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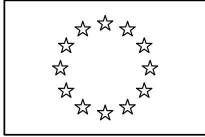

EUROPEAN COMMISSION

Brussels, 27.1.2012
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COMMISSION STAFF WORKING DOCUMENT

Trade as a driver of development

Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

Trade, growth and development

Tailoring trade and investment policy for those countries most in need

{COM(2012) 22 final}

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1. INTRODUCTION

The present document is a Staff Working Paper by the European Commission and is for information purposes only. It does not represent an official position of the Commission on the subjects it addresses, nor does it anticipate such a position. It supports the European Commission's Communication entitled "Trade, growth and development – Tailoring trade policy for those countries most in need".

Its first aim is to provide supplementary information and analysis on the issue of trade and investment for development. This is based on the one hand on a review of the existing literature in this area and, on the other, on an analysis of developing countries' position in the world economy and global trading systems.

Its second goal is to provide detailed background on the EU's instruments and initiatives to support developing countries' integration into the world economy and the global trading system; notably the EU's Generalised System of Preferences (GSP) – particularly the Everything but Arms (EBA) scheme, the GSP+ and the Commission's proposal for a revamped GSP; the EU's new rules of origin; the EU's Export Helpdesk; Aid for Trade; the Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific (ACP) countries; an overview of bilateral trade cooperation with other parts of the world; an overview of the EU's approach to investment and EU investment-support mechanisms; and an overview of multilateral aspects.

2. REVIEW OF LITERATURE

The following analysis of trade and investment for development is entirely based on excerpts from a study entitled "Aspects of trade" commissioned by the European Commission, Directorate-General for Development and Cooperation, to review the existing literature in this area. The present section therefore reflects the views, conclusions and suggestions expressed in the study, which do not necessarily correspond to those of the Commission. The section focuses on the following key issues: it first presents the main trends of the changing world economic situation and focuses particularly on developing countries' integration into the world economy and the proliferation of preferential trade agreements; it goes on to exploring the link between trade and development; finally, it looks into complementary policies with special emphasis on services, investment and competition.

2.1. A changing world economy

The study describes the most significant changes the world has undergone during the last decade:

- A great expansion in global trade flows has taken place over the last decades. Global exports of goods and services grew at a real average rate of 6.3% in the period 1980 to 2008, while GDP growth averaged 2.9% during the same period[1]. Although developed economies continue to dominate world markets, developing countries are

[1] UN World Economic and Social Survey, 2010.

now new drivers of global trade: between 2000 and 2009 their exports rose by 80%, compared to 40% for the world as a whole[2].

- One of the most important developments in world trade in the last few years is the fragmentation of production of both goods and services and the associated development of foreign outsourcing and off-shoring[3]. Agricultural and industrial production is increasingly taking place through largely unregulated global value chains dominated by multinationals. Two thirds of world imports concern intermediate inputs. Another factor behind the observed expansion of world trade has been the increase in international outsourcing and off-shoring of services. Trade in services rose from $0.5 billion in the 1980s to an average of $2.5 billion in the 2000s. The participation of developing countries in global services trade rose from 19 to 24% during the same period. In summary, trade patterns have moved from a country specialisation based on goods (primary commodities for the South and manufactures for the North) to intra-firm/network specialisation in terms of tasks, giving the South considerable advantage in the production of manufactures[4].

- The rise of the emerging economies – such as Brazil, Russia, India, China, and South Africa (BRICS) – as both economic and political actors, as for instance illustrated by their role in the G20, is having significant and far-reaching impact on the world economy. Together, they account for over 40% of the world population and approximately 17% of the value of world GDP[5]. The BRICS' trade performance has been well above the world average in the last decade, in terms of both exports and imports. Their specialisation can in some cases generate complementary effects; in other cases competitive effects may well create conflicts of interest among trade partners. BRICS can be a driving force for those economies that have complementary production and trade structures, because producers can benefit from the demand for their output from BRICS and they can be included in regional value chains.

- The most dramatic event in this decade is the deep recession that hit the world economy during the 2008-2009 period. The financial and economic crisis hit trade hard. The fall was sudden and sharp: global trade fell by 23%.

- The erosion of preferences due to multilateral tariff reductions is a long-standing concern for many developing countries and has become one of the key issues in the Doha Development Agenda (DDA) negotiations. Developing countries benefiting from trade preferences are concerned that reductions of most-favoured nation (MFN) tariffs by preference-granting countries may decrease their advantages with respect to non-preferred competitors and result in significant export losses. Yet studies show that losses due to preference erosion for developing countries are, on the whole, relatively small: firstly, because preference margins are rather small and secondly, because preferences are often underused by developing countries. However, the literature also emphasizes that there are groups of countries and/or products for which this may not be the case, e.g. certain agricultural products and LDCs.

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[2] World Bank, 2011, 'Leveraging trade for development and inclusive growth', the WB Group Trade Strategy 2011-2021.
[3] WTO, 2008, 'Trade in a globalising world'. World Trade Report.
[4] UN, World Economic and Social Survey 2010.
[5] World Bank, 2010, World Development Indicators Database.

- Slow progress in the DDA negotiations has spurred developed countries, in particular, to pursue bilateral and regional trade agreements. The proliferation of preferential trade agreements (PTAs) –at both regional and bilateral level – in the last ten years has taken place at an unprecedented rate. It also involves a growing number of developing countries. These developments have considerable repercussions on multilateral governance, and could represent a menace to the functioning of the WTO system. Some trade experts take a pessimistic view of the latest explosion of PTAs, arguing that there is a link between the surge of bilateral and regional deals and the slow pace of the DDA. Other experts are more optimistic, suggesting that the proliferation of PTAs will eventually force the pace of the DDA negotiations.

2.2. Developing countries' integration into the world economy

According to the study, developing countries have experienced extensive and rapid trade liberalisation in the last few decades, though there is room for further liberalisation. In this context, they have significantly reduced their tariffs, opened their services sectors, and embraced foreign investment, either unilaterally or in bilateral trade agreements. The World Bank estimates that developing nations unilaterally lowered their average tariffs by 14% between 1983 and 2003 independently of GATT/WTO rounds and regional trade agreements (RTAs). The current level of tariffs in many developed countries is already relatively low, at least on industrial goods. On the contrary, high levels of protection still exist on agricultural goods and significantly affect many developing countries. Likewise, trade in services is subject to many barriers. Past research also suggests that upper middle income countries generally enjoy better market access in both developing and developed countries because their exports are skewed toward manufacturing. Conversely, low income countries face more restrictive market access because their exports have a higher content of agricultural products. Great attention is now paid to non-tariff measures (NTMs) because, as the level of tariffs has decreased, the relative importance of NTMs has increased. In addition, significant progress has been made in terms of quantifying the effects of NTMs, leading to a better understanding of the costs these barriers impose on doing business. Furthermore, there is some evidence of NTMs being used as a substitute for the now lower tariffs.

The impact of tariff reductions on employment depends on the competitiveness of domestic producers and the flexibility of domestic markets, the study says. Where domestic production is not competitive, imports will reduce domestic production and employment. Flexibility in the labour and capital markets needs to be promoted in order to respond to new opportunities, and to provide adequate safety nets to protect the poor during the process of change. Since tariffs are often an important source of government revenue in developing countries, any significant reduction may affect a government's ability to finance pro-poor expenditure such as health and education. If revenues cannot be sustained, alternative revenue sources must be found to replace tariff revenues.

Whether this process of liberalisation has been associated with net gains, especially for developing countries, is a matter of controversy in the economic literature. While many countries have benefited greatly from global integration, it cannot be denied that the benefits are distributed unequally, both across countries and within them. Much of the trade dynamism of developing countries as a group is driven by Asian economies, which have collectively more than doubled their share of global exports since 1990. In several cases – i.e. China, India, and some other Asian countries – globalisation's promise has been fulfilled. High-productivity employment opportunities have expanded and structural change has contributed to overall growth. Other regions – Latin America and Sub-

Saharan Africa – have seen much smaller increases in market share. The very diverse outcomes observed suggest that the consequences of globalisation depend on the manner in which countries integrate into the global economy.

Empirical analyses have shown that trade liberalisation can produce different outcomes. As a consequence of this, in the last decade more attention has been paid to the need for governments to ensure that citizens are able to benefit from the opportunities created by market openness: workers must be able to acquire the necessary skills; firms need to be able to access credit to finance profitable investment opportunities; and farmers need to be connected to markets. Accordingly, the focus of reforms in the developing world has moved from "getting prices right" to "getting institutions right". But what kind of institutions should reformers strive to build? Broadly speaking, desirable institutions should provide security of property rights, enforce contracts, stimulate entrepreneurship, foster integration in the world economy, maintain macroeconomic stability, manage risk-taking by financial intermediaries, supply social insurance and safety nets, and enhance voice and accountability. Because developing nations are different from developed countries in that they face both greater challenges and more constraints, "appropriate" institutions could differ from those in developed countries.

2.3. Multiplication of preferential trade agreements

The study points out that the number of PTAs in force in 2010 was close to 300 and WTO estimates that more than 400 free trade agreements (FTAs) will be in force globally by 2011[6]: all WTO members (except Mongolia) belong to at least one PTA. One half of PTAs currently in force are not strictly "regional" in that they include countries from other geographical areas. It is widely acknowledged that the benefits of trade liberalisation are greatest if liberalisation is undertaken multilaterally. Nevertheless, conclusion of the current round of multilateral trade negotiations has proven elusive and many countries have sought more quickly realizable outcomes through bilateral and regional FTAs. FTAs have also been seen by many as promoting broader economic integration and serving foreign policy and strategic interests.

Since average tariffs have fallen markedly in recent years, the study considers that tariff preferences are becoming a more minor motivation for entering into PTAs. In fact, PTAs are increasingly being used to promote cooperation in the areas of investment, trade facilitation, competition policy and government procurement, as well as wider social issues related to the regulation of the environment and the protection of labour and human rights. Furthermore, PTAs are becoming increasingly complex, in many cases establishing regulatory trade regimes which go beyond multilaterally agreed trade regulations. Reciprocal preferential agreements between developed and developing countries are on the increase, pointing to a decreasing reliance by some developing countries on non-reciprocal systems of preferences. Also significant is the emergence of preferential agreements amongst key developing countries which may be evidence of a strengthening of South-South trading patterns.

About one half of world trade now takes place among PTA members. According to the WTO, PTA trade in world trade has increased from 18% in 1990 to 35% in 2008. Manufactures represented 65% of merchandise trade among PTA members in 2008. However, a deeper analysis shows that only 16% of world trade is eligible for

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[6] WTO, World Trade Report 2011.

preferential tariffs, the global trade-weighted preference margin amounts to no more than 1%, and 84% of world merchandise trade still takes place on an MFN basis. Hence, while the number of PTAs has been increasing, the importance of preferential trade has not kept pace. This development reflects a substantial reduction in MFN tariffs during the past two decades, either through multilateral trade negotiations or unilateral reductions[7].

Regarding the economic impact of PTAs, the study underlines that preferential trade opening allows some domestic production to be replaced by imports from more efficient firms located in preference-receiving countries, leading to welfare gains (trade creation). At the same time, PTAs may reduce imports from more efficient non-member countries, implying a welfare loss (trade diversion). PTAs have a positive impact on welfare if trade creation exceeds trade diversion. In brief, two countries are more likely to sign an agreement if they are geographically closer, similar in size and differ in terms of factor endowment.

According to the study, developing countries have contributed to the recent rise in PTA activity: South-South agreements now represent two-thirds of all PTAs in force and North-South about one-quarter. The emergence of South-South integration may also reflect its usefulness as a policy tool for industrialisation by facilitating the inclusion of LDCs in regional production networks and the export process. South-South integration also provides a means of strengthening developing countries' bargaining power in multilateral trade negotiations and addressing region-specific issues, such as transit, migration and water[8].

The study points out that the characteristic feature of PTAs between developed and developing countries is that they are underpinned by criteria such as reciprocity and comprehensive trade liberalisation as opposed to the non-reciprocal systems of preferences enjoyed by developing countries under schemes like the Generalized System of Preferences (GSP) and other unilateral initiatives such as Everything but Arms (EBA) under the legal cover of waivers granted by WTO members. This confronts developing countries with the challenge of transition from non-reciprocal trade preferences to trade liberalisation on a mutual basis under reciprocal PTAs with developed country partners.

The study concludes that the proliferation of PTAs has created a spaghetti bowl of criss-crossing arrangements, with little attention to coherence between agreements or to the implications of so many regimes for trade costs, efficiency, and the conditions of competition in global markets. The question of whether PTAs – and specifically RTAs - represent a WTO-plus by accelerating and extending the liberalisation process on a non-discriminatory basis, or whether they are likely to weaken the WTO by bypassing it, is still open. Although liberalisation through RTAs is generally a second-best option, it may be the only option if there is resistance to liberalisation at the multilateral level.

2.4. Trade and inclusive growth

The study recalls that poverty eradication is the central focus for development: the Millennium Development Goals (MDGs) commit the international community not only to halving poverty by 2015, but also to promoting a more open, rule-based trading system, with the latter goal viewed as reinforcing the former one. The role of international trade in

[7] WTO, World Trade Report 2011

[8] WTO, World Trade Report 2011.

relation to poverty reduction has been highlighted in many studies. However, empirical evidence is not conclusive.

According to theory, international trade helps raise and sustain growth by giving firms and households access to world markets for goods, services and knowledge, lowering prices, increasing the quality and variety of consumption goods, and fostering the specialisation of economic activity into areas where countries have a comparative advantage. Trade opportunities are important too for generating the investment and positive externalities that are associated with learning through the diffusion and absorption of technology. As a result, many developing countries have embarked on programmes of external economic liberalisation in recent decades.

The effect of greater trade openness on income growth is the topic of a large body of applied research. A first wave of studies in the 1990s was not able to demonstrate the direction of causality between the phenomena under investigation, with the result that inclusive growth and development can be the consequences of trade liberalisation and integration into the world economy, rather than a prerequisite for it. Another possibility is that both phenomena are caused by a third factor - such as the quality of institutions. A second wave of empirical studies was more cautious in quantifying the actual impacts of multilateral trade policies on growth. Yet the lack of consensus on empirical evidence on the link between openness and poverty dynamics has recently led to new case studies.

There is no simple general conclusion about the relationship between trade liberalisation and poverty, the study says. While there are, in principle, many causes for optimism in the relationship between trade liberalisation and poverty reduction, the ultimate outcome depends on many factors, such as the precise trade reform measures undertaken, the characteristics of the poor and local institutions, which determine the price effects of liberalisation, notably the transmission of border price changes to local levels and homes.

Developing countries are not a homogeneous group. A comparative analysis of the linkages between trade, development and poverty reduction in 15 African and Asian countries[9] derives the following key factors: i) economic growth remains the most significant pre-requisite for poverty reduction; ii) economic growth "per se" is not always sufficient to stimulate poverty reduction, while the character and distribution of growth plays a major role in determining the extent of poverty reduction; iii) agriculture remains a key activity for a majority of the poor; iv) poor business climates (e.g. poor infrastructure, excessive red tape, corruption, an inefficient financial sector, weak institutions, etc.) hamper growth and poverty reduction; v) the countries that have benefited the most are those that have carried out selective and gradual liberalisation and have continued to provide state support to a number of key economic sectors; vi) institutions play a key role in creating and sustaining economic growth and ensuring that benefits are spread as widely as possible; and vii) global competition, especially with developed countries, has led to the decline of many sectors.

2.5. Complementary policies and reforms to promote development

When trade reform has been implemented in an unstable macroeconomic framework or without any effort being made to strengthen trade-related domestic institutions or without appropriate complementary policies, it has often either been reversed or has failed to

[9] The 15 countries under investigation are: Bangladesh, China, Cambodia, India, Kenya, Nepal, Netherlands, Pakistan, Sri Lanka, South Africa, Tanzania, Uganda, UK, Vietnam, Zambia.

stimulate growth, the study says. Determining the appropriate trade policy stance and the associated complementary policies for a country should consequently be part of designing growth policy and development and poverty-reduction strategies:

- Institutions: On the government side, an effective and non-corrupt authority is critical to the success of reforms.

- Macroeconomic and exchange rate policies: A stable macroeconomic environment and a truly competitive exchange rate are crucial in order that trade liberalisation is sustained and can contribute to an efficient allocation of resources.

- Competition policies: By lowering external barriers to international competition and by reducing government-imposed barriers to entry by domestic firms, it is possible to increase the competitiveness of markets. Competition among private firms is also important.

- Infrastructure: Improving the quality of infrastructure is of primary importance for developing countries. Infrastructure plays a key role in LDCs' performance, e.g. road density, the telecommunication infrastructure, electricity infrastructure, etc.

- Safety nets: One of the most important complementary policies for the poor is an efficient social safety net. All trade policy reforms need to consider the potential hardships faced by the poor in activities that are opened up to foreign competition. It is preferable to employ general, country-wide safety nets to deal with problems linked to trade reform, rather than to establish distinct trade-related safety nets.

- Foreign direct investment (FDI) and intellectual property protection: FDI is an important channel of technology transfer across national boundaries. Hence, it is important that FDI involves labour-intensive production and the transfer of skills through training. Improvements in communications, transport, and information technology, together with trade liberalisation, have led companies to locate the labour-intensive parts of production in developing countries. Effective intellectual property regimes can promote FDI and technology transfer in sectors that substantially rely on intellectual property rights (IPRs).

- Establishing business: If trade liberalisation opens up business opportunities in new areas, new businesses are likely to be required. Regulations for establishing these activities should thus not be restrictive.

The type and speed of reforms to accompany trade liberalisation process is also an important issue. According to the study, two main strands of literature are available, opposing proponents of “shock therapy” and those of “gradualism”, particularly in the 1990s. Shock therapists argued that rapid liberalisation avoids painful and costly periods, when the old centrally planned economy was no longer working and the new market one was not yet working. They advocated a policy package consisting of rapid and extensive privatisation of state-owned enterprise, liberalisation of prices and trade, and adoption of fiscal austerity policies. Gradualists called instead for a more cautious approach to reforms, and objected to the elimination of the old regulations and institutions before the new ones are created, warning that the institutional vacuum could have a devastating impact on output.

The study adds that the success of trade reform policies is also dependent on timing. Determining the appropriate pace of reform can have both political and financial implications. For example, rapid implementation removes distortions quickly, providing clear price signals to facilitate further adjustment, but at higher short term cost than a gradualist approach. A gradual approach gives the government more time to explain the reforms to its citizens, as reforms can be perceived as threatening.

Trade liberalisation policies in developing countries often occur in conjunction with other macroeconomic reforms, the study says. The sequencing of reforms refers to the order in which these macroeconomic reforms are introduced, both across sectors and within them. While most observers believe that there are substantial welfare gains to be reaped by giving freer play to market forces, many have concluded that there are problems inherent to the transition process itself that argue against liberalizing all markets simultaneously.

