

WTO Trade Policy Review of the European Communities

Statement by the European Commission

Geneva, 6 April 2009

Chairman, distinguished delegates, ladies and gentlemen.

It is with great pleasure that I am here today to introduce this ninth Trade Policy Review of the European Communities. I extend a warm welcome to all the participants at today's meeting, whom we are delighted to see in such a great number. My particular appreciation goes to Ambassador Grey of Australia who knows the EU very well and who has kindly accepted to share his observations as discussant.

I would also like to thank Director Eglin, as well as his predecessor Mr Boonekamp, and the European Division, led by Mr. Degbelo, for their work in producing another comprehensive report that makes this joint assessment of our trade regime possible. I will, of course, give you our frank assessment in areas of agreement as well as of some disagreement or nuance with the report.

Before I address the substance, let me reiterate the importance we attach to the transparency pillar of the WTO, with the trade policy reviews at its core. Now that it is our turn again, we stand ready with my team to explain and clarify any issue of Members' concern with regard to our trade policies and practices. The EC is the largest actor in international trade in goods and services: we make up for roughly a fifth of world trade in goods and close to a third of the global services market. Thus we are aware of our particular responsibility.

Prior to this meeting, we have received close to 1000 questions from 26 Members, a record in the TPRM history. This certainly shows WTO members' keen interest in the EU's trade policy, a fact that we welcome. Today we provide written responses to all questions submitted by the closing date, as well as to most of those that reached us later. We will work hard to ensure a similar promptness with regard to all further written questions put to us recently and will also react, of course, to oral comments and questions, as part of a constructive discussion today and on Wednesday.

Chairman,

Given the dramatic world-wide economic downturn since the start of the deep financial crisis last autumn, I will start with the macro-economic picture and outline the steps the EC and our Member States have taken to return the financial sector to health, to stabilize the real economy, and thereby pave the way for the recovery of our own and the global economy - the two being closely linked.

By now the EC is also fully feeling the pinch. By the end of 2008 the EC economy was already in recession, with GDP falling by 1.4% in the last quarter of 2008 compared to a year ago. The downward trend continues into 2009. Our industry is under strain: industrial production in the EC has fallen to some 15% below that of last year. In January 2009 new industrial orders were down by almost a third. EC merchandise exports first dropped last November, by 11% year-on-year. This January, they were down almost 25% compared to January 2008. Imports have also been falling at an increasing - but somewhat slower - pace. Of course, we know that all this is but a part of a very dramatic global picture on trade, which the WTO recently forecasted to contract by up to 9% in volume this year.

Near-term prospects are also gloomy and expectations continue to be revised downwards. The Commission's own forecasts predict ever deeper falls in GDP for 2009, although a moderate recovery in 2010 was expected. Other institutions' views are even bleaker, forecasting drops in the GDP of 3 to 4% for the euro area, and casting doubt over the return of growth even in 2010.

The EU in a rapid and coordinated manner reacted to the financial turmoil, with the primary aim of stabilizing financial markets and unlocking credit flows. Monetary easing went hand in hand with the implementation of guarantee and recapitalization schemes for banks and other affected financial institutions. Several proposals for revised financial rules have also been put forward to ensure a less crisis-prone governance system for the future, proposals which the G20 Summit has embraced.

As the financial crisis began spilling into the real economy, the EC in December 2008 adopted an ambitious Economic Recovery Plan. It includes a significant fiscal stimulus to boost demand in short term, while making sure that public funds are spent on forward-looking investment that will enhance our long-term economic health, boost the fight against climate change and increase our energy security.

All in all, the fiscal stimulus is already worth around 3.3 % of the total European economic output. If automatic stabilizers, such as public spending on welfare payments are included, we

are around 4%. We are convinced that the EU and its MS have taken measures that are bold and are in proportion with the severity of the crisis. Making sure that we act responsibly – consistent with the internal market as well as the WTO rules – has been a guiding principle for all our action.

Many questions have been raised about the potential trade effects of government interventions to support financial institutions and other sectors adversely affected by the crisis. In reality, in the EU these support measures can go ahead only if they comply with strict state aid rules, with the European Commission monitoring national aid schemes to avoid potential distortions to competition. Crucially, assistance is only allowed on a temporary basis and must be linked to restructuring plans. This is about allowing companies with sound prospects to weather the short-term difficulties and get the finance they need to make investment. But it is not about keeping fundamentally uncompetitive businesses on the lifeline. There are also no “Buy European” type requirements attached. The financial and fiscal packages of the EU are providing a stimulus to overall demand for foreign and domestic goods and services alike. Thereby, they are trade creating.

There can be no mixing up of these stimulus programmes with tariff or non-tariff measures that directly restrict trade. The EC has introduced none of these. On the contrary, we have allowed unimpeded flows of imports and made active efforts to facilitate trade by stepping up official export credit and insurance to fill the gap in trade financing left by private banks.

