; modified starches; glues; enzymes	32	32	8.2	0-30.4	7.6	1,405
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10	10	6.3	5.7-6.5	0.3	364
37	Photographic or cinematographic goods	58	58	5.8	0-35.6	4.6	1,687
38	Miscellaneous chemical products	135	135	5.8	0-42	4.2	8,927
39	Plastics and articles thereof	248	248	5.5	0-6.5	2.2	24,829
40	Rubber and articles thereof	103	103	2.4	0-6.5	2.2	11,965
41	Raw hides and skins (other than furskins) and leather	79	79	2.6	0-6.5	2.7	3,337
42	Articles of animal gut (other than silk-worm gut)	38	38	5.0	1.7-9.7	2.7	8,493
43	Furskins and artificial fur; manufactures thereof	38	38	1.4	0-3.7	1.3	615
44	Wood and articles of wood; wood charcoal	164	164	2.6	0-10	3.1	13,820
45	Cork and articles of cork	12	12	3.3	0-4.7	2.1	83
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	12	12	2.9	0-4.7	1.4	576
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	23	23	0.0	0-0	0.0	5,487
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	176	176	0.0	0-0	0.0	8,091
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	25	25	0.0	0-0	0.0	3,437
50	Silk	26	26	5.0	0-7.5	2.7	465
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	70	70	4.0	0-8	3.1	1,847
52	Cotton	155	155	6.4	0-8	2.2	3,690
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	43	43	2.9	0-8	3.0	465
54	Man-made filaments	88	88	6.0	3.8-8	2.0	3,052
55	Man-made staple fibres	153	153	6.5	4-8	1.9	2,599
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	65	65	6.1	3.2-12	2.1	1,055
57	Carpets and other textile floor coverings	38	38	7.6	3-8	1.2	1,475
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	55	55	7.3	5-8	0.9	1,009
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	42	42	6.3	4-8	1.3	999
60	Knitted or crocheted fabrics	57	57	7.9	6.5-8	0.3	776
61	Articles of apparel and clothing accessories, knitted or crocheted	155	155	11.6	8-12	1.1	29,999

Table AIII.2 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2005 (US$ million)
62	Articles of apparel and clothing accessories, not knitted or crocheted	196	196	11.6	6.3-12	1.4	36,692
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	85	85	9.9	0-12	3.4	6,791
64	Footwear, gaiters and the like; parts of such articles	79	79	9.9	3-17	5.3	15,255
65	Headgear and parts thereof	15	15	2.5	0-5.7	1.3	1,012
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	9	9	4.3	2.7-5.2	0.9	464
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	8	8	2.8	1.7-4.7	1.2	621
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	70	70	1.2	0-3.7	1.0	2,764
69	Ceramic products	51	51	4.8	0-12	2.4	3,443
70	Glass and glassware	130	130	4.9	0-13.8	3.1	4,006
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	63	63	0.7	0-4	1.4	36,910
72	Iron and steel	342	342	0.2	0-7	1.0	27,098
73	Articles of iron or steel	258	258	1.7	0-3.7	1.6	15,785
74	Copper and articles thereof	68	68	3.3	0-5.2	2.0	9,312
75	Nickel and articles thereof	18	18	0.6	0-3.3	1.2	5,585
76	Aluminium and articles thereof	62	62	6.3	0-10	1.8	14,239
78	Lead and articles thereof	13	13	2.6	0-5	2.2	578
79	Zinc and articles thereof	12	12	3.1	0-5	1.6	671
80	Tin and articles thereof	8	8	0.0	0-0	0.0	540
81	Other base metals; cermets; articles thereof	71	71	3.2	0-9	2.7	2,903
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	105	105	3.1	1.7-8.5	1.8	5,777
83	Miscellaneous articles of base metal	43	43	2.3	0-3.7	0.9	3,547
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	945	945	1.7	0-9.7	1.4	181,339
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	592	592	2.8	0-14	3.4	175,123
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	40	40	1.8	0-3.7	0.6	1,054
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	180	180	6.4	0-22	5.4	59,936
88	Aircraft, spacecraft, and parts thereof	22	22	2.0	0.9-4.2	1.0	34,986
89	Ships, boats and floating structures	38	38	1.1	0-2.7	1.0	13,600
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	268	268	1.8	0-6.7	1.7	49,641
91	Clocks and watches and parts thereof	58	58	3.9	0.1-7.2	1.5	5,247
92	Musical instruments; parts and accessories of such articles	31	31	3.2	1.7-4	0.5	1,042
93	Arms and ammunition; parts and accessories thereof	28	28	2.2	0-3.2	1.1	559