2.6. Services

The study emphasises that modern economies are increasingly dominated by services, and that with growth and development, services form an increasing share of overall production and employment. Over the last three decades, services have grown from roughly 58% of GDP to almost 75% across the OECD[10] . But the sector is also important for developing countries. In Latin America, for example, services accounted for 66% of value added in 2007, up from 49% in 1977. Similar trends can be seen in other regions. Even in sub-Saharan Africa, there has been a marked shift in value added toward the service sectors.

Increasing evidence suggest that services play a crucial role in productivity growth in general and that services liberalisation is a major potential source of gains in economic performance. At the same time, trade in services may lead to off-shoring and may place pressure on wages in high-income countries, though the empirical research has not yet produced unequivocal conclusions on off-shoring of labour.

Empirical research also point to positive linkages in developing countries between service sector openness and growth. Research into the impact of changes in services policy on economic performance over the period 1990-2004 for a sample of 20 transition economies found that changes in policies towards financial and infrastructure services, including telecommunications, energy and transport, are highly correlated with inward FDI. They conclude that services policy reform explains the post-1990 economic performance of transition economies. Given that developing countries tend to have more restrictions on foreign competition, there is a significant potential growth bonus for developing countries that move from closed regimes toward open regimes.

According to the study, liberalisation of the services sector entails the reduction or elimination of prohibitions, quantitative restrictions, and regulations that prohibit FDI, limiting the share of ownership of foreign firms, limiting the number of expatriates that can be employed, or restricting imports of a particular service. The potential implications of trade liberalisation in services are closely tied to the mode of liberalisation and to underlying market structures. In fact, while both privatisation and more competition lead to significant improvements in performance, a comprehensive reform programme

[10] François, J., and Hoekman, B., 2010, 'Services trade and policy', Journal of Economic Literature, Vol.48, pp. 642-92.

produces the largest gains. The sequence of reform also matters. Consequently, opening services markets involves a broad and complex set of policies, regulatory instruments, institutions and constituencies, domestic and foreign, public and private.

Experience demonstrates that the nature, pace and sequencing of regulatory reform and liberalisation undertakings must be carefully assessed. Some specific regulatory tools might be useful in this regard. Prior consultation can contribute to the development of better regulation, providing more information on all the available options. Insights gained through prior investigation of the experiences of other countries could also be useful in designing and sequencing domestic reforms. However, such regulatory tools also imply significant administrative costs. The study also points out that trade agreements may deprive regulators of the ability to achieve social objectives. The challenge would be to achieve a balance between greater competition and preserving desirable regulatory freedom.

The complexity of service sector reform, and the critical need for liberalisation efforts to be not only rooted but also accompanied, and in some instances preceded, by sound regulation (including enforcement capacity) can present formidable challenges to developing countries, the study concludes. This points to the need for services liberalisation to be progressive, and to be accompanied by regulatory capacity building.

2.7. Investment

The study notes that neoclassical theory predicts a positive relationship between capital inflows and growth. Therefore, the theory generally favours open or liberalised capital markets, with the expectation of more efficient allocation of savings, increased possibilities for diversification of investment risk, faster growth and the dampening of business cycles. The new structural economics approach considers that FDI is a more favourable source of foreign capital for developing countries than other capital flows because it is usually targeted toward industries consistent with a country's comparative advantage. It is less prone to sudden reversals during economic crises. In addition, FDI generally brings technology, management, access to markets, and social networking, which are often lacking in developing countries and are crucial for industrial upgrading. Thus, liberalising FDI investment is considered an attractive component of a broader development strategy.

According to the study, while there is little evidence of a clear relationship between capital inflows and growth, FDI is believed to be one of the most important channels through which financial globalisation benefits the economy. Since the mid-1980s, most developing countries have opened their markets to FDI, trying to benefit from the development input that these investments can generate for host countries. The process of opening up to FDI and establishing enabling frameworks for FDI vastly accelerated during the 1990s and continues today.

FDI flows into host countries are determined by a variety of factors, the study says. Firms choose the investment site that minimizes the cost of production. Determinants include the physical and technological infrastructure of the host country, and the cost and quality of resources, together with inputs and business facilitation measures, such as FDI promotion, including incentives to foreign investors. The riskiness of investment in terms of the economic and political environment also affects investment decisions. In this respect, greater macroeconomic and political stability of the host country could attract

more foreign investment. Host country institutions also influence investment decisions because they directly affect the conditions in which businesses operate.

The OECD identified ten broad policy areas where host country policies affect investment decisions: investment policy, investment promotion and facilitation, trade policy, competition policy, tax policy, corporate governance, policies for promoting responsible business conduct, human resource development policy, policies related to infrastructure and financial sector development, and public governance[11].

The study concludes that one primary condition for attracting FDI is the adoption of an investment liberalisation policy. A key challenge for governments consists in identifying and eliminating unwanted barriers to entry. However, FDI liberalisation is a necessary but not a sufficient host country determinant of investment, and other determinants have to come into play if investment is to flow into a country. If a host country does not have some basic economic determinants in place it is unlikely that promotional efforts or incentives will be successful in attracting significant FDI.

2.8. Competition

The study points out that competition policy is the combined effect of all government policies that influence the level of competition as a positive tool regulating the market economy, including measures against restrictive business practices and unfair business practices. An important objective of competition policy is to enhance consumer welfare by promoting competition. Economic efficiency is generally enhanced by encouraging competition.

According to the study, one of the key links between competition policy and growth has been the role that competition policy plays in increasing economic efficiency: the main static effects of competition are to reduce the ability of firms to raise price above marginal cost and to ensure that firms produce at the lowest costs; the dynamic consequences of competition can include incentives to innovate, to imitate, and to invest in the development of new technologies and know-how. However, a key aspect of achieving a successful reform process is the promotion of consistency and coherence between competition, industrial, trade, and investment policy regimes. Thus, policies to promote and protect competition are now prominent on the national policy agendas of a number of emerging economies, e.g. China, Vietnam and India.

3. THE POSITION OF DEVELOPING COUNTRIES IN THE WORLD ECONOMY

While Least Developed Countries (LDCs) as a category are distinctly defined by the United Nations (UN)[12], there is no established convention for the designation of "developed" and "developing" countries. In common practice, Japan in Asia, Canada and the USA in Northern America, Australia and New Zealand in Oceania, and Europe are considered "developed" regions or areas. The World Bank classifies low income

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[11] OECD, 2006, 'A policy framework for investment: Investment promotion and facilitation'.

[12] Currently, Gross national income per capita, Human Asset Index and an Economic Vulnerability Index are used to classify countries as least developed. In addition, low income countries with population larger than 75 million inhabitants do not qualify for inclusion in the group of least developed countries (LDCs). For more information, see http://www.unohrlls.org/en/ldc/related/59/.

countries ($1,005 per capita or less) and lower-middle-income countries ($1,006 - $3,975 per capita) as developing countries (calculated using the World Bank Atlas method), but acknowledges that this does not imply that all economies in these groups are experiencing similar levels of development[13].

The present analysis is based on the EU's definition of developing countries in the current Generalised System of Preferences (GSP) regulation and defines the group of 176 countries eligible for the GSP as "developing"[14]. In this group, a further differentiation is established between G20 developing countries[15] and the LDCs.[16] The need for differentiation was highlighted in the Commission's on-line public consultation on trade and development carried out between June and September 2011[17]. Respondents agreed that emerging economies are no longer developing countries, though also noting that they may still face particular constraints that need to be taken into account.

The rest of the section briefly describes the evolution of developing countries over the past decade in terms of changes in per capita income and poverty; their trade performance, including trade in services and changes in flows and stocks of foreign direct investment.

3.1. Per capita income has increased

Figure 1 shows the change in developing countries' gross domestic product (GDP) per capita over the past decade. Most of the increase in per capita income is driven by the G20 developing countries. The cumulative increase in their GDP per capita over the period stands at 115%. The relative increase in GDP per capita was largest for China at 223% and Russia at 310%. This positive trend seems to continue. In its twice-yearly update,[18] the World Bank forecasts that developing economies would grow by 6.3% in 2011, down from 7.3% in 2010, and maintain 2011 growth levels for the next two years.

LDCs have benefited somewhat less. The increase in per capita income of the LDCs reached 88% over the period. The gap between developing countries and LDCs has thus further increased. However, some LDCs have seen a more positive development than others especially due to a boom in exports of oil and minerals. Between the beginning of the decade and mid-2008, the total volume of exports from the LDCs almost doubled, with African LDCs leading this expansion. Hence, while GDP per capita for African LDCs grew from $357 to $640 between 2000 and 2008, the increase was limited to $280 to $436 for non-oil exporters but soared from $806 to $1,854 for oil exporters (Angola,

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[13] In contrast to the World Bank, the UN distinguishes between countries with high human development (developed countries) and developing countries (cf. http://hdr.undp.org/en/media/HDR_2010_EN_Chapter2_reprint.pdf). This is, however, not an established convention and is therefore not pursued here.

[14] The definition of Developing Countries for the purpose of GSP is different from and much broader than the OECD/DAC list of recipients of Official Development Assistance (ODA). The OECD list, even though it does not contain a definition of developing countries as such, is significant because only assistance to those countries, including the categories of LDCs, LICs, Lower MICs and Upper MICs qualifies as ODA and thus counts towards the target of 0.7%/GNI that the EU has committed to achieve by 2015.

[15] The G20 is an economic forum consisting of 20 of the world's largest economies, including the European Union. Its developing country members are: Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, and Turkey.

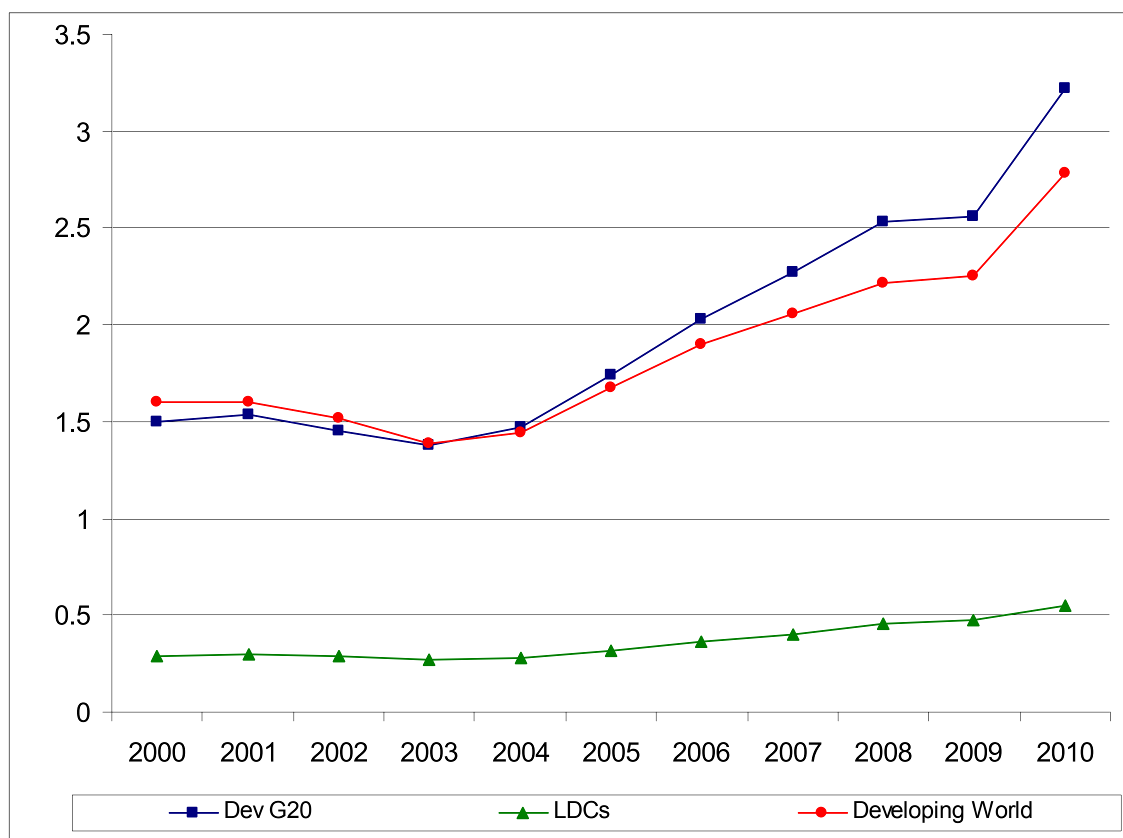
[16] Currently 48 countries are recognized as being least developed, see http://www.unohrlls.org/en/ldc/25/

[17] For more information see http://trade.ec.europa.eu/consultations/?consul_id=156

[18] Global Economic Prospects, 2011.

Chad, Equatorial Guinea, Sudan)[19]. This compares to an increase of $327 to $624 for all LDCs over the period and $1,288 to $3,165 for all developing countries.

Figure 1: Developing countries' evolution of GDP per capita (€ thousand, current prices)



Source: IMF

Poverty has decreased, but unevenly across countries and regions

The increase in GDP per capita has been accompanied by a reduction in absolute poverty between 1990 and 2005.[20] The number of people living on less than $1.25 a day dropped from about 1.8 billion in 1990 to 1.4 billion in 2005. The corresponding poverty rate dropped from 46 % to 27 %. Despite the economic and financial crisis in 2008/2009, exacerbated by the food and energy crisis, sustained growth in developing countries, particularly in Asia, is keeping the world on track to reach the poverty-reduction MDG target of halving the proportion of people living in extreme poverty.[21]

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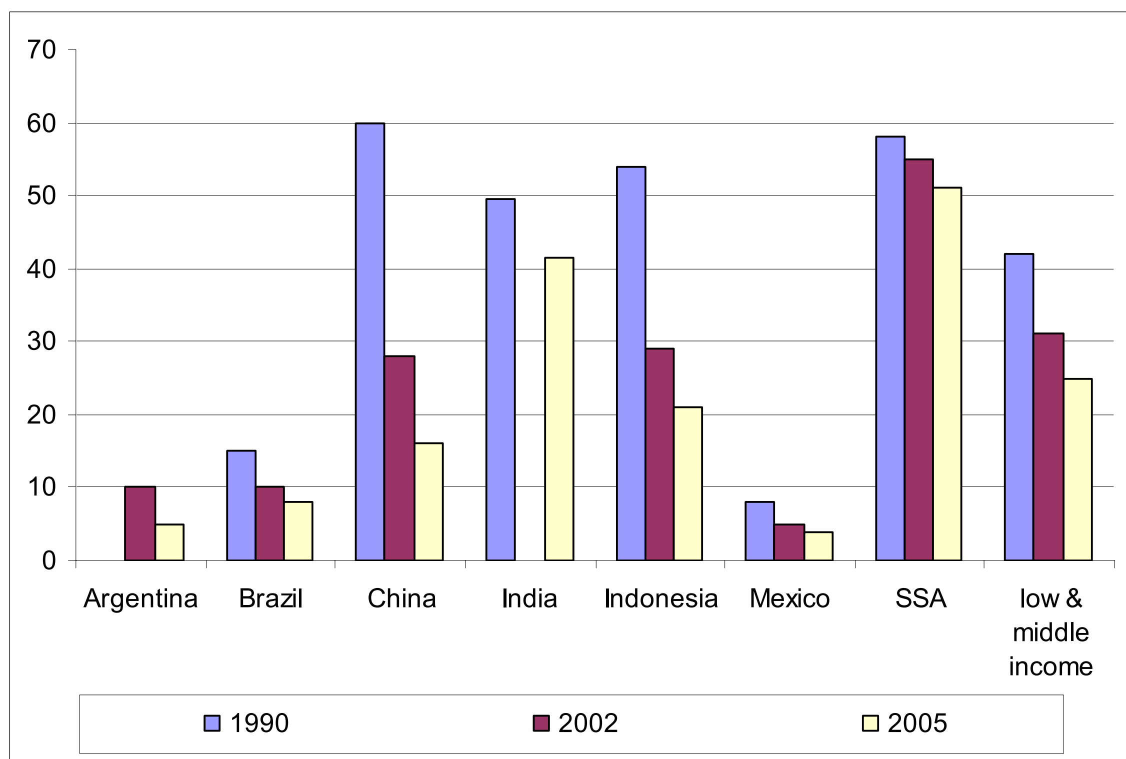
[19] UN Secretary General Report on "Ten-Year Appraisal and Review of the Implementation of the Brussels Programme of Action for the Least-Developed Countries for the decade 2001-2010". http://www.un.org/wcm/webdav/site/ldc/shared/documents/Ten-Year%20appraisal.pdf

[20] Data is patchy and there exists no comprehensive data on poverty ratios across countries later than 2005.

[21] See UN MDG Report 2011, p. 6-8 (http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2011/11-31339%20%28E%29%20MDG%20Report%202011_Book%20LR.pdf.). Based on projections from the World Bank, it is now expected that by 2015 the global poverty rate will fall below 15 %, well under the 23 % target. Projections for sub-Saharan Africa forecast that the extreme poverty rate in the region will fall below 36%. Still, there are hardly any figures on poverty reduction in a country such as India (five observations since 1960s out of which only two since 1989).

Using the $1.25 a day poverty line reveals a reduction in absolute poverty for a set of selected countries and country groups (Figure 2), including remarkable reductions in absolute poverty in Asia, notably in China and Indonesia where poverty was cut by more than half between 1990 and 2005. In relative terms, poverty has also fallen markedly in Argentina and Brazil, while in sub-Saharan Africa absolute poverty did not decrease to the same extent.[22]

Figure 2: Headcount poverty ratio, $1.25 poverty line (%)



Source: World Bank, POVCAL and the OECD Development Centre. *Note:* Data is not available for 2000 or for later than 2005 for a cross country comparison. Data for India is note available for 2002.

However, the $1.25 poverty line is a very crude measure of poverty and does not necessarily reflect human development. Poverty is a multidimensional phenomenon and is characterised not only by income, but also by access to health services, education etc. A poverty indicator that seeks to take into account several dimensions of poverty is the Human Development Index (HDI). This indicator (Figure 3) points to a significant increase in development for all selected countries over the past 20 years. The only exception is Sub-Saharan-Africa which saw its HDI decline between 1990 and 2000 before increasing to a higher level in 2010. In this respect, it is significant that the African LDCs that experienced the highest GDP per capita growth over the last decade remain at the lower end of the HDI with a respective ranking out of 169 countries of 119 for Equatorial Guinea, 146 for Angola, 156 for Sudan and 163 for Chad[23].