We are convinced that in addition to our efforts at home the only effective reaction to a global crisis is a global, concerted response. This is why institutions for global governance, such as the WTO, are crucial. This is why the EU has participated so pro-actively in this Body’s monitoring of measures taken in response to the economic crisis. And this is why the EU and its MS played such an active role in the setting up the recent G20 Summit that devoted much attention also to trade issues.

Let me now briefly review the last two years’ policy developments within the EC in trade and related areas.

Against the background of our substantial role in the global trading system, the basic objective of our trade policy has always been to support sustainable development at home and abroad, to effectively contribute to an open, balanced and well-functioning international trade regime. While the basic objective has not changed, we have continuously refined our toolbox.

At the last TPR in 2007 I announced the launch of our Global Europe strategy as an important step in the EU's trade policy, aimed at contributing to European competitiveness, to creating jobs and fostering growth, while fully recognizing a basic economic premise: we need to import in order to be able to export.

Our approach under the Global Europe strategy continues to be based on a clear prioritization of multilateralism. Therefore, the EC remains fully committed to the WTO as the primary vehicle for implementing this strategy. In particular, active participation in the DDA negotiations has been the single most important trade policy activity for the EC over the last two years. We are glad to see that the Secretariat's report also recognizes the EU's efforts to show leadership and to facilitate consensus.

In agriculture, an area of special sensitivity for the EU, we remain willing to accept cutting our overall trade distorting support by 80% and to fully give up export subsidies. We are convinced that the steps taken since 2003 under the unilateral reform of the CAP have been a major factor in the improved conditions of international farm trade in the past period. We would be also ready to make an average cut of 54% in our tariffs and to create new, substantial access possibilities even in case of sensitive products through TRQ's. In case of industrial tariffs, a Swiss coefficient of 8 would halve the EU's already low average duties, to some 2 p.c. In our case, unlike many others, this means applied cuts. In services, we continue to seek an ambitious outcome and have made it clear that, if our partners, especially emerging economies, make proportional efforts, we will make sure to address their requests even in the sensitive area of movement of persons. In the TRIPS talks, an area of major interest for the EU, we have contributed to building a platform for a compromise for both better protection of geographical indications and new disciplines concerning biodiversity. We have also shown continuing commitment to other areas of the negotiation, such as trade facilitation, where we believe the outcomes would provide a major contribution also to development objectives. We continue to attach great importance to DDA outcomes that benefit DCs, with special consideration to the poorest and weakest of them. We remain strongly committed to securing an ambitious, balanced and comprehensive agreement on the DDA as swiftly as possible, and we are prepared to move forward on the basis of the current negotiating texts.

In parallel to the DDA, we have stepped up engagement with our key trading partners by launching negotiations on a new generation of comprehensive FTAs. These FTAs aim to extend beyond present agreements in scope and depth of commitments, including trade in services,

regulatory and non-tariff barriers, intellectual property rights, investment, public procurement and competition. These new generation FTAs also integrate high environmental and labour standards.

In this regard, I am pleased that the Secretariat has confirmed our view that the bilateral and regional agreements form "part of [the EU's broader policy of promoting multilateralism". It is unfortunate, however, that in spite of this, in the "Summary observations" our bilateral trade agreements alleged to contain "discriminatory elements" without any supporting evidence or explanation. We are convinced that our FTAs meet the requirements of Article XXIV of GATT, as well as of Article V. of GATS and are fully comparable to FTAs of other WTO members. Thus, it seems that using the term "discriminatory" just to the EU's FTAs is not just unjustified, but is also a discrimination itself.

The Global Europe strategy has not distracted the EU in any way from actively seeking to put all elements of our trade policy at the service of development. Thus, our bilateral trade relations with developing countries are also guided by this commitment, aimed at responding to our partners' specific development needs and helping their efforts to be integrated into the global trading system. The Economic Partnership Agreements (EPAs) towards which we have been working together with the African, Caribbean and Pacific (ACP) countries in the last years, are a case in this point. They are conceived explicitly with the aim of supporting national and regional development and poverty reduction strategies through WTO-compatible trade agreements. Concerning goods, the EPAs ensure heavily asymmetrical market opening, where the EC provides complete free access to its market starting immediately, while the ACP partners liberalise gradually over an agreed transition period, with exclusions to take account of their development needs. These are development-oriented agreements which also envisage enhanced cooperation, a stronger framework of rules and appropriate services liberalisation. Overall, EPAs will ensure a transparent and more predictable framework for trade and investment and stimulate regional integration as well as domestic adjustment and development processes.