Table AIII.2 (cont'd)

Code	Description	No. of lines	No. of lines used	Average tariff (%)	Range (%)	Std-dev (%)	Imports 2005 (US$ million)
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates	80	80	2.1	0-5.7	1.8	18,096
95	Toys, games and sports requisites; parts and accessories thereof	79	79	1.9	0-4.7	1.8	15,488
96	Miscellaneous manufactured articles	71	71	3.3	0-7.7	1.5	2,861
97	Works of art, collectors' pieces and antiques	7	7	0.0	0-0	0.0	3,875

Note: Calculations include the *ad valorem* components of alternate rates. The total of imports is higher than the sum of sub-items, as 22,681 millions of US dollars are not classified in the HS.

Source: WTO Secretariat estimates, based on EC *Official Journal* L 286; import data provided by the EC.

Table AIV.1
Overview of the implementation of the 2003 CAP reform, 2006

	Start	Regions	Model	Decoupling of dairy payment	What sectors remain coupled	Implementation of the second wave of the CAP- reform (tobacco, cotton, olive oil and hops) and the reform of the sugar sector
Austria	2005	-	Historic	2007	Suckler cows 100% Sslaughter premium adults 40% Sslaughter premium calves 100%	Tobacco 100% decoupled Hops payment 25% coupled
Belgium	2005	Zone Nord: Flanders + Brussels	Historic	2006	Suckler cows 100% Slaughter premium calves 100% Seeds (some species) 100%	Tobacco 100% decoupled
	2005	Zone Sud: Wallonia	Historic	2006	Suckler cows 100% Seeds (some species) 100%	Tobacco 100% decoupled
Cyprus			Mandatory regional model			
Czech Republic			Mandatory regional model			
Denmark	2005	One region	Static hybrid	2005	Special male premium 75% Ewe premium 50%	-
Estonia			Mandatory regional model			
Finland	2006	Three regions based on reference yield	Dynamic hybrid moving to a flat rate model	2006	Sheep and goats payments 50% Special male premium 75% Article 69 application: = 2.1% of the ceiling for arable crops = 10% of the ceiling for the bovine sector Seeds (timothy seed)	-
France	2006	-	Historic	2006	Cereals 25% Suckler cows 100% Ewe premium 50% Veal slaughter premium 100% Adult slaughter premium 40% Outermost regions 100% Seeds (some species)	10% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Article 110 (i) of 1782/2003 and Article 8 of Regulatoion 865/2003) Hops payments 25% Annex VII point H and 1: Olive oil coefficient for decoupling: 1 Tobacco coefficient for decoupling : 0.4
Germany	2005	Bundeslander	Dynamic hybrid moving to a flat rate model	2005		- hops payments 25% - tobacco coefficient for decoupling: 0.4
Greece	2006	-	Historic	2007	Seeds Article 69 application: = 10% of the ceiling for arable crops, = 10% of the ceiling for the beef sector, = 5% of the ceiling for the sheep and goat sector	Article 69 application: =2% of the ceiling for tobacco, = 4% of the ceiling for olive oil =10% of the ceiling for sugar 2% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Article 110 (i) of 1782/2003 and Article 8 of Regulation 865/2003). Annex VII point H and 1: Sectors tobacco and olive oil 100% decoupled
Hungary			Mandatory regional model			
Ireland	2005	-	Historic	2005	None	
Italy	2005	-	Historic	2006	Seeds 100% Article 69 for quality production = 8% of the ceiling for the arable sector, = 7% of the ceiling for the bovine sector, = 5% of the ceiling for the sheep and goat sector	Article 69 application: =8% of the ceiling for sugar 5% deduction in the olive oil sector for the funding of working programmes established by producer organisations (Article 110 (i) of 1782/2003 and Article 8 of Regulation 865/2003) Annex VII point H and 1: Coefficient for the decoupling of olive oil is increased to 1 Coefficient for the decoupling of tobacco 0.4

Table IV.1 (cont'd)