Trade policy reform has both direct and indirect effects on the poor. In terms of direct effects, trade policy reform may affect the demand for poor people's labour and other assets they own and thus have an impact on their income. It also changes the price of

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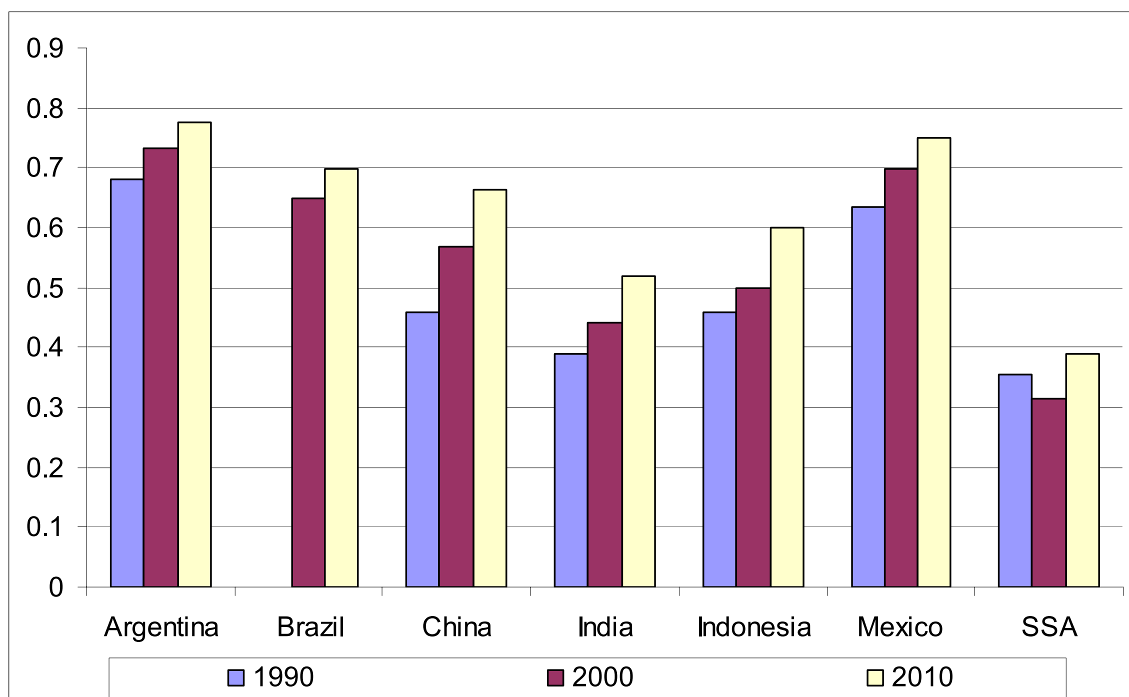
[22] Data for the LDCs is missing.
[23] See htt.44p://hdr.undp.org/en/

what they consume. The indirect effects are more long-term and operate through changes in incentives to invest and innovate which will improve the prospects for higher economic growth in the future.

Figure 3: Change in human development index (1 is developed)



Source: UNDP, POVCAL and the OECD Development Centre.

But the poverty impacts of a trade policy change will vary significantly across countries. The poor in different countries consume and produce different goods and are not subject to the same set of regulatory regimes, infrastructure, market structure, etc. Therefore, the impact of trade reform will be channelled through different transmission mechanisms in each country and influence individuals and households differently. Hence, the answer to whether the poor will benefit or not from global reforms is specific to countries and individuals.

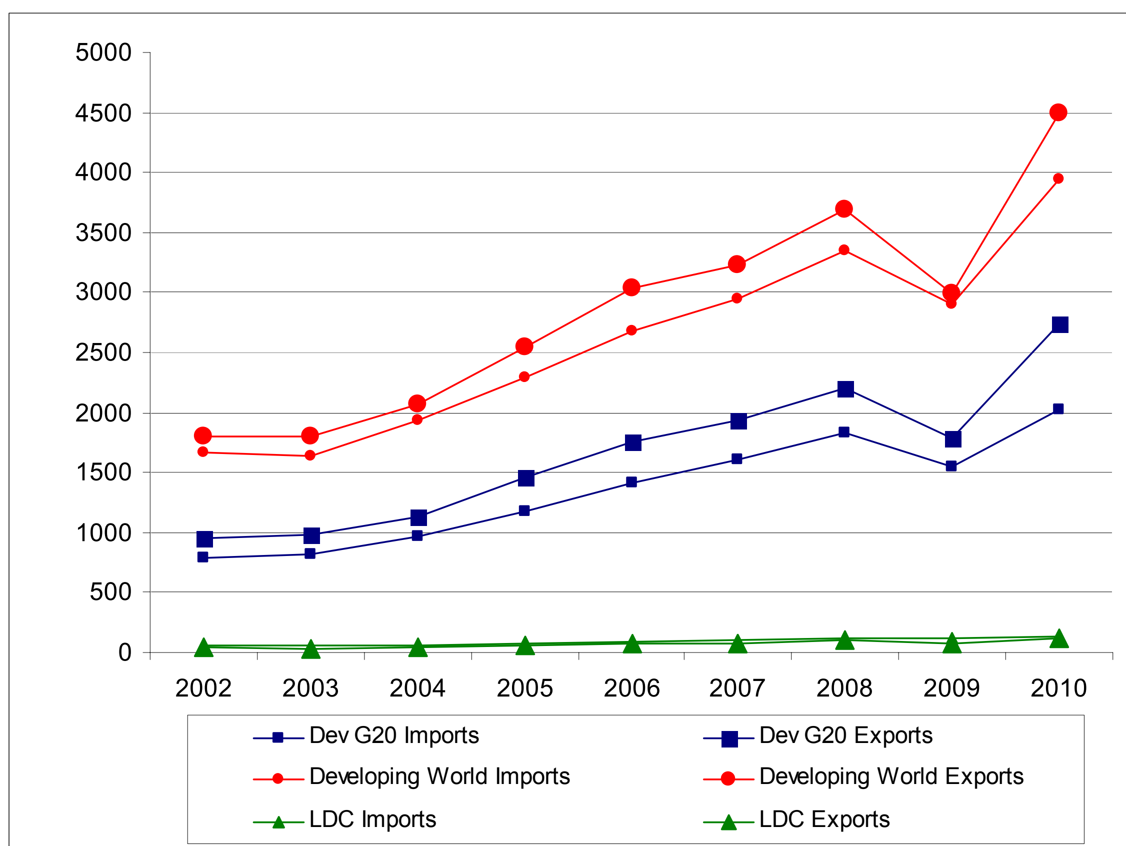
3.2. Developing countries, including the LDCs, are trading more

Figure 4 shows that developing countries' trade steadily increased from the beginning of the period until it dipped in 2009 due to the financial crisis. Developing countries were particularly affected by the crisis because of falling commodity prices, reduced exports and tourism earnings and declining capital flows and remittances. The crisis caused a drop in the value and volume of trade for almost all developing countries.

Trade of the ten developing G20 countries makes up a significant share of the developing world's exports (about a third). Among the G20 countries, the largest increases in exports are accounted for by China and India (increasing exports by 307% and 214% respectively). In contrast, Mexico's exports increased by a mere 37%.

The relative increase in LDCs' exports between 2002 and 2010 (not clearly discernable in Figure 4) is larger (198%) than the increase in exports of the developing world as a whole, which reaches 150%. However, in contrast to the rest of the developing world, the LDCs remain net-importers.

Figure 4: **Developing countries' trade performance (€ billion, current prices)**



Source: IMF

A fair share of the increase in developing countries' exports is made up of mineral fuels which have experienced a boom in prices. This has benefited in particular Kuwait, Russia, the United Arab Emirates, and Saudi Arabia[24]. The surge in commodity prices over the period is therefore one reason for the successful trade performance of developing countries. On the other hand, the growth in Chinese exports comes from manufactures, more specifically machinery and transport equipment.

Other main exports of developing countries are electrical machinery (HS85) and machinery and mechanical appliances (HS84) making up 18% and 11% of developing countries total exports, respectively. But the largest increases in exports concern products traded in relatively small quantities such as copper (HS74), which increased by 352% over the period.

Reflecting the above, developing countries have increased their share of world exports over the period examined. The figure for developing countries as a whole points to an increase in the share of world exports from 41.0% to 51.5%, while the share of world exports of the developing G20 countries increased from 20% to 30%. The LDCs increased their share of world exports from 0.8% to 1.3% (Table 1).

Table 1: **Share in world exports (%):**

	2002	**2010**
Developing countries	41.0	51.5
G20 developing countries	*20.5*	*29.7*

[24] Increasing exports in mineral fuels by 277%, 252%, 198%, and 183% respectively.

LDCs	*0.8*	*1.3*
EU27	17.4	15.3
USA	15.6	10.6
Japan	9.1	6.6
Rest of the World	16.9	16.0

Source: IMF

The developing countries' increasing share of world exports is also reflected in a larger share of exports of manufactured goods exported, in particular from China. Exports of manufactured goods might have increased even more and export diversification might have progressed even further had the prices of mineral fuels not surged so substantially.

However, in case of the LDCs, dependence on a few export products, particularly primary commodities, increased during the past decade. In fact, the increase in LDC exports is concentrated in a subset of countries and one may note that LDCs' dependence on a few export products, particularly primary commodities, has increased during the past decade. Chad increased its exports by 2980%[25], while Zambia, Angola, and Equatorial Guinea increased their exports by 429%, 378% and 238% respectively. This increase is mainly due to the increase in the global demand for oil (Chad, Angola and Equatorial Guinea) and raw materials (copper in the case of Zambia) and high commodity prices.

On average, three main export products make up more than 75% of all their exports, while in eight LDCs this proportion is higher than 95%. The overall increase in export concentration has been essentially due to trends in African LDCs, particularly the oil exporters among them. At the same time, the share of manufacturing in GDP has been stagnant thereby making it difficult to talk about a structural transformation in LDCs. Still, some progress has been recorded by Asian LDCs, driven by their specialisation in low technology manufactures, primarily textiles, for instance Bangladesh and Cambodia.

3.3. South-South trade has outstripped North-South trade since 2007

Trade between developing countries (South-South trade) is growing in importance. In 2007, South-South trade was for the first time more important than trade between advanced and developing economies (Figure 5). G20 developing countries account for most of this increase, as trade between the developing world and G20 developing countries (including trade among the G20 developing countries themselves) increased by 265%.

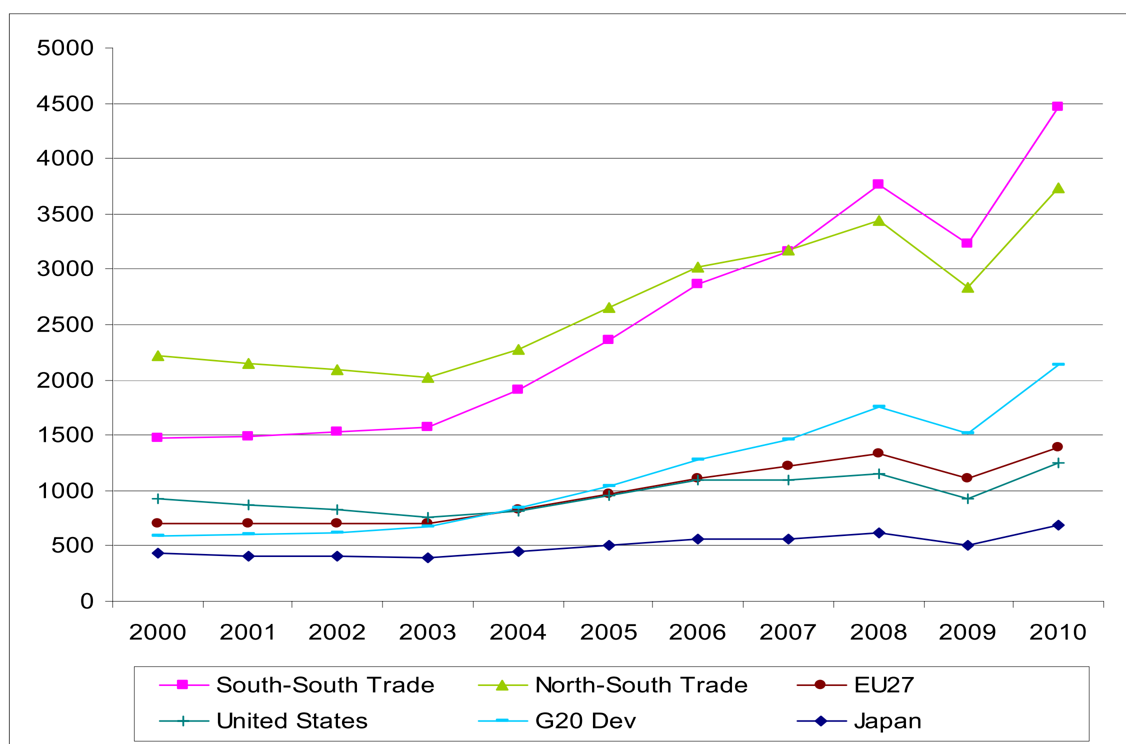
EU27 trade with developing economies increased more (97%) than total North-South trade (69%), while the increase in United States' trade with developing countries was lower at 36%. Trade between Africa, excluding intra-African trade, and the developing world as a whole, increased by 234% (not displayed in the graph). However, with 3.5% of the total, Africa still makes up only a small share of trade among developing economies.

The EU accounts for about 16% of the LDCs' trade and is their second most important trading partner after China with a share of close to 22% of LDC trade. In 2009, the EU was the world's leading importer of LDCs' agricultural products with 32% of the total (compared to 15.6% for India and 11.6% for China) and of LDCs' textile and clothing

[25] Starting from a relatively low export value of €65 million in 2002.

products with 51% of the total (compared to 32% for the USA). However, with 13% of fuel exports from LDCs, the EU comes after China (34%) and the USA (23%).

Figure 5: Overview of developing countries' trade (import and export) by main partners (€ billion, current prices)



Source: IMF.
Note: South-South trade denotes trade between developing countries.

Trade barriers between developing countries are still much higher than barriers between developed and developing countries. Kowalski and Sheperd (2006)[26] found that tariff barriers facing South-South trade are almost three times higher than North-South or North-North trade barriers. Hence, there is potentially more scope to further increase South-South trade through tariff liberalisation compared to North-South Trade. Regional integration can be decisive in this respect, but one should note that the form regional integration takes may differ from one region to another.

The relative importance of non-tariff barriers (NTBs) is increasing as regular tariff barriers are gradually being lowered. Some developing countries have made significant progress in reducing these barriers, which hinders not only trade but business activity more generally. According to the World Bank's and the International Finance Corporation's "Doing Business Indicators", reforms making it easier to do business were implemented in 36 of 46 in Sub-Saharan African economies in 2010/2011. In terms of the overall ranking of 183 countries, Mauritius is in 23rd place ahead of several EU member states. Rwanda, an LDC which is in 45th place, has made significant progress over the past five years in terms of complying with export formalities (time halved) and streamlining the time required to register a company (time reduced by 83%). Also neighbouring Burundi and Uganda show progress in this respect.

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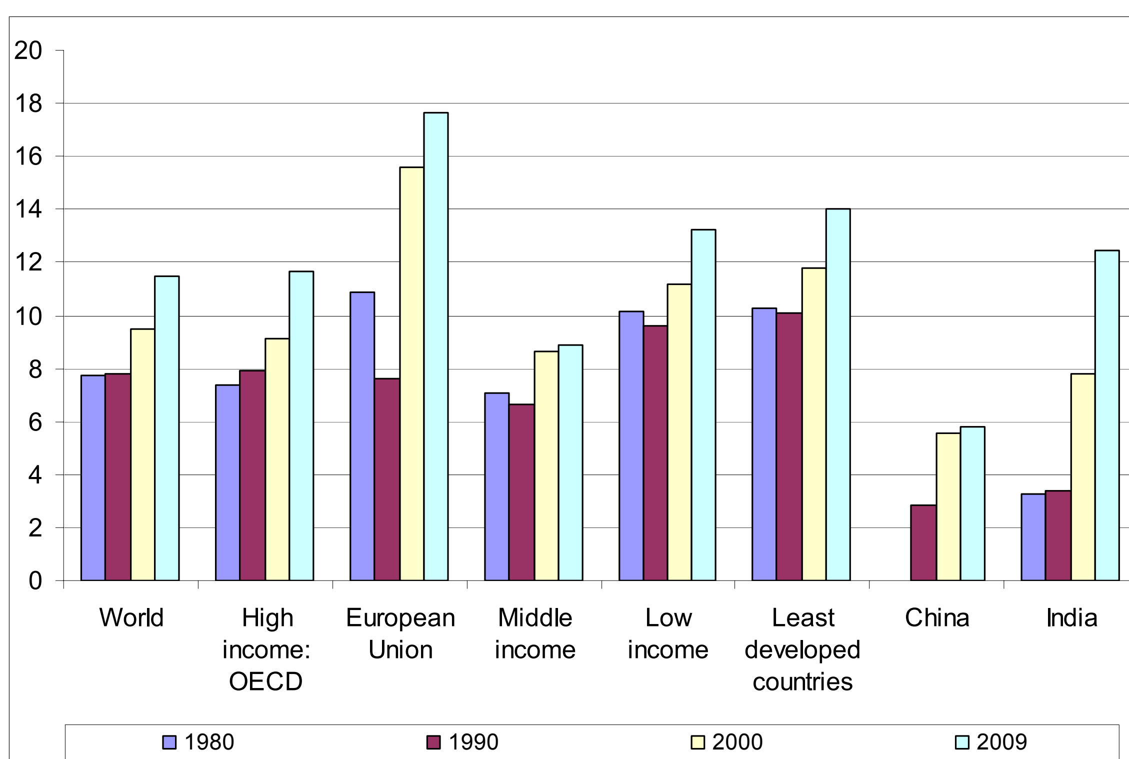
[26] Kowalski, P. and B. Shepherd (2006), "South-South Trade In Goods", OECD Trade Policy Working Papers, No. 40, OECD Publishing. http://dx.doi.org/10.1787/314103237622

3.4. Growing importance of trade in services

Trade in services has become more important over the last decade, partly because technological progress in information and communication technology has allowed a rising share of intermediate services in total trade. Consequently, worldwide trade in services now makes up nearly 12% of GDP (Figure 6). The worldwide share of services trade in GDP grew by 48% between 1980 and 2009. This especially concerned India whose share of services in GDP increased from some 3% to more than 12% over the period. Low- and middle income countries as well as LDCs also increased their share of services trade in GDP, albeit less dramatically than India. The same holds true for the EU and other high-income OECD countries. In contrast, the relative importance of trade in services of the Latin American and Caribbean countries (not shown in the graph) declined.

Figure 6: Trade in services (% share of GDP)



Source: IMF

Disaggregated data on trade in services is still patchy, but it is more recent and comprehensive than the poverty data. The data indicates that LDCs[27] on average import more commercial services than they export (not shown in Figure 6). They mostly import transportation services and export travel services (53.3%), transportation services (23.5%) and other commercial services, which include transactions such as construction, computer and information, and other business services (23.2%)[28]. However, these figures mask great heterogeneity amongst LDCs. While the share of commercial services is

[27] Based on WTO data for Bangladesh, Benin, Cambodia, Ethiopia, Senegal, and Tanzania (http://stat.wto.org/ServiceProfile/WSDBServicePFHome.aspx?Language=E).

[28] 2007 WTO Report on "Market access for products and services of export interest to LDCs (http://www.mdg-trade.org/WTCOMTDLDCW41_english.pdf).

insignificant in oil-exporting African LDCs, it is important in other LDCs (e.g. 49% in Ethiopia, where the bulk of services is related to transportation), or even prominent in many small island developing countries that have an important tourism sector (e.g. 90% for Samoa).