Since 2001 all LDCs have enjoyed duty free, quota free access to our market under the "Everything but Arms" initiative which is now in the final stage of fully implementing the goal of DFQF market access for products from the LDCs, agreed in Hong Kong. The only remaining duty-free tariff quotas on rice and sugar will be fully liberalized in October 2009, meaning that we will have achieved 100% coverage.

Exports from the LDCs to the EC under the EBA have steadily increased. In 2007, the total value of goods imported from the LDCs under the EBA was close to 90% above the level in 2001, the first year of the scheme. We look forward to other developed and emerging economies following our example in providing comprehensive DFQF market access to LDCs and reporting similar successes.

We also offer preferential terms of market access to non-LDC developing countries. Indeed, our General System of Preferences, which entered into a new three-year cycle on 1 January 2009, is the most comprehensive of all developed-country autonomous preference regimes, with 176 beneficiaries and wide product coverage. Additional "GSP+" tariff preferences are available to beneficiaries which are particularly vulnerable, and have committed themselves to international standards on human and labour rights, environment and good governance.

We recognize that as well as creating additional opportunities to trade, we also should help building up the capacities to tap into these opportunities. We have taken major steps to enhance the quality and quantity of our Aid for Trade programme, of which we are the largest provider world-wide. In October 2007 the EC and its Member States adopted a joint Aid for Trade Strategy based on the recommendations of the WTO Aid for Trade Task Force. Implementation is now well under way. Fresh figures indicate that the pledge we made in Hong Kong in 2005 to step up our Trade Related Assistance to € 2 billion annually by 2010 was already close to being met as early as 2007, as the EC and its Member States together allocated € 1.98 billion for this purpose. Our total commitments to Aid for Trade also grew to reach € 7.17 billion. Given concerns that the economic downturn could impact on aid levels, the EC and MSs' good record of delivery should assuage such concerns.

Promoting coherence between trade policy and protection of the environment has long been high on our agenda. In the DDA negotiations, we have been favouring early trade liberalization for environmental goods and services, as well as seeking to clarify the relationship between the WTO and Multilateral Environmental Agreements. As the challenge of climate change has taken centre stage worldwide, there is now a new sense of urgency to act. The EC and its Member States have been in the forefront of the fight against climate change both at home and in the international arena. We have developed a robust policy with some of the most aggressive carbon emissions reduction targets, and we play a leading role in the negotiations on a new post-Kyoto climate regime. It should be a priority for all of us to ensure that trade policy is complementary and makes its full contribution to these efforts.

Let me also touch upon some internal market and sector-specific policy issues that have received much attention in the Secretariat's report, as well as in a good number of questions from members.

As regards the Single Market, we have for the most part reached a stage of maturity and consolidation. Recent policy initiatives have focused mainly on improving its functioning by empowering consumers, enhancing the supportive environment for small businesses and stimulating innovation.

The Secretariat in its report highlights differences in internal taxation and incentives as indicators of an incomplete internal market. Similar views are also expressed in a number of questions by members. These remarks show a major misunderstanding of the distinctive institutional nature of the EU. The EU remains a union of sovereign nation states, where competence is shifted to the supranational level only if the subsidiary test is met: not all policy instruments are destined for harmonisation, and they don't even need to be for the internal market to function properly. The truth is that in many key respects the EU achieved a higher level of harmonisation than several federal states.

In so far as we concur with the Secretariat's observation that the internal market integration for services remains work in progress, we have made real advances since the last TPR. The implementation of the Services Directive of December 2006 and other recent sector-specific legislation such as for financial services, telecoms and postal services, to a large extent reduced the remaining regulatory and administrative obstacles to intra-EC trade. We don't think that the real trade effects of the remaining differences would justify such a focus on internal measures, considering the established practice of WTO trade policy reviews. The EU has one of the most open markets for services in the world, it is the biggest importer of commercial services. We regard further improvement of market access for services providers as an essential component of the DDA and of bilateral trade negotiations, offering possibly the largest long-term potential benefits.

Now to our agricultural policies and their impact on trade. The transformation of the European agricultural policy has continued at an unabated pace, without consideration of WTO negotiating tactics. Reforms during the period under review focused on the sugar, fruit and vegetables, cotton and wine subsectors. In November 2008, we concluded the Health Check of the 2003 CAP reform with an agreement on further important adjustments. Notably, all remaining coupled payments to farmers, with the exception of some animal premia, have been decoupled from

production and moved to the Single Payment Scheme, which falls under the Green Box. The combined result is that over 90% of the EC direct payments to farmers will be decoupled by 2013.

It is disappointing to see that these far reaching policy changes don't get proper recognition from a number of quarters. Criticism could have been more understood, had the EC not been alone among the major players to implement during the DDA unilaterally a thorough reform of domestic farm support.

It must be stressed that the EC is by far the world's largest agricultural importer. We import more agricultural goods from developing countries than the U.S., Canada, Japan, Australia and New Zealand combined. The EC also provides a market for almost 60% of all agricultural exports from LDCs.