	Start	Regions	Model	Decoupling of dairy payment	What sectors remain coupled	Implementation of the second wave of the CAP- reform (tobacco, cotton, olive oil and hops) and the reform of the sugar sector
						For the region Puglia the decoupling coefficient for tobacco is 100%
Latvia			Mandatory regional model			
Lithuania			Mandatory regional model			
Luxemburg	2005	one region	Static hybrid	2005	None	-
Malta	2007		Mandatory regional model			
Netherlands	2006	-	Historic	2007	Slaughter premium calves 100% Slaughter premium adults 100% Seeds for fibre flax 100%	-
Poland			Mandatory regional model			
Portugal	2005	-	Historic	2007	Suckler cows 100% Slaughter premium calves 100% Slaughter premium adults 40% Ewe premium 50% Seeds 100% Outermost regions 100% Article 69: 1% (arable crops, rice, bovine and ovine sectors	Article 69: 10% of the ceiling for the olive oil sector 10% of the ceiling for sugar Tobacco decoupling coefficient 0.5 Olive oil decoupling coefficient: 1
Slovakia			Mandatory regional model			
Slovenia			Mandatory regional model			
Spain	2006	-	Historic	2006	Seeds 100% Arable crops 25% Sheep and goat premiums 50% Suckler cow 100% Slaughter premium calves l00% Adult slaughter premium 40% Article 69 application: = 7% of the ceiling for the bovine sector = 10% of the ceiling for dairy payments Outermost re ions 100%	Tobacco decoupling coefficient: 0.4 Olive oil decoupling coefficient: 0.936 Article 69: 5% of the ceiling for the tobacco sector, 10% of the ceiling for the cotton sector, 10% of the ceiling for sugar
Sweden	2005	5 regions(based on reference yield)	Static hybrid	2005	Special male premium 74.55% Article 69 application: 0.45% of total ceiling	
United Kingdom	2005	England normal, moorland, SDA minus moorland	Dynamic hybrid moving to flat rate payment	2005	None	
	2005	Scotland	Historic		Article 69: 10% of the ceiling for the bovine sector	
	2005	Wales	Historic		None	
	2005	Northern Ireland	Static hybrid		None	

Source: Information provided by the EC Commission.

Table AIV.2
Applied MFN tariffs, by ISIC Rev.2 category, 2006
(Per cent and US$ million)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	2005 Imports
			(Per cent)			(US$ million)
	Total	9,843	6.9	0-427.9	14.0	1,461,431
1	Agriculture, hunting, forestry & fishing	598	10.9	0-167.2	20.4	43,049
11	Agriculture and hunting	427	12.4	0-167.2	23.6	35,452
12	Forestry and logging	40	0.2	0-3.2	0.8	2,675
121	Forestry	18	0.5	0-3.2	1.2	649
122	Logging	22	0.0	0-0	0.0	2,025
13	Fishing	131	9.1	0-23	5.9	4,923
1301	Ocean and coastal fishing	113	9.5	0-23	6.1	3,167
1302	Fishing n.e.c.	18	7.0	0-12	4.5	1,756
2	Mining and quarrying	131	0.3	0-8.6	1.3	270,425
21	Coal mining	6	0.0	0-0	0.0	14,821
22	Crude petroleum and natural gas production	9	1.0	0-8	2.6	214,962
23	Metal ore mining	27	0.0	0-0	0.0	16,526
2301	Mining of iron ores	2	0.0	0-0	0.0	7,324
2302	Non-ferrous ore mining	25	0.0	0-0	0.0	9,202
29	Other mining	89	0.3	0-8.6	1.3	24,116
2901	Mining of feldspar	43	0.0	0-1.7	0.3	2,828
2902	Mining of fertilizer and chemical minerals	13	0.1	0-1.7	0.5	816
2903	Salt mining	5	4.1	0-8.6	3.9	113
2909	Mining and quarrying n.e.s.	28	0.0	0-0	0.0	20,358
3	Manufacturing	9,113	6.8	0-427.9	13.5	1,086,408
3 - 31	Manufacturing (excluding food processing)	7,359	3.8	0-50.9	3.8	1,032,533
31	Manufacture of food, beverages and tobacco	1,754	20.1	0-427.9	26.6	53,875
311	Food products	1,419	22.1	0-427.9	27.7	42,271
3111	Meat products	301	25.3	0-427.9	38.7	6,358
3112	Dairy products	151	39.6	0-134.4	28.7	927
3113	Fruit and vegetable canning	392	21.1	0-300.8	25.2	7,104
3114	Fish products	246	11.3	0-26	6.9	12,241
3115	Manufacture of oil and fats (veg. and animal)	126	9.4	0-137.2	18.1	10,811
3116	Grain mill products	114	38.0	1.8-122	28.8	622
3117	Manufacture of bakery products	32	22.0	8.5-65.7	11.2	626
3118	Sugar products	11	39.2	0-84.6	36.9	1,775
3119	Cocoa and chocolate confectionery	46	18.7	0-112.1	15.1	1,807
312	Other food products and animal feeds	145	14.0	0-163.8	21.1	6,369
3121	Other food products	107	15.0	0-163.8	21.6	5,081
3122	Manufacture of animal feeds	38	11.0	0-68.4	19.4	1,288
313	Beverages	181	7.0	0-105.9	14.2	5,000
3131	Distillation of spirits and alcohol production	56	1.7	0-53	8.6	1,373
3132	Manufacture of wines	108	9.1	0-105.9	16.0	3,068
3133	Manufacture of malt liquors and malt	8	15.8	0-34.9	15.8	198
3134	Soft drinks and mineral waters	9	6.9	0-17.8	7.0	362
314	Tobacco manufacturing	9	41.8	10-74.9	25.5	234
32	Textile, wearing apparel and leather industries	1,399	7.6	0-17	3.5	113,799
321	Textiles	1,005	7.4	0-12	3.1	52,278
3211	Textile spinning, weaving and finishing	561	5.9	0-8	2.5	11,016
3212	Made-up textile goods except wearing apparel	92	9.9	2-12	2.8	7,179