Liberalisation of trade in services can be an important part of a developing country's growth strategy and could especially benefit those low-income and LDCs which have so far not succeeded in reaping the full benefits of trade. The potential development impact of service liberalisation is significant and estimated welfare benefits for service liberalisation are higher than for goods and agriculture liberalisation.[29]

To a certain extent, however, the effects of trade liberalisation in services can be achieved through internal liberalisation of services. This conclusion may be drawn from a study carried out by the World Bank (WB) of four major road transport corridors in Africa that cut across borders and ship goods to the ports. In all the four transport corridors, the pure vehicle operating costs along these major corridors were no higher than in France. Profit margins were by contrast exceptionally high, particularly in Central and West Africa, where they reach 60 to 160%.[30] The underlying cause is limited competition combined with a highly regulated market. Competition in the trucking industry could thus lower costs dramatically. Rwanda deregulated the trucking industry and transport prices fell 75%.[31]

3.5. Worldwide investment has increased with almost half going to the developing world

Worldwide foreign direct investment (FDI) inflows decreased over the last decade in Euro terms (while it increased in dollar terms) and suffered a further blow in 2009 due to the financial crisis (Figure 7). On the other hand, FDI flows into developing countries increased by 54% between 2000 and 2008. Moreover, FDI inflows into developing countries suffered less from the financial crisis, indicating more stable investment prospects. Worldwide FDI flows decreased by 44% between 2008 and 2009 while FDI inflows into developing countries decreased by a mere 36%.

FDI inflows into developing countries are now nearly as large as inflows into the EU, USA, and Japan together. In 2009, FDI inflows into developing countries equalled €343 billion, while FDI inflows into the EU, USA and Japan equalled €361 billion. While developed countries on average invest more abroad than they receive, the contrary holds true for developing countries.

Figure 7: FDI inflows by destination (€ billion, current prices)

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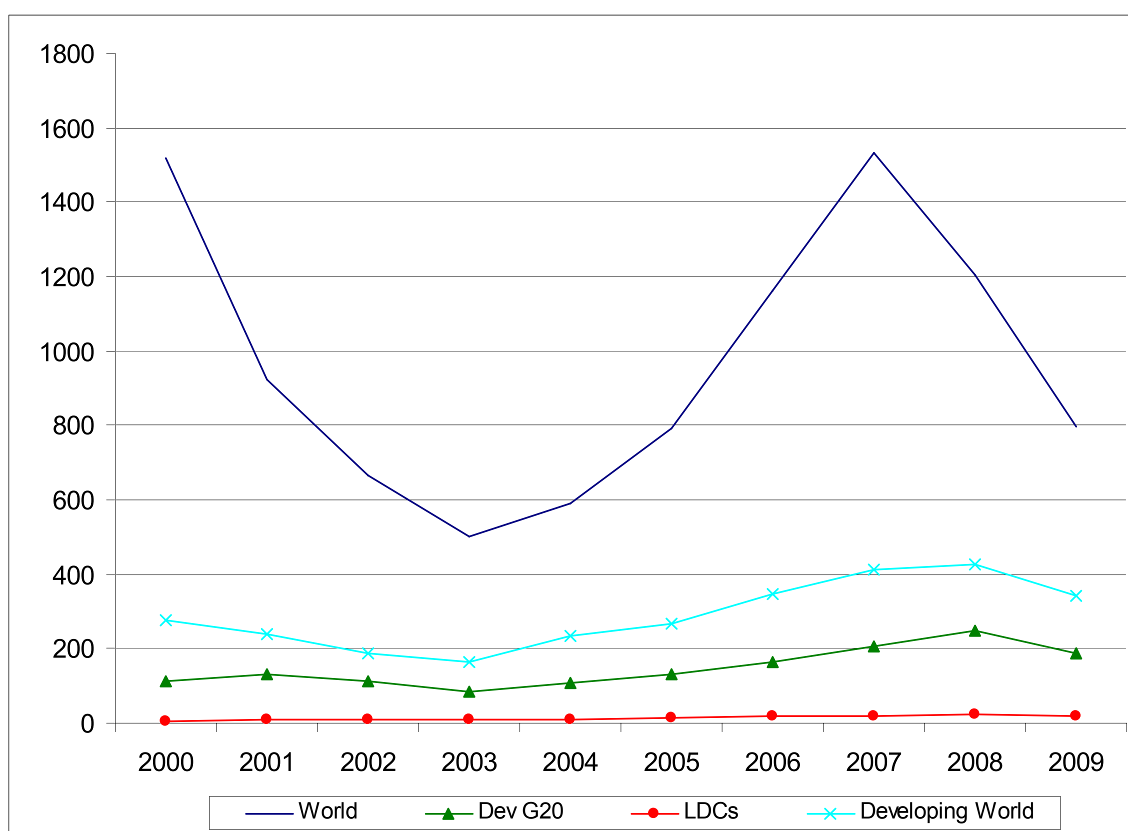
[29] M. Cali, K. Ellis, D. te Velde (2008), "The contribution of services to development and the role of trade liberalisation and regulation.", ODI Working Paper 298.

[30] Vivien Foster and Cecilia Briceño-Garmendia (eds) (2010), Africa's Infrastructure: A Time for Transformation, The International Bank for Reconstruction and Development / The World Bank.

[31] Interview with Shanta Devarajan, World Bank chief economist for Africa at http://www.theafricareport.com/archives2/interviews/3296754-interview-shanta-devarajan-world-bank-chief-economist-for-africa.html



Source: UNCTAD

FDI inflows into G20 developing countries increased by 118% between 2000 and 2009, largely due to growth in Saudi-Arabia, Russia, and Turkey. However, the increase of FDI into the South-American countries (Argentina, Brazil and Mexico) was below average. FDI inflows in LDCs witnessed an exponential growth from €5 billion in 2000 to €21 billion in 2009 (390% growth). Most of the inflows were directed to natural resource-rich African LDCs, though a number of island LDCs also received growing inflows of FDI.

FDI from emerging economies in LDCs, especially from China and India, is now growing faster than from traditional partners. There has, for instance, been a significant increase in infrastructure investments from Asian countries in Sub-Saharan Africa. Intra-African FDI, 70% of which originates from South Africa, is smaller in scale and is directed more to services and manufactures, rather than to natural resources[32].

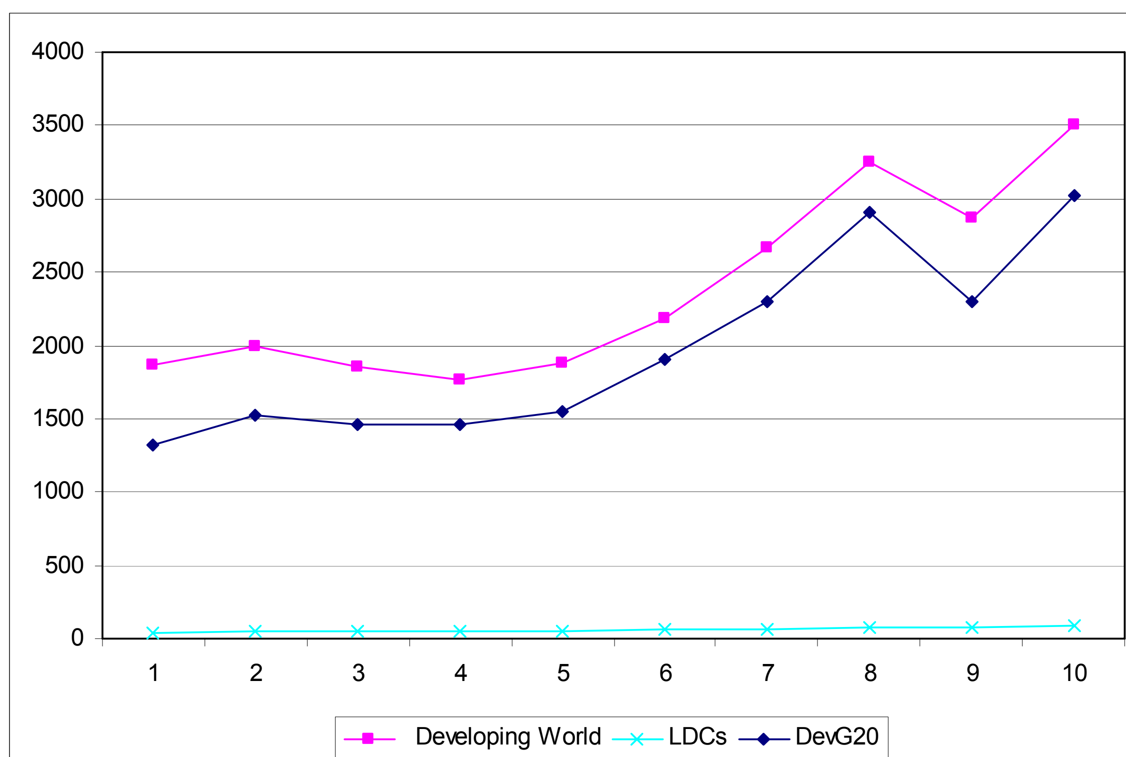
The trend in FDI flows is reflected in FDI stocks with the total amount of foreign investment increasing. This development is to a large extent attributable to an increase in the FDI stock of developing countries as the world stock of FDI increased by 31% and reached some €12,500 billion in 2009 (not shown in Figure 8), while the stock of FDI in developing countries increased by 53% to about €3,500 billion.

In the group of developing countries, the developing G20 countries experienced a growth in FDI stocks of 75% attaining a level of foreign investment of €3,000 billion. The least

[32] UN Secretary General Report on "Ten-Year Appraisal and Review of the Implementation of the Brussels Programme fo Action for the Least-Developed Countries for the decade 2001-2010". http://www.un.org/wcm/webdav/site/ldc/shared/documents/Ten-Year%20appraisal.pdf

developed countries also increased their FDI stocks above average growing from €42 billion to €94 billion (82% growth).

Figure 8: FDI stocks by destination (€ billion, current prices)



Source: UNCTAD

3.6. A mixed picture

To conclude the above analysis, it is clear that the benefits of growth and trade remain unequally spread across developing countries. Developing G20 countries remain the main beneficiaries of globalisation. Some of them managed to capitalise on high export-led growth so as to achieve significant poverty reduction.

However, despite apparently impressive figures overall, the situation of LDCs has not improved significantly in the last decade. Where GDP per capita and trade has grown significantly, this has been in most cases led by a surge in oil and commodities exports in a very limited number of countries, and the benefits have overall not resulted in lifting people out of poverty. This is largely due to structural factors, such as an insufficiently diversified economies and export bases, poor infrastructure and the lack of productive capacity, but also political factors linked to lack of good governance, poor administrative capacity and lack of security and stability. This is particularly the case in Sub-Saharan Africa, which is home to most LDCs, while some more positive trends can however be witnessed in Asia and the Pacific.

Nevertheless, some non-oil/commodity exporting Sub-Saharan African countries have done well over the past decade. Partly as a result of a coordinated government programme to stimulate and improve exports of agricultural products, such as coffee, and to attract tourism, Rwanda has experienced an average annual increase in exports of 19%

over the last decade[33]. This performance is also reflected in high rates of economic growth and a steady improvement in its human development index. Another example is Cape Verde which reached middle-income country status in 2007, the success of which can primarily be explained by good macroeconomic management and governance including progressive trade openness and integration into the world economy.

4. THE EU'S GENERALISED SYSTEM OF PREFERENCES (GSP)

In 1968, the United Nations Conference on Trade and Development (UNCTAD) recommended the creation of a 'Generalised System of Tariff Preferences' under which developed countries would grant trade preferences to all developing countries. The EU was the first to implement a Generalised System of Preferences (GSP) scheme in 1971 in order to extend preferential access to its markets to developing countries.

4.1. The EU's current GSP – since 2006

The EU's GSP is the most widely used of all developed-country GSP systems. In 2009, EU imports under the GSP totalled € 59.6 billion. The GSP scheme is implemented in 10-year cycles so that it can adjust to the changing environment of the multilateral trading system. For this purpose the Commission adopts guidelines on the role of the GSP for a 10-year period.

The 1994 guidelines[34] for the 10-year period 1994-2005 and their implementing regulations introduced a number of important changes in the GSP such as tariff modulation according to product sensitivity, graduation and special incentive schemes. In 2001, a special arrangement for LDCs was introduced, for an unlimited period of time: the Everything but Arms (EBA) arrangement, which provides duty-free, quota-free access for all products from all LDCs except arms.

In 2004, the Commission adopted guidelines for the following 10-year period 2006-2015[35]. One of the objectives for this period was simplification of the scheme, which has been achieved through a reduction in the number of arrangements, from five to three. Thus as of 2006 GSP schemes consist of:

i. The general arrangement, which provides autonomous preferences to all developing countries and territories;

ii. The Special Incentive Arrangement for Sustainable Development and Good Governance, known as the GSP+, which offers additional tariff preferences references to support vulnerable developing countries in their ratification and effective implementation of relevant international conventions relating to sustainable development. These include basic human rights (agreements designed to uphold political and economic and social rights, combat torture and discrimination on grounds of race and gender, and protect women's and children's rights) and labour rights (the ILO eight fundamental conventions related to the freedom of association and the right to collective bargaining, equal treatment, as well as elimination of

[33] WTO (2011), Market access for products and services of export interest to least-developed countries, Note by the secretariat, WT/COMTD/LDC/W/51.

[34] COM(1994) 212 final.

[35] COM(2004) 461 final.

forced labour and child labour). They also cover environmental protection (e.g. conventions designed to combat trafficking in endangered species and to protect the ozone layer) and the various conventions relating to the fight against illegal drugs production and trafficking);

iii. EBA, which maintains its global coverage of everything but arms. Several positive mentions of the GSP were made in the Commission's on-line public consultation, particularly on GSP+ and EBA.

The present 10-year cycle, which began in 2006, will finish in 2015. The first GSP scheme of the present cycle, established by Council Regulation (EC) No 980/2005[36], entered into force on 1 January 2006 and expired on 31 December 2008. To ensure the continuity of the GSP scheme, a new Regulation covering the period from 1 January 2009 to 31 December 2011 was adopted by the Council on 22 July 2008 (Council Regulation (EC) No 732/2008), replacing Regulation (EC) No 980/2005. It extends for a further three years the three separate arrangements of the scheme. At the same time, this regulation implemented a number of technical changes in the scheme, either to simplify the language or to take account of changes in relevant trade data over the most recent period. In addition, for countries which did not yet meet the GSP+ qualifying criteria, the new regulation provided an additional opportunity to apply for the additional preferences in mid-2010.

4.2. The next GSP – as of 2013

In view of the approaching expiry of the present 10-year GSP cycle and the preparation of the successor GSP scheme, the Commission undertook a major evaluation of the effectiveness of the GSP scheme. This was conducted for the Commission by the Centre for the Analysis of Regional Integration at Sussex (CARIS)[37]. In parallel public consultations were carried out with Member States and other stakeholders, including civil society, industry, beneficiary countries, the European Parliament and WTO members[38].

In general, the consultations underlined the importance of the scheme for its users. Almost all respondents agreed that the scheme was a valid trade instrument for developing countries. Respondents from different beneficiary countries confirmed that the scheme had played an important role in the expansion and diversification of their trade sector. However, about half of the respondents, representing different types of stakeholders, stressed the need for modifications covering: stronger control and verification of requirements to ensure that preferences go to countries in need; support for investment in developing countries; competitiveness of EU industries; and focus on abolishing restrictions in international trade and lowering custom duties and other barriers.

The analysis undertaken by CARIS concluded that the scheme has been generally successful. Imports benefiting from preferences were significant and amounted to almost €60 billion in 2009. This corresponds to over 9% of total EU imports from all beneficiaries. This percentage varies across categories of beneficiaries with preferential

[36]See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:211:0001:0039:EN:PDF
[37] CARIS report: http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc_146196.pdf
[38] Public consultation report: http://trade.ec.europa.eu/consultations/?consul_id=142

imports accounting for 8% of total imports from GSP countries, 20% of total imports from GSP+ countries, and 32% of total imports from EBA beneficiaries. The general attractiveness of the scheme is also underlined by a relatively high level of utilisation of the available preferences, but with room for further improvement, of 53% for GSP countries, 69% for EBA countries and 85% for GSP+ countries.

With respect to the special incentive arrangement for sustainable development and good governance, CARIS concluded that the GSP+ arrangement had had a positive impact on the ratification of GSP+ related conventions. However, the instrument was not fully equipped to clearly monitor progress in the effective implementation of the relevant conventions, although some GSP+ beneficiary countries had undertaken substantial reforms.

Based on the CARIS analysis and the results of public consultations, the Commission carried out a thorough impact assessment[39]. On 10 May 2011, the Commission adopted its proposal for the new GSP Regulation[40]. The Regulation will apply as of 1 January 2014. The Regulation, after approval by the Council and the EP, will be published six months in advance of the date of application. The main objectives of the proposed Regulation are to: (i) better focus on those countries most in need; (ii) further promote core principles of sustainable development and good governance; and (iii) enhance legal certainty, predictability and stability.

5. THE EU'S NEW PREFERENTIAL RULES OF ORIGIN

In respect of the EU's 2002 commitment to "pay particular attention to LDCs and other low income countries", a key achievement was the adoption, at the end of 2010, of the new preferential rules of origin which have been applicable within the framework of the GSP since 1 January 2011. This adoption concluded a process of consultation initiated in 2003 and designed to address criticism regarding the previous rules, considered too stringent to allow developing countries to really benefit from the preferential market access offered by the EU. A correlation was indeed proven between the stringency of the rules of origin and the utilisation rates of the tariff preferences. In addition, product-specific rules were considered too complicated. Lastly, compliance was considered too costly and burdensome, both for exporters and administrations.

The new rules are simpler and easier to comply with. They offer extended possibilities of sourcing through flexible product specific rules and new opportunities of cumulation. Regional cumulation is maintained and enhanced. In addition, the system of derogations from the rules of origin has been made easier to apply for. Last, a procedure is introduced allowing the EU to rapidly grant derogations on its own initiative, in order to be able to respond more quickly to any special situation which may occur, such as natural disasters.

A specific effort was made to assist LDCs, which benefit from further flexibilities. For the first time, the EU has introduced differentiation for the benefit of LDCs at the level of applicable GSP rules of origin. For example, for most industrial products, the threshold

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[39] Impact assessment:
http://ec.europa.eu/governance/impact/ia_carried_out/docs/ia_2011/sec_2011_0536_en.pdf
[40] Proposal for a new GSP Regulation: http://trade.ec.europa.eu/doclib/docs/2011/may/tradoc_147893.pdf

of valued added requested in the LDCs is only 30% (as against 50% for non-LDC). For textile and clothing, single transformation has been granted without quotas.

Trade and natural disasters

The increasing costs of natural disasters have led to growing interest in their impact on trade. Direct potential effects include casualties but also physical damages to infrastructure and disruptions of supply chains, international trade and economic activity. The Commission has contributed to the reflection on this issue through the organisation of an internal seminar on 'Natural disasters in poor and vulnerable countries' on 25 May 2011. On this occasion, participants discussed methodologies for assessing disaster risk and impact, as well as the strengthening of vulnerability indicators by including trade-related measures, and criteria for eligibility for trade support. This was followed by a Commission in-house econometric analysis which suggests that, on average, exports of developing countries with a population of up to 20 million fall by 22% after a major natural disaster, with the negative effect on export performance lasting about three years.

