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WTO Trade Policy Review: European Communities*

Note: This text provides brief description of the conditions foreign business will encounter in trade with the European Communities. It is based on a WTO Trade Policy Review for the European Communities, early April 2009. Readers wishing for deeper analysis should turn to the original Trade Policy Review available on the WTO website. (www.wto.org/english/tratop_e/tp/tp314_e.htm)

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals.

• ECONOMIC ENVIRONMENT

Real GDP growth in the European Communities (EC) was 3% on an annual average during 2006-07, but fell to an estimated 1% in 2008 partly due to the global financial crisis (and subsequently economic slowdown) that emerged in the second half of the year. While the moderation in growth was broad-based, performance at Member States level remained dispersed.

As of January 2009, sixteen EC Member States have the euro as their currency. Romania has set a target euro adoption date for 2014. Denmark and the United Kingdom have opted to retain their national currencies, while Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Sweden do not have target dates for euro adoption. Influenced by increasing energy and other commodity prices, EC inflation rose from 2.3% in 2006 and 2.4% in 2007 to an estimated 3.7% in 2008. The key interest rate in the euro area increased from its historically low level of 2% during 2004 and most of 2005 to over 4% in July 2008. Nonetheless, by early 2009, it was back to 2% mainly because of the financial crisis.

The services sector is the backbone of the EC economy, with a share of about 70% in both gross value added (GVA) and employment. Manufacturing contributes around one-quarter to GVA, but its share has been decreasing over the last few years reflecting geographical shifts in international processing activities. As a result, the EC is imple-

menting, since October 2005, a new industrial policy to become more competitive. The participation of agriculture (including livestock, hunting, forestry and fishing) in the EC's GVA is relatively low (around 2%), but remains significant for many new Members States such as Bulgaria and Romania.

The EC accounts for some 17% of world merchandise trade. Its trade account has been in persistent but sustainable deficit, amounting to €141.8 billion in 2006 and €153.4 billion in 2007. As a percentage of GVA, the EC had external current account deficits of 0.8% in 2006, 0.7% in 2007, and 1% (estimation) in 2008. The EC remains the world's largest trader in services, as well as the largest recipient and supplier of foreign direct investment (FDI), accounting for some 40% of global inward stock and over 50% of global outward stock. It is also a net investor in the rest of the world.

• INSTITUTIONAL FRAMEWORK

Since its last TPR in February 2007, the EC has made no major changes to its institutional framework. The Treaty of Lisbon, which will alter the structure of EC institutions, was signed by EC heads of state or government in December 2007, but its ratification has not been completed. Bulgaria and Romania joined the EC in January 2007, while accession negotiations with Croatia and Turkey are ongoing.

Under the Treaty of Nice of 2001, the EC's trade policy aims to contribute to, inter alia, the progressive dismantling of restrictions on international trade and the lowering of customs barriers. These objectives are pursued by the EC at the multilateral, bilateral, and unilateral levels. At the multilateral level, the EC has stressed the importance of the Doha Development Agenda (DDA) as the best approach to prevent trade protectionism in the current economic downturn. The EC remains one of the most active Members in WTO dispute settlement. During the period under review, the EC initiated six new disputes, and was a respondent in six cases and a third party in thirteen disputes. The EC is also a major sponsor of trade-related technical assistance within its Aid for Trade framework.

The EC has continued to build upon its extensive network of preferential trade agreements (PTAs), as part of a

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broader policy of promoting multilateralism. These PTAs have so far resulted in free trade in non-agricultural goods, and limited liberalization of trade in agricultural products; in some cases, these agreements also cover trade in services. A significant number of its negotiations are with, or encourage the creation of, regional groupings. Negotiations with regional bodies include the Andean Community, ASEAN, Central America, the Gulf States, MERCOSUR, the Mediterranean countries, and Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) regions. Negotiations on an EPA with the Caribbean region have been concluded; trade relations with countries in the other ACP regions are governed by interim agreements. Furthermore, the EC has launched bilateral negotiations on PTAs with India, the Republic of Korea and Ukraine.

The EC grants at least MFN treatment to all WTO Members and unilateral preferences through its Generalized System of Preference (GSP), which consists of three arrangements. First, all eligible countries benefit from the "general arrangement". Second, a "special incentive arrangement for sustainable development and good governance" (GSP+) provides additional benefits to countries implementing international standards in sustainable development and good governance. Third, under the Everything But Arms (EBA) initiative, LDCs benefit from duty-free and quota-free access to the EC market; for rice and sugar, tariff-free and quota-free access will be introduced in 2009.

As a result of preferential agreements and the GSP scheme, the EC's MFN tariff is applied 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 27.5% of the EC's total merchandise imports in 2007, compared to about 30% in 2005.

• TRADE POLICY INSTRUMENTS

The EC's trade regime has remained largely unchanged since its last TPR. Certain areas, such as customs procedures, internal taxation, incentives, and technical barriers to trade are yet to be fully harmonized. The structure of the EC's common MFN tariff, broadly unchanged over the last few years, remains complex. It comprises ad valorem and non ad valorem rates. The non-ad valorem duties

(10.1% of all tariff lines) are specific (6.5%), compound (2.9%), and mixed or variable per entry price range (0.8%). Non-ad valorem rates apply mainly to agricultural goods (WTO definition), many of which are also subject to tariff quotas. The average applied MFN tariff rate has decreased slightly, to 6.7% from 6.9% (in 2006), with rates ranging from zero to 604.3% (an ad valorem equivalent (AVE) on isoglucose (HS 1702.40.10)); agricultural products still attract the highest rates.