Even so, we are ready to do more, as part of a concerted global move towards further liberalisation of agricultural trade. Thanks to our reforms, as part of an overall Doha agreement, the EC can accept not just a steep reduction in our trade-distorting subsidies, the elimination of export subsidies, but also a significant reduction of our border protection. But the deal must also cover issues of particular interest to the EC, including meaningful results on geographical indications, so that our farmers are able to take advantage of their competitiveness in high-quality processed food products.

A point to keep in mind, however: agriculture is distinct from any other sector. In addition to the vital economic function of supplying food, it also plays an indispensable role in protecting the environment, biodiversity and animal welfare, as well as in preserving the countryside. While European consumers attach great importance to such wider objectives, the market does not always adequately compensate farmers for the services they provide in this regard. Hence, there is a continued need for an active multifunctional agricultural policy that is less and less based on trade-distorting subsidies.

Let me also use this opportunity to address the export refunds for dairy products reinstated earlier this year, which prompted a large number of accusations.. So, it's need to stress that the EC remains committed to eliminate all forms of export subsidies by 2013 as part our conditional agricultural offer in the DDA. Nevertheless, in some sectors, including dairy, for the time being the possibility of providing export subsidies still remains. When world prices for dairy products were high, export refunds did not kick in. The recent abrupt drop in dairy prices, however, has

triggered the mechanism of their reintroduction, in line with the CAP implementation rules. The reinstatement of these limited subsidies was fully consistent with our WTO obligations. I must thus strongly disagree with anyone who interprets this fact as a reversal of the CAP reform or of our position on export subsidies in the DDA. If anything, it is a good reminder of the value of the concession the EC has offered in the negotiations.

We were also concerned by unsubstantiated claims in the Secretariat Report stating that manufacturing in the EU is a major beneficiary of state aid. We fail to see on what figures this assessment is based, what is the point of reference? If the basis is supposed to be international comparison, we couldn't find reliable and consistent cross-country data in the TPR reports prepared about other major players. So, before using such qualifications for aid as "large", or "major", it would be necessary to see first also from other important members of the WTO equally comprehensive information on state aid and to check how those relate to ours. . .

As for our enterprise and industrial policies, I can assure you that they have little to do with old-style interventionism. What they aim at is creating a better environment in which manufacturing industries can thrive – primarily by simplifying regulation, lowering administrative burden on businesses, improving skills and stimulating innovation. We pursue less but better targeted aid to meet the horizontal objectives such as research, improved access to finance for SMEs, environmental protection, and regional development. Our preferred choice are therefore cross-sectoral support schemes that favour no particular industry.

Let me also refer to the openness of our manufacturing sector. The EC industrial tariffs are among the lowest in the world. Our average MFN tariff on industrial goods is 4% with over a quarter of tariff lines at 0. Here I should clarify that the slightly higher reported figures for some industrial tariffs in 2008 compared to 2006 are due merely to changes in nomenclature which has been streamlined and simplified. We have not raised our duties, as some Members have suggested in their advance questions, on the contrary, as the Secretariat also points out, our applied tariff average dropped to 6,7% from 6,9% indicated in the last report. We might just wish if all countries respected to the same extent their G20 commitments on border protection.

Also important to note is that most manufactured goods from developing countries enter at even lower preferential rates, on the basis of bilateral agreements or our autonomous trade preferences. Insofar as MFN industrial tariffs remain of relevance, I can again refer to our position in the DDA as the avenue for bringing them down even further.

As referred to earlier, recent forecasts have dashed hopes of an early economic recovery. There is no doubt that the recession gives an opportunity and an excuse to protectionist forces all over the world. The EU is no exception, but we are determined to resist such pressures. We will sustain our efforts to follow through on the G20 pledge made in Washington last November and reaffirmed just a few days ago at the London Summit.

We fully recognize the imperative of keeping markets open so that trade can play its role alongside stimulus packages in reactivating our economies in these strenuous times. In this context, I would like to restate our strong endorsement for the global monitoring process piloted by the WTO. I should also note that under this initiative the EC has provided a model in terms of transparency, self-reporting the relevant measures adopted since late 2008 in the most comprehensive and exhaustive manner.

We do not, however, stop there. We will continue to work tirelessly to bring DDA negotiations to their successful conclusion. This is more necessary now than ever, not least to restore confidence in the global economic order. We are also committed to contribute to further trade opening through our bilateral agenda.

This concludes the remarks I wish to make by way of introduction. I hope I have not only set the scene but also already provided some useful clarifications. As I pass the floor to the discussant and Members, let me say that listening attentively to all statements is a big part of why we are here, and I can assure you that these views will feed into our own reflection on the future course of trade policy in the EU.

Thank you for your kind attention.