This new set of rule is more operator-friendly. From 2017, for example, exporters will no longer have to go to the authorities for a certificate of origin 'Form A' for each consignment. Instead, they would register with authorities (who would remain responsible for controls) and once registered, issue statements of origin themselves directly to their customers in the EU.

This set of rules is – or will be – used as a point of reference during ongoing and future FTA negotiations.

Within the framework of EPA negotiations, the EU has proposed a far-reaching initiative, allowing greatly extended possibilities of cumulation. Under Cotonou, all ACP countries were allowed to cumulate materials with each other, but when the Cotonou agreement, ended, cumulation between EPA partners and other ACP countries was possible only when the applicable rules of origin were the same, so in practice, for some products, only within the same EPA. This condition prevents cumulation between ACP countries which have signed different EPAs, and between EPA countries and ACP countries that have not signed an EPA. With the new proposal, EPA partners would be allowed to cumulate materials coming from any country in the world, as long as these materials are entitled to enter the EU duty free quota free (DFQF), either because there is a 0% duty in the EU's conventional custom tariff or a 0% GSP preferential duty. In addition, cumulation would also be possible, upon request, for industrial products entering the EU DFQF under an FTA. It is expected that the increase of foreign sourcing allowed by these new cumulation opportunities could result in an increase of EU preferential imports from EPA countries of between 2.9% and 7.2% (with foreign sourcing increasing respectively by 10% and 25%). About 45% of the increase in EPA exports is estimated to be in agricultural products and 55% in industrial products.

6. THE EU'S EXPORT HELPDESK

In 2004, the Commission launched the Export Helpdesk as a flanking measure to the preferential trade arrangements granted by the EU to developing countries[41]. It is a free online service providing information for economic operators in developing countries on the conditions of access to the EU market. This website provides detailed information product-by-product and country-by-country on EU import requirements (SPS, technical regulations, labelling rules, etc.), internal taxes, import tariffs and import measures, rules of origin, customs procedures and trade statistics.

Since its inception in 2004, the Export Helpdesk has been available in 4 languages (English, French, Spanish and Portuguese) so as to reach as many users in developing countries as possible. In order to further assist exporters in countries in the neighbourhood region, the website was extended in 2010 to include Arabic and Russian.

In 2010 the Export Helpdesk counted over 1,750,000 hits worldwide indicating its usefulness for economic operators around the world. The largest category of user countries is in Latin America, followed by Asia.

The Export Helpdesk also offers a Contact section allowing users to submit all kinds of questions related to access to the EU market. The Contact section receives an average of 60 questions per month, with more than 50% of them coming from companies.

Feedback received from users indicates that after 7 years of operation, the Export Helpdesk has clearly established itself as a unique one-stop-shop for all those who wish to know more about the conditions of access to the EU market.

Today the Export Helpdesk is increasingly seen as a template to be copied by other regions, e.g. in the context of a new trade facilitation mechanism now being developed for the Euro-Mediterranean area.

7. AID FOR TRADE

Many developing countries, particularly the LDCs, face difficulties in their efforts to adapt to a fast changing world where trade is becoming increasingly competitive and global, and integration into global supply and value chains is a necessity. Constraints exist at domestic level, notably in LDCs, including limited productive capacities, limited access to state of the art technologies, a weak private sector, and lack of institutional capacities (notably of national administrations). This in turn poses challenges in terms of the design or implementation of trade and accompanying policies and in trade negotiations, as well as in meeting technical and SPS requirements.

In line with the fundamental principles of national ownership and leadership, the bulk of efforts rests on developing countries themselves. However, the international community also recognises the role of Aid for Trade (AfT) in contributing to establishing the right conditions at national and regional level to help developing countries integrate into the global trading system. On this basis, the EU has been a long-standing proponent and

[41] See http://exporthelp.europa.eu/thdapp/index_en.html

leading provider of AfT. The Commission's on-line public consultation on trade and development confirmed the importance of AfT and highlighted the need for mainstreaming trade into developing countries' national and regional development strategies, demand-driven programmes, and ownership.

7.1. EU Aid for Trade Strategy

EU Commitments

The 2007 EU Aid for Trade Strategy pursues the following objectives:

- Increase Aid for Trade as part of the gradual increase in the EU's overall ODA.
- Implement the commitment by EU Member States and the European Commission to collectively spend €2 billion annually on Trade-Related Assistance by 2010, including €1 billion from Member States and €1 billion from the Commission. In the range of 50% of the collective increase would be available to ACP needs.
- Enhance the pro-poor focus and the quality of EU Aid for Trade.
- Increase EU-wide and Member States' capacity in line with the globally agreed aid effectiveness principles.
- Build upon, foster and support regional integration processes through Aid for Trade, including within the ACP countries.
- Support effective Aid for Trade monitoring and reporting.

AfT gained considerable momentum in the last decade in terms of both AfT volumes and the concept of AfT itself, now firmly anchored in the global trade and development landscape. The EU played a major role in stimulating the debate on AfT and its inclusion in the WTO Hong Kong Ministerial Declaration in 2005. The EU has also been a frontrunner in prioritising AfT, notably through the adoption by the EU and its Member States on 15 October 2007 of a joint AfT Strategy. Its aim was to support developing countries, particularly LDCs, to better integrate them into the rules-based world trading system and to use trade more effectively towards the overarching objective of eradicating poverty in the context of sustainable development. It provides for a dual and complementary focus on more resources to AfT and a greater impact of AfT.

The EU Strategy addresses supply side constraints related to productive capacity, economic infrastructure and trade related adjustments, so that developing countries can benefit fully from open trade. More specifically, the EU Strategy embraces the full AfT agenda, which can be divided into six categories: (1) trade policy and regulations; (2) trade development; (3) trade-related infrastructure; (4) building productive capacity; (5) trade-related adjustment; and (6) other trade-related needs, notably regional trade integration. Categories 1, 2 and 6 correspond to more narrowly focused 'Trade-Related Assistance' (TRA). TRA plus the remaining categories are referred to as 'the wider Aid for Trade agenda', designed to benefit trade in a broader sense. The OECD/DAC tracks ODA in each of the AfT categories through its Creditor Reporting System (CRS).

As with all EU aid, EU AfT is delivered in accordance with the principles of the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, which notably entails alignment, harmonisation, predictability, mutual accountability and

transparency, policy dialogue, needs assessments, results-orientation, inclusion of priorities into national and regional development strategies (such as Poverty Reduction Strategy Papers), and formulation of response strategies on this basis. This is the only way to ensure national ownership, coherent programmes and sustainability. In addition to and consistent with the joint AfT Strategy, several EU Member States have adopted specific AfT strategies in line with their national development policies.

In the G20 context, the EU committed to at least maintaining, beyond 2011, AfT levels that reflect the average of the last three years (2006 to 2008), as well as to strengthening the role of South-South trade cooperation and reinforce the involvement of the private sector, while sustaining aid flows to other sectors. The EU also committed to engaging fully in the ongoing processes of relevant institutions, in particular the WTO, OECD, World Bank and other multilateral and regional development bodies, to monitoring these commitments and evaluating their impact on low income countries' capacity to trade.

7.2. Significant progress has been made in terms of aid flows

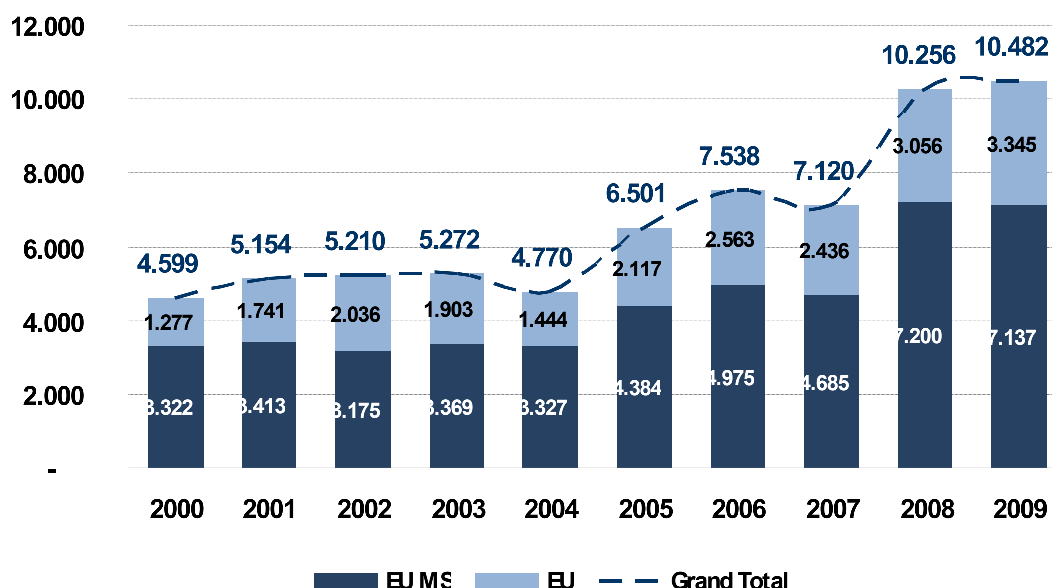
The EU and its Member States have made continued progress in AfT and have fully met their commitment to provide €2 billion annually as TRA. The 2010 EU AfT Monitoring Report showed some extraordinary collective progress, and this year's AfT Monitoring Report[42] confirms that this was not an isolated result.

- Collective EU AfT amounts are significant and continue growing, AfT reached €10.5 billion in 2009**,** up from €10.3 billion in 2008, €7.1 billion in 2007 and €6.5 billion in 2005 (Figure 9). The AfT concept has widened over the years to include more general support for infrastructure and productive sectors, whereas the original scope of AfT did not stretch far beyond TRA, i.e. assisting beneficiaries to formulate and implement trade policies. While the 2010 report indicated an all-time high of collective EU AfT commitments in 2008, the latest data for 2009 show that this high level was sustained. The 2009 commitments increased slightly (+3%) and reached a total of almost €10.5 billion, including €7.15 billion from EU Member States and €3.35 billion from the EU (European Commission). Collectively, the EU accounted for about 37% of total AfT from the world's bilateral and multilateral donors in 2008-2009 and is the largest provider of AfT. This is a substantial increase compared to 2004-2005, when the EU's collective share was 30% of the total.

- AfT as a whole has remained a priority in development cooperation for the EU and its Member States. Measured as a share of total Official Development Assistance (ODA), AfT represented about a fifth of total ODA from the EU in the period 2005-2009. The share of Aft in total EU ODA increased to 22% in 2009.

Figure 9: Collective EU Aid for Trade(EU and EU Member States) in million Euro

[42] The "Aid for Trade monitoring report 2011" is part of the Communication on "Enhancing EU Accountability on Financing for Development towards the EU Official Development Assistance Peer Review" (vol. IV) COM(2011) 218 final of 19.04.2011.



Source: OECD CRS Database, Doha Development Database, Monterrey Questionnaire 2011

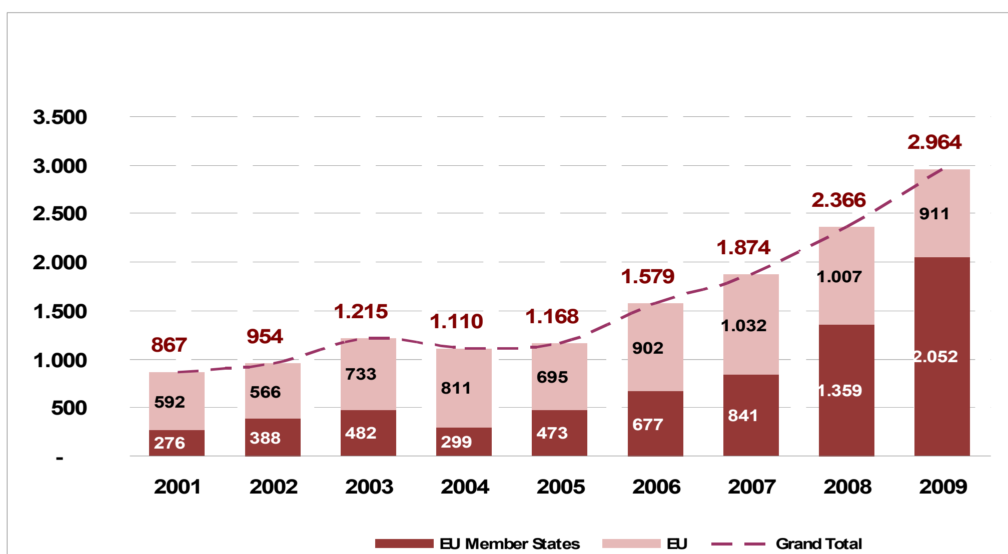
Sustainable trade project boosts exports of Uganda's organic products:

Favourable climatic conditions and an enabling business environment have made Uganda a leading African producer and exporter of organic products. A Danish-funded project has contributed to consolidating this trend. African Organic, a certified Ugandan organic and fair trade producer, and Danish wholesale company Solhjulet, have set up a partnership with a view to increasing sales of organic fruits and vegetables in Europe that meet EU organic standards. The Danida Business to Business Programme started funding the partnership in 2006, providing around €400,000 worth of support. The supply chain and the African Organic business are now self-sustaining and enjoying growth – with exports amounting to around €1.3 million a year – and a diversification of the products shipped to Solhjulet. African Organic, a farm to the north of Kampala, works with over 150 smaller farmers as suppliers. The placement of products in premium markets means that farmers and their workers are paid a higher price. They have also received training in organic farming methods.

- The EU and its Member States have fully met and even surpassed their commitment of providing €2 billion in TRA annually by 2010. The EU's collective total in these essential subcategories of overall AfT reached almost €3 billion in 2009, well above the target (Figure 10). Last year's monitoring report showed that the EU and its Member States had already met and exceeded their collective TRA target with €2.4 billion worth of support in 2008. TRA supports developing countries in designing and implementing trade policies and agreements, stimulating trade by domestic firms and encouraging investment in trade-oriented industries. The increase is mainly due to an increase in EU Member States' TRA, from €1.36 billion in 2008 to €2 billion in 2009. The strong increase of Member State support in 2009 is a result of a near doubling of contributions to Category 2 "Trade development" which represented close to 90% of total Member States' TRA commitments in 2009. In contrast, the EU's TRA was almost evenly split over the TRA categories in 2008 and 2009.

- Disbursement levels were particularly high, with almost 80% of total collective EU AfT commitments being translated into disbursements in 2009 in.

Figure 10: Collective EU Trade Related Assistance (EU and EU Member States) in million Euro



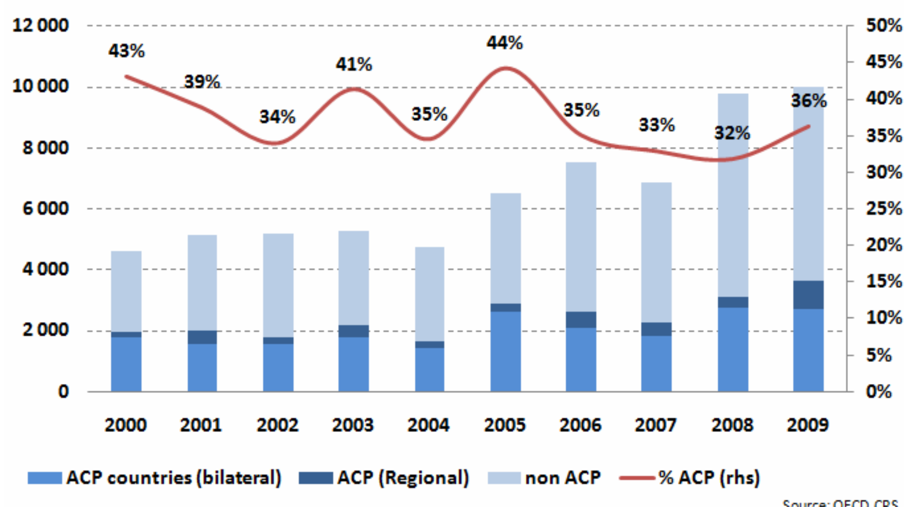
Source: OECD CRS Database, Doha Development Database and EU Monterrey Questionnaire 2011

Public-private partnership for sustainable production and trade in Côte d'Ivoire:

Cocoa is the backbone of the economy of Côte d'Ivoire, providing an income to six million people. Yet the sector is affected by low wages for many cocoa farm workers and instances of child labour and child trafficking. In addition, cocoa farmers face a number of challenges, including low productivity, pests and diseases and quality problems due to inadequate processing. In response to this situation, a public-private partnership was set up by the multinational Kraft Foods, the cocoa trader Armajaro and the German and US development agencies to introduce sustainability standards in the cocoa produced by small farmers and to bring certification into mainstream cocoa production. It did so by creating a supply line of 'Rainforest Alliance Certified' cocoa and pioneering sustainable cocoa production for the international market. Kraft Foods uses this certified cocoa in its premium chocolate brands. The private partners committed themselves in advance to purchasing all cocoa that met the required quality. This gave farmers the security to invest time and money in improved production technology. Over the project's three-year lifespan, from 2006 to 2009, some 5,600 farmers from six cooperatives were trained, thus leading to productivity gains for farmers using sustainable practices of 49.5 %. More of the cocoa marketed was of a better grade and thus received a higher price, which in turn meant a higher income for farmers. The project has been judged such a success that its model has been rolled out in Ecuador, Ghana and Nigeria.

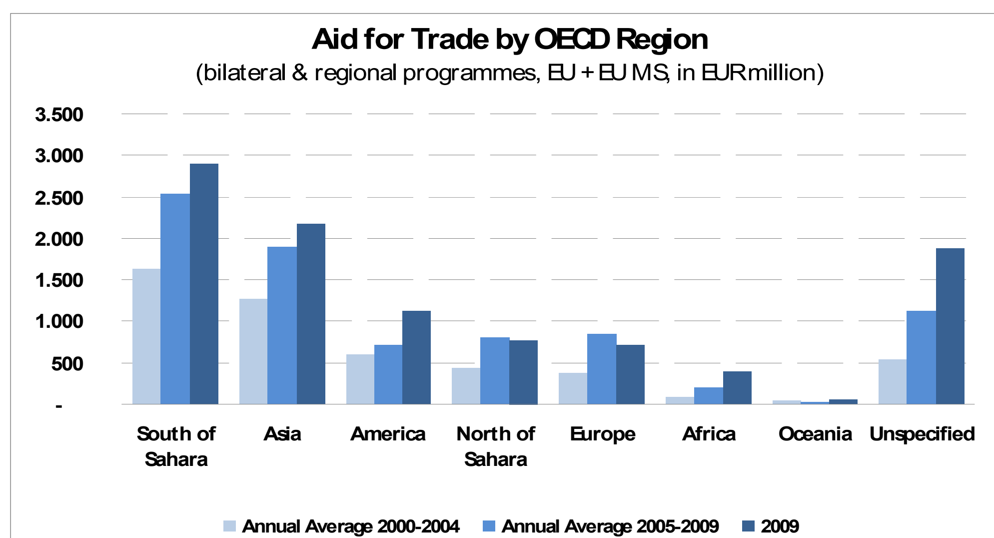
- ACP countries benefited from increased AfT and TRA (Figure 11). As regards AfT, collective EU commitments to ACP countries increased by 18% in 2009, reaching a new all-time high of €3.6 billion. Again, the overall increase can mainly be attributed to increasing commitments in regional programmes (more than doubling from €0.4 billion in 2008 to €0.9 billion in 2009), while commitments to bilateral programmes remained stable at €2.7 billion. Total EU TRA commitments to ACP countries reached €1.16 billion in 2009, almost triple 2008 levels.