The actual level of tariff protection for agricultural products is likely higher than the level estimated by the AVEs due to various simplifications (e.g. exclusion of non-ad valorem tariff lines with no import data and of non-ad valorem components of certain lines from the calculations). In consequence, the estimated level of overall tariff protection is also likely underrated. The EC's wide network of preferential trade arrangements, together with its system of unilateral preferences, adds to the complexity of its tariff regime. 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 yet harmonized within the EC.

Imports prohibitions and surveillance are maintained on, inter alia, security, technical, sanitary, phytosanitary and environmental grounds and under treaties and international conventions. Import licences are required where products are subject to quantitative restrictions, tariff quotas, safeguard measures or for import monitoring and surveillance purposes. Some non-agricultural products, including some textile products, have been subject to quantitative restrictions by the EC during the period under review. No changes were made to the EC legislation on trade remedies. The EC remains an important user of contingency trade remedies; however, the number of contingency measures notified by the EC to the WTO has decreased since 2005. Harmonization of technical requirements (including technical regulations, standards, and sanitary and phytosanitary measures) among EC Member States is still ongoing.

There have been no major changes to EC's regimes on export prohibitions, restrictions, or licensing since its previous TPR. An export authorization or licence is required to export cultural goods and certain agricultural products, and for the control of exports of dual-use items and technology. The EC still subsidizes exports of a number of agricultural products. Assistance and subsidies programmes (at Community level and by Member States) notified to the WTO can be grouped in four major categories: the Struc-

tural Actions; the Common Agriculture Policy (CAP); Industrial Programmes; and other programmes including assistance to SMEs, to joint-ventures, and to fisheries and aquaculture.

EC's legislation on public procurement remains broadly unchanged; it was enacted in 2004, with a view to making the legal framework simpler, more flexible and adapting it to the electronic era. The competition regime in the EC remains also largely unchanged; enforcement focuses on eliminating cartels and abuses of dominant position. The intellectual property regime continues to be governed by both Community-wide legislation and legislation of Member States. On intellectual property protection, a new legal framework for patent protection is expected to simplify the process of seeking protection. Trade mark and plant varieties regulations have been amended, while the legislation related to the terms of protection of copyrights and related rights, and rental and lending rights has been consolidated in one piece of legislation. New regulations to protect geographical indications for wines and spirits were enacted.

• **SECTORAL POLICIES**

Services remain the priority as regards the creation of a genuine internal market by the end of 2009, through the removal of remaining regulatory and administrative hurdles between Member States. Since its last Review, the EC adopted the 2007 telecoms reform package, and the postal directive aimed at completing the internal market for postal services by 2010-12. Moreover, the EC is implementing the financial services strategy 2006-10 and the action plan for transport 2002-10. Nevertheless, 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. Certain services, such as telecoms are regulated at the EC level, while others (e.g. education, health) are mainly the responsibility of individual Member States.

As a result of the 2003 reforms of the CAP, centred on the move towards the Single Payment Scheme, the share of support under this Scheme increased from 1% (€1.4 billion) of the total producer support estimate in 2004 to 33% (€32.4 billion) in 2007. At the same time, product-specific support linked to production and/or prices, still exists, albeit at reduced levels. Since the last TPR of the EC, reforms of its CAP have continued to enhance the market-orientation and competitiveness of the sugar, fruit and

vegetables, and wine subsectors. The domestic support regimes for bananas and cotton have also been further reformed. In 2006, the total amount spent on the CAP represented 46% of Community expenditure. Using ISIC, the simple average MFN tariff on agriculture, hunting, forestry and fishing is 9.3% (down from 10.9% in 2006). However, all products with tariff rates above 100% remain agricultural (WTO definition). In addition, agricultural products remain protected by a complex tariff structure, tariff quotas and SPS measures, and still receive export subsidies. On fishery products, some of the tariff quotas are subject to a reference price mechanism whereby the benefit of the in-quota tariff is not granted if the import price is lower than the reference price.

MFN tariffs on manufactured imports average 6.7% (6.8% in 2006). Overall, in industries requiring agricultural inputs 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 the industries processing these inputs, exports of their products require subsidies. In industries requiring inputs (certain agricultural and mineral products in particular) that are not produced by the EC, the tariff shows positive escalation, i.e. high effective rates of protection.

The EC is the world's largest energy importer and the second largest consumer. Faced with unprecedented energy challenges, the EC is implementing its action plan on energy efficiency so as to save 20% of its energy consumption by 2020 through changes in consumer behaviour and energy efficient technologies. It has also set a target of 20% increase in the use of renewable energy and 20% cut in greenhouse gas emissions by 2020. Some of the recent energy policy developments include the adoption of a third package of legislative proposals aimed at solving the structural shortcomings in the energy market, notably the lack of competition. Imports of electricity are duty free.