Table AIV.2 (cont'd

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	2005 Imports
			(Per cent)			(US$ million)
3213	Knitted and crocheted fabrics	212	10.6	6.5-12	1.9	30,656
3214	Carpets and rugs	38	7.6	3-8	1.2	1,466
3215	Cordage, rope, etc	24	8.2	5.8-12	1.6	184
3219	Textiles n.e.c.	78	5.6	3.2-8	1.4	1,778
322	Manufacture of wearing apparel, except footwear	217	10.8	0-12	2.7	40,048
323	Leather products, except footwear and wearing apparel	120	3.4	0-9.7	2.5	9,635
3231	Tanning and dressing of leather	60	3.5	0-6.5	2.6	2,726
3232	Fur dressing and dying	29	1.9	0-3.7	1.2	479
3233	Leather products except footwear	31	4.6	1.7-9.7	2.7	6,430
324	Footwear, except vulcanized rubber or plastic footwear	57	7.4	3-17	3.9	11,838
33	Wood and wood products, including furniture	187	2.5	0-10	2.7	24,279
331	Wood and wood products, except furniture	151	2.7	0-10	2.8	12,019
3311	Sawmills and woodmills	109	2.7	0-10	3.1	9,554
3312	Wooden case containers and cane ware	16	3.0	0-4.7	1.3	690
3319	Wood and cork products	26	2.2	0-4.7	2.2	1,775
332	Manuf.of furniture & fixtures, except primarily of metal	36	1.8	0-5.6	1.8	12,260
34	Paper, paper products, printing and publishing	227	0.5	0-7	1.8	16,958
341	Paper products	187	0.6	0-7	1.9	12,831
3411	Pulp, paper and paperboard	126	0.9	0-7	2.3	9,208
3412	Containers, paperboxes, paperboard	8	0.0	0-0	0.0	914
3419	Articles n.e.s.(stationery)	53	0.0	0-0	0.0	2,709
342	Printing and publishing and allied industries	40	0.0	0-0	0.0	4,127
35	Chemicals, petroleum, coal, rubber, plastics	1,770	4.3	0-50.9	3.7	220,940
351	Industrial chemicals	1,117	4.7	0-50.9	3.2	67,630
3511	Basic industrial chemicals	799	4.7	0-50.9	3.5	46,382
3512	Fertilizers and pesticides	63	4.9	0-6.5	2.4	3,603
3513	Synthetic resins, plastic materials except glass	255	4.9	0-6.5	2.5	17,645
352	Other chemicals, incl. pharm.	441	3.5	0-42	4.3	57,254
3521	Paints, varnishes and lacquers	31	5.3	0-6.5	2.2	1,059
3522	Drugs and medicines	155	1.4	0-6.5	2.6	42,106
3523	Soaps	38	2.2	0-6.5	2.6	3,867
3529	Other chemicals n.e.s.	217	5.0	0-42	5.0	10,222
353	Petroleum refineries	64	2.1	0-6.5	2.0	75,090
354	Manuf. of miscellaneous petroleum & coal products	17	0.0	0-0	0.0	1,199
355	Rubber products	98	5.5	0-17	5.6	10,968
3551	Tyre and tube industries	28	3.7	0-4.5	1.0	5,096
3559	Rubber products n.e.s.	70	6.2	0-17	6.5	5,872
356	Manufacture of plastic products n.e.s.	33	6.1	2.2-6.5	1.2	8,799
36	Non-metallic mineral products except of petrol. & coal	275	3.9	0-13.8	3.0	11,594
361	Pottery and china	25	5.9	3-12	2.3	2,679
362	Manufacture of glass and glass products	129	4.9	0-13.8	3.1	3,888
369	Other non-metallic mineral products	121	2.4	0-7	2.1	5,028
3691	Structural clay products	32	3.9	0-7	2.0	884
3692	Ciment, lime and plaster	9	1.7	1.7-1.7	0.0	937
3699	Non-metallic mineral products	80	1.8	0-7	1.9	3,207