Figure 11: EU Aid for Trade to ACP Countries (EU and EU Member States) in million Euro)



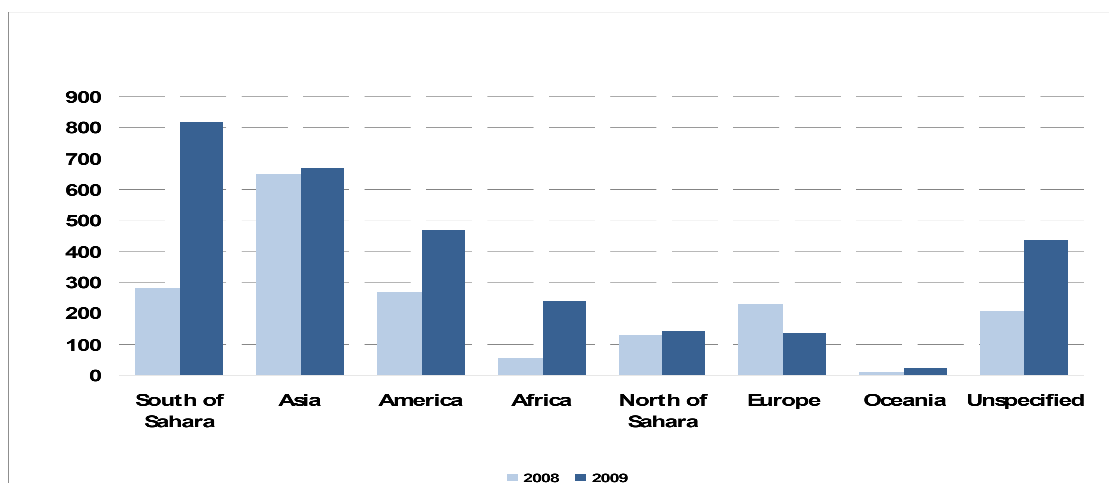
- Growing attention is being devoted to Africa, particularly Sub-Saharan Africa. Sub-Saharan Africa received the largest share of both collective EU AfT and collective EU TRA in 2009. Sub-Saharan Africa received some €2.9 billion worth of AfT in 2009, or 29% of the total, up from €2.2 billion in 2008 (Figure 12). As indicated in Figure 13, Sub-Saharan Africa is also the main recipient of collective EU TRA, which increased substantially between 2008 and 2009, from €281 million to €818 million. Sub-Saharan Africa thus took over Asia (€670 million in 2009) as the main recipient of EU TRA. The share of Sub-Saharan Africa in collective EU TRA increased from 15% to 28% between 2008 and 2009.

Figure 12: Aid for Trade by OECD Region (EU and EU Member States) in EUR million



Source: OECD CRS

Figure 13: Trade-Related Assistance by OECD Region (EU and EU Member States) in EUR million

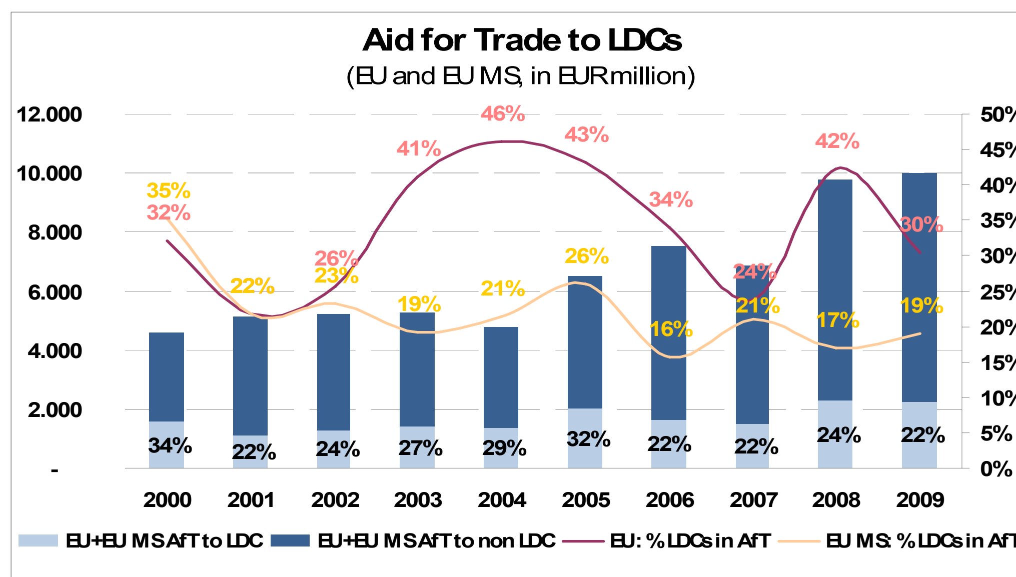


Source: OECD CRS

7.3. Only a limited share of Aid for Trade is channelled to LDCs

- The share of EU AfT to LDCs is only about 22% of the total (Figure 14). Despite the apparent trade-related needs of LDCs, the EU and its Member States allocate relatively less of their ODA to AfT to LDCs than to other developing countries[43]. The share of collective EU AfT to LDCs as a percentage of the total remained relatively stable at 22% in 2009, slightly down from 24% in 2008. LDCs accounted for €2.3 billion in 2009, compared to €7.8 billion for non-LDCs. The LDC share of EU AfT has been continuously higher than that of EU Member States.

Figure 14: Aid for Trade to LDCs (EU and EU Member States) in EUR million



[43] Based on information received from EU Delegations and EU Member States in January 2010 through the joint EU Aid for Trade Monitoring questionnaire. Out of 113 EU Delegations, 77 provided a formal reply. 60% of those are established in ACP countries (i.e. 46 countries), 14 in Asia, 13 in Latin America and 4 in Neighbourhood countries. The sample includes 32 LDCs.

Vietnam: trading its way out of poverty:

In the five years leading up to January 2007, when Vietnam joined the WTO, the EU supported the country with two Multilateral Trade Assistance Programmes (MUTRAP I and II) worth €8.2 million. These programmes funded a variety of technical assistance studies and helped Vietnam accelerate the complex process of WTO accession. Building on these two programmes, the EU supports Vietnam's post-WTO accession phase through MUTRAP III, which helps the country implement its responsibilities in the areas of competition and trade policy, notably the implementation of its WTO accession commitments, multilateral trade negotiations, and implementation of regional integration and free trade agreements. The total cost of the four-year programme, which got underway in 2008, is estimated at €10.7 million, including a contribution of €0.7 million from Vietnam. MUTRAP I, II and III have helped to promote Vietnam as a full member of the international trade community. Largely thanks to legal and economic stability brought about by the WTO accession reforms, Vietnam is now enjoying a considerable increase in FDI. Working with the government and other stakeholders – the private sector, universities and research institutions –has been a key to the success of these projects.

7.4. Quality has improved but there is room for further progress

Some 16 EU Member States[44] and the European Commission responded to the 2011 OECD/WTO AfT Questionnaire seeking information on the progress achieved by individual donor countries with a particular focus on outcomes of AfT strategies and programmes. The main findings were the following:

- There has been improvement in the quality of the AfT provided by the EU and its Member States, bringing it increasingly in line with the Paris Declaration, notably regarding the availability of trade needs assessments, increased national coordination processes in partner countries, as well as better coordination and harmonisation with EU Member States and non-EU donors.

Leveraging the regional dimension to boost Caribbean integration in global trade:

Caribbean trade performance is constrained by a narrow production base and high infrastructure cost leading to high production costs and low levels of competitiveness. To help remedy this situation, the EU provided €6.8 million between 2008 and 2010 to the Caribbean Export Development Agency – CARIFORUM's regional export development and trade promotion agency – to provide training and technical assistance to Caribbean businesses. On this basis, Caribbean Export provided grants to 197 companies and business support organisations, 50 training and technical assistance events for companies in high potential niche sectors and support to business and trade promotion organisations. It also supported CARIFORUM in elaborating a strategy to create an enabling environment for trade and export development at regional level. A key added value of the project was its regional approach, which allowed to take advantage of economies of scale in the provision of services aimed at strengthening export capacities in the region and allowed to build regional knowledge and networks. Another element of success was the choice of a funding mechanism allowing Caribbean Export to use its own procedures to implement the project rather than those of the donor.

- However, further improvements are necessary, notably regarding developing countries' capacity to define trade related priorities in collaboration with key stakeholders. There are still countries where the EU and its Member States appear to

[44] *Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom.*

provide AfT in the absence of a comprehensive trade needs assessment (40% of responses to the AfT Questionnaire).

- While the EU devotes a considerable amount of financial resources to regional integration, results in this area can be strengthened further. Some barriers that should be overcome include: the lack of an expressed demand for regional AfT; lack of coherence between national and regional priorities; lack of credible lending authorities at regional level; lack of effective coordination at regional level; difficulties of monitoring and evaluation at regional level; lack of credible mutual accountability mechanisms at regional level. Another problem, particularly in Sub-Saharan Africa, is the low absorption capacities of Regional Economic Communities (RECs) and low ownership of the integration process by partner countries. In many partner countries, there appears to be much room for strengthening the support to regional integration. Regional priorities for AfT were rarely considered and addressed in the national development strategies, and in many cases no programmes on regional AfT priorities are funded[45].

EU support to the International Trade Centre (ITC):

The European Commission plans to provide support to the ITC to fund a redeveloped Data and Market Analysis Tool for low income countries over the period 2011-14. A first phase would cover the launch of a re-developed Market Access Map application (MAcMap) and enable immediate free access for all LDCs and developing countries. The wider objective of this project is to increase global trade and tariff transparency. The project acknowledges the increasing recognition that trade and development are inextricably interlinked but that there are many constraints in developing countries that must be addressed before they can fully benefit from the global liberalisation of trade – one key constraint being the lack of knowledge and tools for analysing export markets both in commercial and technical terms. The project would contribute to addressing this constraint.

- The private sector is insufficiently involved in the development and evaluation of AfT projects. It can also contribute leverage finance. For instance, the EU-Africa Business Forum provides a major platform for discussion amongst the EU, the Africa Union (AU), RECs and the private sector on issues closely related to AfT. It sets an example that could be duplicated in other regions.

- In line with the principles of aid effectiveness in the EU's own effectiveness agenda, coordination among EU donors as well as with non-EU donors requires further improvement. In particular, there is significant potential for more joint AfT between the EU and its Member States. In fact, EU Delegations responding to the AfT Questionnaire indicated that a doubling of joint activities was possible.

Sharing South-South expertise to cut red tape at customs:

Trade in Central Asia suffers from its distance from the sea and the heavy burden of bureaucracy. Until recently, a trader in Kyrgyzstan had to fill in 15 or so forms and collect up to 20 signatures to gain official permission to import and export goods. A so-called single window for pre-customs procedures is widely recognised as one of the most effective ways to reduce non-tariff barriers to trade, making it possible to fill-in the necessary documentation, pay fees and receive the necessary certificates through a single internet portal. When the Kyrgyz government began researching how to implement such a system, it found that a simple but effective system

[45] EU Questionnaire.

established in Senegal was the most appropriate for use in Central Asia. Consultants from Senegal subsequently visited Central Asia to share their knowledge of designing and implementing such a system. A German-funded programme, 'Three-Party South-South Cooperation', got underway in 2005 to help eliminate unnecessary administrative barriers to trade in Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan and reduce technical barriers to trade. The €16.5 million worth programme aims to ensure that at least two-thirds of customs declarations in three of the four states can be carried out though a single window or a similar time-saving procedure by 2014. The introduction of the single window is expected to increase trade volume in the region, attract FDI, create more employment opportunities and ultimately lead to poverty reduction. Since 2007, Kyrgyzstan and Tajikistan have already reduced by 60 % the number of forms that need to be completed to carry out foreign trade and are now committed to implementing a pre-customs single window. Uzbekistan has said it will implement a window by 2015 and Kazakhstan is studying the issue. The project is a good example of three-party co-operation, involving know-how transfer from an African country.

- Further work on monitoring and evaluation with international organisations and partner countries would strengthen our knowledge and understanding of the impact of AfT. The impact of the EU's support can be increased in a number of ways, including:

  - Strengthened results-based management in AfT programmes. By setting out clearly at the outset what are the objectives, it would be easier to learn lessons about what works and what doesn't, allowing programmes to be adjusted to increase their impact even further. Aid effectiveness principles are particularly relevant here.

  - Continued efforts to measure impacts, particularly outcomes. Attributing final impacts to a specific programme is a methodologically very challenging area – not only in the area of trade, but for ODA in general.

  - Building more on the capacity of developing country governments to assess whether the focus and implementation of their own trade development strategies are appropriate or need to be adjusted. This is vital to ensuring our support has a real impact over the longer term.

7.5. The Enhanced Integrated Framework

Launched in 2006, the EIF pursues the following objectives:

- Create a genuine partnership among LDCs, donors, multilateral bodies and other development partners.

- Mainstream trade into LDCs' national development strategies;

- Set up structures needed to coordinate the delivery of trade-related technical assistance.

- Build capacity to trade, which also includes addressing critical supply-side constraints.

The Integrated Framework (IF) for TRA to LDCs was established in October 1997 at the High-Level Meeting on LDCs' Trade Development held at the WTO. It has helped prepare trade needs assessments, and supports capacity building. Transformed into the Enhanced Integrated Framework (EIF) after its 2005 review, this AfT partnership involving LDCs, donors and international organisations (UNDP, ITC, UNCTAD, WTO,

World Bank), supports LDCs in becoming more active players in the global trading system by helping them tackle obstacles to trade. EIF activities are financed through the EIF multi-donor Trust Fund. While the EU was not a donor to the original IF, it has committed a total of €10 million (€4 million in 2008 and €6 million in 2010) to the EIF. To-date, a total of €3.2 million has been disbursed by the EC to the Trust Fund Manager.

The European Commission plays an important role in this initiative, having taken a seat on the Board for 2009-2011 as one of the three donor representatives, and acting as Donor Facilitator in more than 10 LDCs. It is also one of the larger donors to the EIF. It has strongly focused the EU's support to the EIF, arguiing for a programme that is designed to avoid duplication or substitution and is well integrated in existing mechanisms and structures. Its focus has also been more on Tier 1 programmes (diagnostic trade integration studies) than Tier 2 programmes (specific sector activities to build trade-related and supply-side activities), where funds should typically be channelled through the usual bilateral cooperation mechanisms at national level rather than through a vertical fund.

The EIF is considered an important potential tool to assist LDCs, placing trade issues more firmly on their development agenda by improving national capacity to diagnose and address trade constraints. The Commission recently conducted a survey based on a Questionnaire on AfT[46] which revealed that one of the major constraints on increased AfT is the low capacity in partner countries for identifying needs and priorities – which is one of the core areas of support under the EIF.

As the EIF became really operational only in the course of 2010, it is too early to draw firm conclusions on the results of the EIF but the Commission's conviction is that the approach taken by the EIF to seek maximum country ownership is the right one.

Improving quality standards to boost Bangladesh's export trade:

Bangladesh has traditionally been reliant on the export of a narrow range of goods, principally garments, textiles and foodstuffs. In an attempt to diversify the country’s production and export base, the EU supported the Bangladesh Quality Support Programme (BQSP) with the aim of helping the private sector understand quality and packaging requirements in export markets and to apply the value chain approach to enhance competitiveness. Under the programme, which ran from 2006 to 2010 with an EU contribution of €10 million out of €13.5 million, the competitiveness and innovation of the textile and garment industry was improved by strengthening institutions such as the National Institute of Textile Training Research and Design and the BGMEA Institute of Fashion and Technology. The testing and controls on frozen fish exports, particularly shrimps, were brought in line with international export standards. The programme contributed in setting up a National Metrology Institute in 2009, which ensures the accuracy and traceability of various products, from foodstuffs to engineered goods. It also initiated the setting up of the Bangladesh Accreditation Board, which works to ensure that the country’s certificates are internationally recognised. In addition, the Bangladesh Standards and Testing Institute was strengthened.

[46] EU Delegations and EU Member States’ embassies in 89 partner countries across the developing world completed the Field Questionnaire in 2011 – up from 77 responses in 2011. In 61 cases, the responses were prepared jointly by the EU Delegation and EU Member States providing bilateral AfT in the partner country concerned. In the remaining cases, the EU Delegation completed the questionnaire on its own.

8. THE ECONOMIC PARTNERSHIP AGREEMENTS (EPAS)

8.1. Origins of the EPAs

In 1996 the Commission[47] concluded that trade preferences had not been sufficient to enhance ACP export growth and diversification. ACP countries had not taken advantage of all the opportunities offered by the EU preferences and their poor trade performance was reflected in a falling market share in the EU: from 7% under the first Lomé Convention to barely 3%. What was needed was a more comprehensive approach with a view to creating favourable conditions for diversification, exports, investment and growth. If ACP policy, capacity and governance shortcomings are properly addressed, the trade potential of these economies is significant. Economic Partnership Agreements (EPAs) were and still are designed in this perspective.

The Cotonou Agreement stipulated in Article 37(1) that new trading arrangements should be negotiated and put in place before the expiry on 31 December 2007 of the Cotonou trade regime, covered by a WTO waiver since 2001. Thus, the EPAs aimed at establishing new WTO-compatible trade arrangements to support the regional integration of African Caribbean and Pacific (ACP) countries and to foster their smooth and gradual integration into the world economy.

On this basis, the 2002 Trade and Development Communication developed a number of guiding principles for the agreements: EPAs were to establish a partnership with mutual rights and obligations; they were to support existing regional integration initiatives; they were to build on the rules of the WTO; and their design should provide for flexibility to take account of ACP constraints and capacities in order to become a genuine development tool.

Negotiations started in 2002 at the all-ACP level to allow ACP countries and the EU to establish the principles of the agreements. As of 2003, negotiations continued at the regional level, for which ACP countries had grouped together into seven regions, based to a large extent on existing regional economic communities: five in Africa, and one each in the Pacific and the Caribbean.

8.2. Situation at the end of 2007

By the end of the deadline of 31 December 2007, only the Caribbean region had completed negotiations for a comprehensive regional EPA. In other regions, the EU and some or all of its regional partners agreed to conclude WTO-compatible interim EPAs mainly covering at least trade in goods and other areas for which negotiations had been concluded. The interim EPAs were expected to become stepping stones to inclusive regional and comprehensive EPAs, as negotiations continued on outstanding trade-related areas with all ACP countries[48].

The Caribbean EPA combines totally free market access for Caribbean goods and unprecedented access for their services with improved rules of origin, provisions on trade-related issues, including transparency in government procurement and chapters on social and environmental issues and related capacity-building measures. The EPA also includes asymmetric, progressive obligations, and safeguards to take account of the

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[47] Green Paper (COM(96)570 final of 20 November 1996)

[48] The only exceptions are : Timor-Leste, Somalia and Eq. Guinea (suspended since 200x)

different levels of development between CARIFORUM countries and the EU. It supports building a stable and predictable regional market where barriers to trade and investment are gradually removed to create better opportunities for growth and sustainable development.

The interim EPAs with countries and regions in Africa and the Pacific are more limited in scope and address mainly trade in goods and some related areas such as trade defence, technical barriers to trade or trade facilitation and, in most cases, link up with a development chapter.

The EU adopted in December 2007 a Market Access Regulation (MAR) offering ACP that had concluded their negotiations, effective duty free quota free (DFQF) market access for their exports to the EU. The EU set up this arrangement with a view to avoiding trade disruption, in advance of provisional application of the interim EPAs, on the understanding that these processes would be completed "in a reasonable period of time". As a result, ACP countries' trade relations with the EU are either covered by: (i) an EPA, where provisionally applied[49]; (ii) the Market Access Regulation advancing EU application of EPAs not yet applied[50]; (iii) the GSP (general arrangement, GSP+ or EBA); or (iv), in the case of South Africa, the Trade, Development and Co-operation Agreement.

Table 2: State of play of EPA agreements:

Status	Agreement	Comments
Agreements under implementation	Cariforum	Signed on 15 October 2008 and approved by the EP on 25 March 2009. Provisionally applied.
	Pacific	Signed by the EU and Papua New Guinea on 30 July and by Fiji on 11 December 2009. EP ratified on 19 January 2011. EU ratification completed by Council on 15 Feb 2011. PNG also ratified so this EPA entered into force.
Signed agreements approved by the EP	Côte d'Ivoire	Signed on 26 November 2008 and approved by the EP on 25 March 2009.
Signed agreements	Cameroon	Signed on 15 January 2009.
	SADC	Signed by the EU and by Botswana, Lesotho and Swaziland on 4 June 2009. Mozambique signed the agreement on 15 June 2009. Namibia has indicated it is not ready to sign.
	ESA	Signed by the EU and by Madagascar, Mauritius, the Seychelles and Zimbabwe on 29 August 2009. Seychelles have ratified, Madagascar declared provisional application. Comoros and Zambia have not yet signed.
Signature pending	Ghana	Ghana and European Community signature arrangements are pending.
Signature put on hold	EAC	EAC has indicated it is not ready to sign the iEPA

[49] The following countries have moved towards application of their EPA: 15 countries in the Caribbean except Haiti; Papua New Guinea; Madagascar, Mauritius and the Seychelles.

[50] In addition to the 18 countries in the previous footnote, another 18 countries have initialled or signed EPAs but are not applying them

Those ACP LDCs[51] that have remained out of an EPA benefit from DFQF access to the EU under EBA, whereas the 10 ACP non-LDCs[52] that opted to remain outside EPAs benefit from the EU's regular GSP.

8.3. State of play in 2011

Negotiations continued after 2007, but progress was slow and none of the six regional negotiations has been closed. While in some regions (in particular SADC and West Africa), negotiations have been taking place more regularly, in others (Central Africa, EAC, ESA, Pacific) engagement was often intermittent and the rhythm of negotiations slower, in particular after 2009. In addition, as a result of the increasingly long time period between reaching the interim deals and their signature and application, some ACP regions identified issues in their existing interim EPAs on which negotiations were re-opened. All in all, negotiations have advanced only sporadically although good progress was made forging solutions to some of the outstanding issues, in particular in 2010-2011, as a result of deeper efforts on the EU side to keep the process on track.

These renewed efforts were based on stocktaking performed by the Commission in 2010[53]. The Commission's analysis was widely shared and discussed with EU member States, ACP countries and other stakeholders:

- Slow progress in signing and implementing interim EPAs has restrained mutual trust and credibility of the EPA process.
- The complexity of the issues and the lack of ACP experience and capacity in dealing with regional trade negotiations are important factors to explain the state of play. However, the situation also raises the question of ownership and commitment to the EPAs.
- Low commitment to trade liberalisation, even on an asymmetrical and progressive basis to be completed over several years.

This narrative applies to different ACP regions to different degrees. The guiding principles for the EPA negotiations established in the 2002 Communication were not a sufficiently strong foundation on which to agree concrete provisions for development-friendly trade agreements. In several instances, the reality of regional integration processes was not sufficiently advanced, both politically among the countries concerned and capacity-wise. Equally, the need for WTO compatibility proved to be insufficient motivation to complete negotiations and apply agreements within a reasonable timeframe.

The Commission proposed some remedial action: reconfirming the commitment to the EPAs, increasing dialogue to reinforce mutual trust, greater flexibility in negotiations, progressing towards regional AfT packages and securing market access arrangements compliant with WTO law and fair to all EU trade partners. At the Joint Ministerial Trade Committee meeting, on 22 October 2010, the ACP partners made a number of requests to the EU, which in their view needed to be addressed to allow negotiations to be

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[51] Haiti, Lesotho, Madagascar and Mozambique signed an EPA while Burundi, the Comoros, Rwanda, Tanzania, Uganda and Zambia initialled such an agreement but have not yet signed it.

[52] Congo Rep (Brazzaville), Gabon, Nigeria and seven Pacific islands

[53] Cf. EPA Reflection Paper of 22 October 2010

concluded: more flexibility on outstanding issues, more financial support, lowering requirements for LDCs, supporting on-going regional integration processes, and maintaining, or even extending, market access under MAR. Requests that can be addressed in the context of ongoing negotiations are being thoroughly looked into.

On 30 September 2011, the Commission adopted a proposal to amend MAR that would maintain trade preferences for the 18 beneficiaries that have so far taken necessary steps towards ratification; Nine more ACP countries are LDCs and are therefore eligible for EBA treatment. The remaining nine countries are non-LDCs, of which two are upper middle-income countries: Botswana and Namibia. In order to maintain or, after exclusion, re-obtain duty free and quota free access into the EU market, countries have to either notify the EU of the application, final or provisional, of the EPA negotiated in 2007, or to conclude the ongoing negotiations for a regional or more comprehensive EPA. Failing this, they would have to rely, if eligible, on the GSP, thus still enjoying substantial duty reductions on many products, although not all. The proposal gives the countries concerned enough time to apply existing EPAs and/or conclude ongoing negotiations, as it would not take effect before 2014.

9. BILATERAL AND REGIONAL TRADE COOPERATION OUTSIDE THE ACP REGION

In 2006, with the Global Europe strategy, the Commission reoriented the European bilateral trade agreements perspective through a new generation of FTAs with Asian markets and enhanced Europe's focus on key areas such as intellectual property and access to raw materials. ASEAN, Korea, and MERCOSUR emerged as priorities as they combine high levels of protection with large market potential and they are active in concluding FTAs with the EU's competitors.

In this perspective, FTAs were seen as important tools to build on WTO and other international rules and to go further and faster in promoting openness and integration, by tackling issues which are not ready for multilateral discussion, and by preparing the ground for the next level of multilateral liberalisation. Many key issues, including investment, public procurement, competition, other regulatory issues, IPR enforcement and sustainable development, which remain outside the WTO, could be addressed through FTAs.

The 2010 Trade, Growth and World Affairs Communication confirmed that, although remaining strongly committed to multilateralism and to completing the DDA, the Global Europe agenda was the right course for Europe to follow, as it gives the EU the possibility to take account of the differing levels of development of our trading partners and to include under these new trade agreements new areas such as regulatory barriers in goods, services and investment, IPRs, government procurement, the protection of innovation, sustainable development and other important issues.

9.1. The Mediterranean

The EU has a healthy trade relationship with Mediterranean countries and trade flows are increasing under the association agreements. The EU is the main trading partner for Southern Mediterranean countries, representing their primary source of imports and their largest market for exports. Euro-Mediterranean total trade was €141 billion in 2010, excluding Turkey and Libya. EU exports to Southern Mediterranean countries accounted

for €80 billion whereas Southern Mediterranean countries exports to the EU represented around €60 billion. This represents almost 7% of total EU external trade, and more than 40% of total Southern Mediterranean trade.

Bilateral trade relations are governed by the **Euro-Mediterranean Association Agreements** concluded between the EU and each Southern Mediterranean partner (with the exception of Libya and Syria). These agreements, which cover essentially trade in goods, are being or have been supplemented by a number of additional negotiations:

- Negotiations to open up additional agricultural trade: Negotiations have been concluded with Egypt, Israel, Jordan, Morocco and the Palestinian Authority. They will soon be re-launched with Tunisia.

- Negotiations to liberalise trade in services and establishment: Negotiations are on-going with Egypt, Morocco, Tunisia and Israel. A scoping process prior to launching negotiations has been finalised with Jordan. Progress has been limited in these negotiations, except in the case of Morocco.

- Negotiations to establish bilateral dispute settlement mechanisms for trade matters: Protocols have been signed with Egypt, Jordan, Lebanon, Morocco and Tunisia. Negotiations are on-going with the Palestinian Authority.

- Preparations for the negotiation of agreements on conformity assessment and acceptance of industrial products: the first agreement was signed with Israel in 2010. Discussions are ongoing with other Southern Mediterranean countries, aiming at launching negotiations as soon as possible. If the pace of preparation is sustained, negotiations could start in 2012 with Egypt and Tunisia, and in 2013 with Morocco and Jordan.

Following the signature of the single regional convention on Pan-Euro-Mediterranean rules of origin on 15 June, the EU must ensure a rapid revision of Pan-Euro-Mediterranean preferential rules of origin, to be based as much as possible on the recently reformed rules of origin for GSP beneficiaries.

Deepening South-South economic integration is essential for establishing a fully-fledged Euro-Mediterranean Free Trade Area and increasing the economic potential for the Southern Mediterranean region as a whole. Southern Mediterranean partners are still in the process of setting up a network of free trade agreements with each other, but significant progress has been made. The Agadir Agreement (Tunisia, Morocco, Jordan, and Egypt) has been in place since 2007 and open to other Arab Mediterranean countries. In addition, a number of free trade agreements have been concluded by Israel and by Turkey with Southern Mediterranean partners and other free trade agreements are being negotiated.

Possible avenues to further develop and deepen our trade and investment relations with our Southern Mediterranean partners, as a response to the unprecedented events across the Arab world since February 2011, were set out in the Joint Communications of March and May 2011[54] as well as in the European Council conclusions of March and

[54] Joint Communications from the European Commission and the High Representative of the European Union for Foreign Affairs and Security Policy on 8 March 2011 "A partnership for democracy and shared

June 2011. In the short to medium term, the focus is on accelerating the conclusion of agreements, on-going negotiations, or preparations for negotiations.

Going beyond existing mandates, and following the invitation by the June Foreign Affairs Council, the Commission has submitted to the Council a proposal for negotiating directives for bilateral **Deep and Comprehensive Free Trade Areas** (DCFTAs) with Egypt, Jordan, Morocco and Tunisia. The main objective of future DCFTA negotiations would be the progressive integration of the economies of these partners into the EU single market. DCFTAs, which would form part of the Euro-Mediterranean Association Agreements, would aim at improving market access opportunities and the investment climate and at supporting economic reforms undertaken by Southern Mediterranean partners. They would be covering a full range of regulatory areas of mutual interest, such as trade facilitation, technical barriers to trade, sanitary and phytosanitary measures, investment protection, public procurement, competition policy and sustainable development. Nonetheless, a realistic, balanced and flexible approach to regulatory convergence would need to be applied in the negotiations, taking into account the different economic development and regulatory priorities of Southern Mediterranean partners.

In parallel, work continues on implementing concrete initiatives to **bring the Euro-Mediterranean trade partnership closer to economic operators**, following the conclusions of the 9th Union for the Mediterranean Ministerial Conference in 2010. These efforts include:

- Establishing an information tool on trade and investment conditions in the Euro-Mediterranean region: this tool is likely to be in place from 2012.
- Strengthening Euro-Mediterranean industrial cooperation across sectors and in sectors of interest to both sides of the Mediterranean: a meeting of experts will take place in early 2012.
- Enhancing cooperation with the Euro-Mediterranean business community: a consultation process on trade and investment initiatives for the region is likely to be launched before the end of the year.
- Reinforcing cooperation in the area of the fight against piracy and counterfeiting: a regional workshop will be organised in the coming months.

The next Union for the Mediterranean Ministerial Conference will take place in the first half of 2012 and will assess progress made in implementing actions in all of these areas.

9.2. Eastern Neighbourhood Countries

In March 2007, the EU and Ukraine launched bilateral negotiations of a new Association Agreement to replace the present Partnership and Cooperation Agreement that dates from 1998. An FTA will be embedded in the new Association Agreement as an integral element alongside others, such as political, social, and sectoral co-operation. It should be the first of a new generation of deep and comprehensive FTAs, covering all trade-related areas, including services, intellectual property rights, customs, public procurement,

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prosperity with the Southern Mediterranean" (COM(2011)200) and on 25 May 2011 "A new response to a changing Neighbourhood" (COM(2011)303).

energy-related issues, competition, sustainable development, etc., as well as deep regulatory approximation with the trade-related EU 'acquis'. The EU believes that closer economic integration with the EU can be a key factor for Ukraine's economic growth.

The EU is Ukraine's foremost commercial partner and accounts for about one third of its external trade. In 2010, EU exports to Ukraine amounted to €17.3 billion while EU imports from Ukraine amounted to €11.4 billion. Ukraine's main exports to the EU are iron, steel, mining products, agricultural products, and machinery. EU exports to Ukraine are dominated by machinery, transport equipment, chemicals, and agricultural products. EU investment stocks in Ukraine were worth €19.8 billion in 2008. Between 2007 and 2008, FDI outward stocks from EU Member States in Ukraine grew by more than 10%. In 2009, EU investments into Ukraine amounted to €3.4 billion.

Ukrainian exports to the EU are to a very large extent liberalised as Ukraine has benefited from the EU's GSP since 1993. In 2010, the GSP utilisation rate reached a level of 72.2% of the eligible products. With € 2.15 billion of GSP preferential imports to the EU, Ukraine ranks 12th among the most effective users of the system. Preferential imports include machinery and mechanical appliances, plants, oils, base metals, chemicals and textiles.

The EU has been a strong proponent of Ukraine's WTO membership, effective on 16 May 2008. In joining the WTO, Ukraine benefits from secure access to the markets of all WTO members and commits to providing the kind of stable trade and investment environment that will attract further trade and investment.

After a breakthrough reached during a ministerial meeting on 19 October 2011, the FTA negotiations with Ukraine are in their final stage.

Good progress has also been made in negotiating an Association Agreement with the Republic of Moldova and significant progress has been made in negotiating association agreements with the Republic of Armenia, the Republic of Azerbaijan and Georgia. On 5 December 2011, the EU decided to launch negotiations on the DCFTA part of the association agreements with Georgia and the Republic of Moldova. The first round of negotiations is to take place in early 2012. Building on the substantial work accomplished, Armenia is pursuing its efforts to become ready for DCFTA negotiations as soon as possible.

9.3. China

Since joining the WTO in December 2001, China has emerged as the world's third largest economy and the world's leading exporter, as well as increasingly an important political power. EU-China trade has grown dramatically in recent years. China is now the EU's second trading partner after the USA and the EU's largest source of imports by far. The EU is also China's main trading partner. EU goods imports from China amounted to €281.9 billion in 2010, and EU goods exports to China amounted to €113.1 billion. As for EU services imports from China, they amounted to €16.3 billion in 2010, while EU services exports to China reached €20.2 billion. Regarding FDI, EU inward investment to China was worth €4.9 billion in 2010, compared to €0.9 billion for China inward investment to the EU.

The domestic reforms undertaken by China in the run-up to and shortly after WTO accession set the country on long-term growth trajectory, and this in turn enabled China to lift hundreds of millions out of extreme poverty. The EU's open market has been a

large contributor to China's export-led growth. The EU has also benefited from the growth of the Chinese market and the EU is committed to open trading relations with China. Through the 2006 European Commission Communication on "EU-China: Closer partners, growing responsibilities[55]," the EU pledged to accept tough Chinese competition while pushing China to trade fairly, respect intellectual property rights and meet its WTO obligations. A number of EU-China dialogues at all levels have been established to this end.

Because of the cross-cutting nature of many of the issues that arise in the relationship, the EU-China High Level Economic and Trade Dialogue (HED) was launched in Beijing in April 2008. The HED strengthens the dialogue between the European Commission and the State Council of China, at Vice-Premier level. It deals with issues of strategic importance to EU-China trade and economic relations and provides impetus to progress concretely in sectoral dialogues. This dialogue provides a tool to address issues of mutual concern in the areas of investment, market access, intellectual property rights protection, government procurement as well as other trade-related issues.

In January 2007 the EU and China launched negotiations on a comprehensive Partnership and Cooperation Agreement (PCA). The aim is to further improve the framework for bilateral trade and investment relations and also to upgrade the 1985 EC-China Trade and Economic Cooperation Agreement. However, positions remain far apart on many important chapters, and the European Commission has called upon China to demonstrate more ambition.

The EU was a strong supporter of China's accession to the WTO, as a WTO without China was not truly universal in scope. The commitments made by China in the context of accession to the WTO secured improved access for EU firms to China's market. Import tariffs and other non-tariff barriers were sharply and permanently reduced. At the 8th WTO Ministerial in December 2011, China announced its readiness to offer duty-free quota-free access to 97% of its market to LDCs and has expressed interest in acceding to the General Procurement Agreement. However, while China has made good progress in implementing its WTO commitments, there are still outstanding problems. China's compliance with the commitments it undertook when joining the WTO was periodically reviewed in a process called the Transitional Review Mechanism. This process ended in December 2011, 10 years after China's WTO accession,. The EU also uses the regular Trade Policy Review of China in the WTO to raise a number of concerns regarding China's trade policy. These include inadequate protection of intellectual property rights, the maintenance of industrial policies which may discriminate against foreign companies especially in sectors like automobiles, barriers to market access in a number of services sectors including construction, banking, telecommunications, and express postal services), and sustainable development. Export restrictions on raw materials have also been identified as a major trade obstacle.

9.4. South Asia

India is an important partner for the EU, in both strategic and economic terms. In 2004, India became one of the EU's "strategic partners". Since 2005, the EU-India Joint Action Plan, revised in 2008, aims at realising the full potential of this partnership in key areas of interest to India and the EU. The relationship is underpinned by an institutional

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[55] COM (2006) 631 final of 24 October 2006.

framework, cascading down from the annual EU-India Summit, to a senior-official level Joint Committee, to the Sub-Commission on Trade and to working groups on technical issues such as technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS), agricultural or industrial policy. These are the fora where a number of day-to-day issues, such as EU market access problems, are discussed

For India, the EU is the most important trading partner. India is also a very important trading partner for the EU. At present, India is only in 8th place, but its market size of more than 1 billion people and growth rates between 7 and 10% make is a growing global economic power and one of the most dynamic emerging economies in the world. EU goods exports to India amounted to €34.7 billion in 2010 compared to €33.2 billion imports from India. EU services exports to India amounted to €9.8 billion in 2010 compared to €8.1 billion for EU services imports from India. Regarding FDI, EU outward investment to India in 2010 totalled €3 billion compared to Indian inward investment to the EU of €0.6 billion. India is a beneficiary of the EU's GSP scheme. In 2010, around 85% of Indian exports to the EU entered under a zero or a preferential tariff.