Table AIV.2 (cont'd)

ISIC code	Description	Number of lines	Simple average	Range	Standard deviation	2005 Imports
			(Per cent)			(US$ million)
37	Basic metal industries	663	1.2	0-10	2.3	69,564
371	Iron and steel basic industries	420	0.2	0-7	1.0	29,942
372	Non-ferrous metal basic industries	243	3.0	0-10	2.9	39,622
38	Fabricated metal products, machinery & equipment	2,547	2.5	0-22	2.8	539,547
381	Fabricated metal products, except machinery & equip.	349	2.7	0-8.5	1.9	21,686
3811	Manufacture of cutlery and hardware	87	3.3	1.4-8.5	2.1	6,026
3812	Metal furniture and fixtures	16	0.9	0-3.7	1.4	2,053
3813	Structural metal products	36	2.4	0-7	1.8	2,241
3819	Fabricated metal prod. excpt mach. & equip. n.e.c.	210	2.7	0-7	1.7	11,366
382	Non-electrical machinery incl. computers	937	1.7	0-9.7	1.3	156,444
3821	Engines and turbines	33	3.5	2.1-4.5	0.9	6,283
3822	Agricultural machinery	24	1.3	0-7	1.6	1,025
3823	Metal and woodworking machinery	218	2.2	0-4.5	0.8	13,227
3824	Special industrial machinery	220	1.2	0-2.2	0.8	17,848
3825	Office machinery	59	0.8	0-3	1.0	81,708
3829	Non-electrical machinery and equipment, n.e.s.	383	1.6	0-9.7	1.6	36,353
383	Electrical machinery apparatus, appliances & supplies	598	2.8	0-14	3.4	174,947
3831	Electrical motors and apparatus	126	1.9	0-4.7	0.9	18,201
3832	Radio, television and communication equipment	284	3.3	0-14	4.7	130,835
3833	Electrical appliances and houseware	41	2.6	1.4-6.9	0.9	6,680
3839	Electrical apparatus n.e.s.	147	2.8	0-5.7	1.4	19,231
384	Transport equipment	325	4.4	0-22	4.7	132,851
3841	Ship-building and repair	61	1.5	0-6.2	1.5	14,691
3842	Raiway and tramway	40	1.8	0-3.7	0.6	1,048
3843	Motor vehicles	155	6.4	0-22	5.6	58,348
3844	Motorcycles et bicycles	34	6.1	0-15	3.2	7,024
3845	Aircraft manufacture	29	1.5	0.9-3.9	0.8	51,005
3849	Other transport equipment n.e.c.	6	1.5	0-2.7	1.2	734
385	Professional and scientific equipment	338	2.1	0-7.2	1.9	53,619
3851	Prof., scientif., measuring equipment	188	1.1	0-4	1.3	36,941
3852	Photographic and optical goods	92	2.9	0-6.7	1.9	11,435
3853	Watches and clocks	58	3.9	0.1-7.2	1.5	5,243
39	Other manufacturing industries	291	2.6	0-17	2.3	35,853
3901	Jewellery and related articles	21	1.5	0-4.7	1.6	5,517
3902	Musical instruments	31	3.2	1.7-4	0.5	1,038
3903	Sporting goods	40	4.0	0-17	4.1	6,600
3909	Other manufacturing n.e.c.	199	2.3	0-10.9	1.9	22,698
4	Electrical energy	1	0.0	0-0	0.0	3,273

Note: Calculations include the *ad valorem* components of alternate rates.
The total of imports is higher than the sum of sub-items as certain imports, to the value of US$ 58,275 million, are not classified in the Harmonized System and therefore cannot be classified under ISIC.

Source: WTO Secretariat estimates, based on EC Official Journal L286; imports data are provided by the EC; and WTO estimates.