Although it is far from the closed market that it was 20 years ago, India still also maintains substantial tariff and non-tariff barriers that hinder trade with the EU. The EU and India therefore hope to increase their trade in both goods and services and investment through the ambitious and comprehensive FTA negotiations that they launched in 2007. Studies confirm that the benefits to be expected from the FTA will be higher the more ambitious the commitments undertaken. This holds true for both sides. At the same time, the FTA will take appropriate account of India's development needs, notably concerns about livelihood and food security, particularly in the area of agriculture, as well as through transition periods for tariff implementation.

The negotiations have entered a crucial phase and intensive activity is expected ahead of the EU-India Summit to be held on 10 February 2012. Concluding this negotiation would make this the EU's first substantive FTA with a major emerging economy.

As for Pakistan, it remains an important partner for the EU in South Asia. Bilateral trade continues to increase and now amounts to more that €7 billion. However, due to the current concerns regarding the stability in Pakistan and the region as a whole, trade and investment continues to be below its potential. In addition, Pakistan was hit in 2010, but also in 2011, by severe floods resulting in a serious impact on Pakistan's economy. As a response, the European Council in September 2010 agreed on a package of measures to assist in the recovery of Pakistan's economy. One element of this package is the granting of time-limited trade preferences on a number of goods imported into the EU from Pakistan. The EU is currently working with members of the WTO to obtain the respective WTO waiver to allow the EU to adopt a Regulation implementing these preferences.

9.5. ASEAN

From an economical point of view, the ASEAN region holds considerable potential for EU exporters and vice versa. Therefore, it is important for the EU to remain committed to strengthening the trade relationship with ASEAN as a region. To this end, the EU presented during consultations in Da Nang between the EU and ASEAN Economic Ministers (AEM) in August 2010, a paper containing a package of activities to re-launch the trade dialogue between the EU and ASEAN as a region. These activities have now

been translated into an ASEAN-EU trade and investment work programme endorsed during the last ministerial meeting held in Jakarta in May 2011. The overall objective of this work programme is to enhance economic cooperation so as to be able to address emerging challenges and opportunities for trade and investment between ASEAN and the EU. Moreover, this work programme is also expected to support ASEAN economic integration, bringing broader economic integration within ASEAN as well as between the EU and ASEAN.

Furthermore, and in parallel to this EU-ASEAN region-to-region trade dialogue, the EU and ASEAN countries have moved towards closer ties by opening FTA negotiations with Singapore and Malaysia, and the door remains open to other ASEAN partners wishing to share EU ambitions for negotiating a comprehensive FTA. Other ASEAN members, in particular, Indonesia, the Philippines, Thailand and Vietnam have expressed great interest in also starting FTA negotiations. These bilateral FTAs are however intended to become building blocks for a future agreement in the regional framework. It is clear that the more similar these FTAs are, the easier it will be to weld them into a regional framework.

9.6. Central America

At the EU-Latin America and Caribbean (LAC) Summit in 2004, the EU and the Central American region agreed to negotiate a new Association Agreement. Like the existing Political Dialogue and Cooperation Agreement, this new agreement would aim at reinforcing the political and economic stability of the Central American countries[56], fostering sustainable development and deepening their process of regional integration. This closer economic integration between the countries of the Central American region is important for attracting investment to the region and helping local businesses develop the strength in their regional market to compete internationally.

Negotiations on this Association Agreement were launched in 2007 and were successfully concluded at the 2010 Madrid EU-LAC Summit. The Agreement was initialled in March 2011. It sets the appropriate framework for the further development of bi-regional relations through political dialogue, cooperation and trade. The Association Agreement includes a balanced and ambitious trade component.

In 2008, the EU was the second major trade partner of the region after the United States with a stable market share - over the last decade - of approximately 10%. Central American exports to the EU are dominated by agricultural products, especially coffee, bananas and other fruits, which together accounted for 36% of exports to the EU in 2007. The most important exports from the EU to Central America are machinery, chemicals, ships, boats, vehicles and fuels. EU goods exports to Central America amounted to €4.2 billion in 2009 while EU goods imports from Central America amounted to €4.6 billion.

9.7. MERCOSUR

Negotiations for an inter-regional Association Agreement between the EU and MERCOSUR[57] were launched in 1999 but were suspended in October 2004. In 2009 and 2010, the EU and MERCOSUR conducted a process of informal contacts to take stock of the situations and assess if the conditions for a successful re-launch of the negotiations

[56] Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
[57] Argentina, Brazil, Paraguay and Uruguay.

now existed. Taking into account the results of this informal dialogue, the Commission decided in May 2010 that it should be possible to re-launch the negotiations.

The negotiations are based on a region-to-region approach and aim at an ambitious and balanced result, going beyond the respective WTO obligations of both sides. The EU-MERCOSUR FTA would have an extensive coverage, although product and sectoral sensitivities on both sides would be taken into account. It would cover not just goods, but also services, investment, government procurement, adequate protection of intellectual property rights and geographical indications, effective competition policies, SPS as well as trade and sustainable development. The FTA would also establish an effective and binding dispute settlement mechanism to help resolve trade differences.

In 2009, EU-MERCOSUR trade represented nearly as much as EU trade with the rest of Latin America put together. In 2008, the EU was MERCOSUR's largest trading partner, representing 20.7% of total MERCOSUR trade. MERCOSUR ranked 8th among EU trading partners, accounting for 2.7% of total EU trade in 2009. The EU is MERCOSUR's leading market for its agricultural exports, accounting for 19.8% of total EU agricultural imports in 2009. EU goods exports to MERCOSUR focus largely on industrial products including machinery, transport equipment and chemicals, accounting for €27.2 billion in 2009, while goods imports amounted to €35.1 billion. The EU is the largest investor in MERCOSUR with €167.2 billion in 2008. It currently has more FDI stock in MERCOSUR than in Russia, China and India put together.

9.8. Andean Community

The EU is the second largest trading partner of the Andean region after the USA. In 2010, the Andean Community of Nations (CAN) represented 0.7% of the EU's world trade whereas the EU totalled 14% of CAN's trade (2009). In 2010, EU imports from Andean countries amounted to €12.2 billion and consisted predominantly of primary products: agricultural products (41.1%) as well as fuels and mining products (44.7%). EU exports amounted to €7.9 billion and consisted mostly of manufactured goods (81.5%), notably machinery and transport equipment (46.5%) and chemical products (13.8%). The EU grants the Andean countries preferential access to its market under the GSP+.

Following divergences amongst Andean countries, the EU engaged into FTA negotiations with Colombia and Peru which were successfully concluded in the spring of 2010. The FTA with Colombia and Peru is based on a three-pillar structure including a political, a trade and a development cooperation structure.

The FTA with Colombia and Peru offers first and foremost substantial new access for bananas and sugar to the EU market. The new regime for importing these two products into the EU under the FTA will trigger significant tariff savings for Colombia and Peru. Other products will also benefit from substantial market access increases e.g. beef, rice and maize to name a few. These products are not covered by GSP+ and will thus result in real benefits directly to local producers.

Moreover, from its entry into force the FTA covers 100% of Colombia and Peru's exports of industrial products and fisheries, thereby providing an incentive for the Peruvian and the Colombian economies to move up the value-added chain and benefit from a totally open market in the EU. Conversely, tariff dismantling in Colombia and Peru will take place on these products over a period of 10 years, which is in accordance

with the asymmetrical approach the EU takes in its FTAs with emerging economies. Overall, the FTA is expected to boost Colombian GDP by 1.3% and Peruvian GDP by 0.7% on the long term. Both imports and exports of these countries are likely to increase by 6% in the medium term and by 8% over the long run.

10. Key instruments for better policy making: Impact Assessments, Sustainability Impact Assessments and Ex-post Evaluations

Impact assessments (*ex ante*) and evaluations (*ex post*) are fundamental tools for evidence-based trade policy making. Impact assessments provide support for political decision-making by analysing and comparing the **expected** effects of proposed changes in trade policy. *Ex post* evaluations evaluate the **actual** consequences – both expected and unexpected – of changes in trade policy following their implementation and provide the evidential basis for fresh initiatives and a new cycle of policy-making.

10.1. Impact assessments

In practice, two types of impact assessment are used to support decision-making in trade matters: Commission impact assessments (IAs) and trade sustainability impact assessments (SIAs). Common to both are a balanced and integrated assessment of economic, social and environmental impacts, together with a comprehensive consultation of stakeholders .The main differences between the two concern their timing and scope.

The European Commission, which has a policy of systematic, standardised and highly structured **impact assessments** for all major policy initiatives, is stepping up a gear in embedding impact assessments in trade policy making. This includes carrying out impact assessments on legislative proposals (regulations) and on proposals for new trade negotiations with a potentially significant economic, social or environmental impact on the EU and its trading partners, including developing countries. The impact assessments analyse whether the options considered might have significant effects on certain sectors and assess the possible impact on third countries with which the EU has preferential trade arrangements as well as any impacts the initiative might have on developing countries.

Impact assessments are prepared in order to provide the evidential support for a Commission decision (i.e. for a trade negotiation, the adoption of a proposal for a negotiating directive). They prepare evidence for political decision-makers on the advantages and disadvantages of possible policy options by assessing their potential impact. They are based on an integrated approach which analyses both benefits and costs, and they address all significant economic, social, human rights and environmental impacts of the suggested trade initiative. They are accountable and transparent: they include a consultation of interested parties and the reports are published online once the Commission has adopted the relevant proposal.

Since 1999, moreover, all the EU's major multilateral, regional or bilateral trade negotiations have been accompanied and supported by trade **sustainability impact assessments** (SIAs). Trade SIAs are independent studies conducted by external consultants, on the basis of which the Commission sets out its own views on the identified impact, and on the policy measures proposed to address them.

They consist of two complementary elements: a robust analysis of the potential economic, environmental, human rights and social impacts that a trade agreement might have, both in the EU and in the partner countries; and a transparent and very wide consultation process which ensures a high degree of transparency, aims to engage stakeholders both in the EU and in partner countries, and allows the studies to take account of the expertise, local knowledge, and concerns of the relevant interest groups, including in the partner countries.

Undertaken in parallel with the negotiation process, SIAs provide negotiators with evidence-based information to help clarify the trade-offs arising. They provide diverse groups of stakeholders with a more extended opportunity to bring their concerns to the attention of the negotiators. They also provide guidelines for the design of possible flanking (complementary) measures (e.g. AfT), which can maximise the positive impact and reduce any negative impacts of the trade negotiations in question.

Impact assessments can help gain a better understanding of what is at stake in trade agreements. They can help identify potential risks but also pursue effective trade policies leading to sustainable development and inclusive growth. The EU is the only trade partner with such an extensive and systematic practice of impact assessments.

10.2. *Ex post* evaluations

But it is also important to ensure that the trade policy delivers its intended benefits. Since 1996, Commission services have been examining how effectively budgetary resources are being used. More recently, the focus has shifted towards the question of whether, and to what extent, EU initiatives are achieving their policy objectives.

In trade matters, an example of this type of unified cycle of policy analysis is the evaluation of the EU's Generalised System of Preferences (GSP) which provided the evidence base for the review of the GSP scheme.

The ex post evaluation of trade policy activities has gradually increased, year after year; and in Trade, Growth and World Affairs (COM(2010)612), the European Commission specifically committed to more systematic evaluation of the effects of the EU's existing trade agreements. In 2010 an evaluation of the effects of the trade pillar of the EU-Chile association agreement was launched[58], and further studies are planned.

11. INVESTMENT AND DEVELOPMENT

11.1. International rules on investments in EU trade agreements

Investors thrive in a stable, sound and predictable environment. An attractive domestic environment, notably as far as the regulatory framework, infrastructure, human capital, domestic policies and the political situation are concerned, is essential to attract FDI flows. International rules on investment contribute to improving the business environment by increasing legal certainty for investors and by reducing the perceived risk. These rules are

[58] Another study provides analysis of social impacts resulting from trade pillar of the EU-Chile Association Agreement; Ergon Associates, 2011, 'Trade and Labour: Making effective use of trade sustainability impact assessments and monitoring mechanisms'. See: http://ec.europa.eu/social/main.jsp?langId=en&catId=87

laid down at the multilateral level through the WTO-GATS and at regional and bilateral level through FTAs.

The EU has concluded FTAs with a variety of developing countries. The objective of provisions in these FTAs can notably be to facilitate and strengthen trade in services and investments, by giving investors greater legal certainty regarding market access and the conditions under which they are allowed to operate. However, such commitments in EU economic agreements with developing countries do not force any developing country to open sectors that they deem not ready to be opened.

Liberalisation of trade in services and investments is much more complex than liberalisation of trade in goods, which is mainly a matter of lowering customs tariffs. Because of this, FTAs with developing countries do not seek to open up all sectors in a uniform manner. Parties can choose and define which sectors they want to liberalise and by how much, in compliance with WTO rules. Similarly as in the goods area, liberalisation of trade in services and investments in FTAs with LDCs is asymmetric, with the EU opening up its market to a significantly larger extent than LDCs.

11.2. New comprehensive EU international investment policy

The Lisbon Treaty has included FDI within the EU Common Commercial Policy, which is an exclusive competence of the EU. In its Communication 'Towards a comprehensive European international investment policy' of 7 July 2011[59], the Commission has outlined the objectives of the EU's future investment policy. It is the Commission's objective to develop and implement a comprehensive common investment policy, which will secure a level playing field for all EU investors, offering them not only access to foreign markets but also a high degree of protection for their investment abroad.

This new policy will aim to secure and strengthen the EU's investment competitiveness and to affirm the EU's commitment to the open investment environment which has been fundamental to its own prosperity, while continuing to promote investment for sustainable development. Besides rules regarding liberalisation of investments, the EU aims to include in its economic agreements, rules regarding the protection of investments. This is a crucial feature to attract FDI, as it provides more guarantees and increases legal certainty for investors, on top of rules regarding access to foreign markets.

A key objective of the EU Common Commercial Policy is to promote trade and investment in such a way as to contribute to sustainable development. This equally applies to the future EU investment policy.

The EU international investment policy will be consistent with the other policies of the EU and its Member States, including development, human rights, protection of the environment, health and safety at work, consumer protection, cultural diversity, competition and taxation. EU agreements relating to investment will include sustainability provisions, as is already the case under the EU's FTAs. Investors have to recognise and respect these principles and objectives when investing in foreign countries. In this respect, policies encouraging responsible business conduct play an important role.

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[59] COM(2010)343 final

11.3. EU policy on Corporate Social Responsibility

The Commission published a new Communication on Corporate Social Responsibility (CSR) in October 2011[60] which aims at setting out a renewed EU strategy in response to recent developments in this area. Further take-up of CSR is a critical element to achieve sustainability, as value chains spread globally and criteria other than financial profit, including social and environmental costs and benefits, are increasingly considered by investors and decision-makers as indicators of overall performance and the 'shared value' generated by a company. The Commission's new Communication places a strong emphasis on the need to respect and promote internationally recognised CSR guidelines and principles.

The Commission, along with 21 EU members in the OECD, contributed to the recent update of the 'OECD Guidelines for multinational enterprises: recommendations for responsible business conduct in a global context'. The Guidelines now incorporate a chapter on business and human rights, integrating the 'Guiding Principles for the implementation of UN framework on business and human rights'. They also introduce a new comprehensive approach to due diligence and responsible supply chain management, updated wording on employment and industrial relations, combating bribery, the environment, consumer interests, disclosure and taxation, as well as reinforced procedural guidance strengthening the implementation mechanism. Finally, the update of the OECD Guidelines also includes a proactive implementation agenda aimed at assisting enterprises in meeting their responsibilities as new challenges arise.

Besides the OECD Guidelines and the UN Guiding Principles on Business and Human Rights, other internationally recognised CSR guidelines and principles highlighted by the Commission are the UN Global Compact, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and social policy, and the ISO 26000 Guidance Standard on Social Responsibility.

Delivering on development policy objectives can be greatly enhanced by companies better meeting their social responsibility through best practices, the adoption and implementation of industry-specific codes of conduct or reporting standards and the development of inclusive business models. This is even more important in weak governance countries, where exemplary corporate behaviour of European investors can have the positive effect of encouraging local authorities to improve regulatory standards, possibly inspired by European formats, and ensuring that local communities are properly involved. This plays a role in filling governance gaps.

12. EU SUPPORT FOR INVESTMENT

EU blending mechanisms combine grants with additional flows featuring different financial terms and characteristics (such as loans, risk capital) so as to gain financial and qualitative leverage and thereby increase the impact of EU development policy. The idea is to use the grant element strategically in order to make investment projects by public or commercial financiers financially viable and thereby exerts a leveraged policy impact.

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[60] "A renewed EU strategy 2011-14 for Corporate Social Responsibility"; COM(2011)681of 25.10.2011.

The Commission aims at achieving four main objectives through the use of blending mechanisms:

- Leverage[61] additional public and private resources for key investments to pursue EU development policy objectives.

- Increase aid effectiveness. By using the grant element to improve the quality and sustainability of investment projects and to speed up processes, blending also has a non-financial leverage. Furthermore the careful use of loans can assist in increasing financial discipline and ownership compared to exclusively grant receipts in public or semi-public investments.

- Promote donor cooperation and coordination between European aid actors.

- Increase the visibility of EU development aid and political leverage.

The EU blending mechanisms intervene in markets to correct the allocation of resources in a way that increases social welfare (i.e. development goals). Therefore interventions are undertaken very cautiously and are considered case-by-case in order not to distort markets in a negative way (e.g. co-financing marketable projects or providing more grant money than necessary). Careful consideration is also given to the issue of debt sustainability of sovereign borrowers.

12.1. EU Regional Blending Mechanisms

Since 2007, four regional blending mechanisms have been set up: the EU-Africa Infrastructure Trust Fund (ITF), the Neighbourhood Investment Facility (NIF), the Latin America Investment Facility (LAIF) and the Investment Facility for Central Asia (IFCA). The EU regional blending mechanisms have proven to be an effective and efficient way of joining forces to support investments in developing countries. Since 2007, about €570 million in grants from the EU budget and the European Development Fund (EDF) have been committed to about 100 projects in various sectors. Through grant co-financing, EU contributions have so far leveraged some €8 billion in loans from European finance institutions. This has unlocked investment with a total volume of more than €20 billion. Further investment facilities for the other regions are under preparation.

Grant components in the regional blending mechanisms can take the form of technical assistance, direct investment grants, interest rate subsidies, loan guarantees, insurance premium, first loss tranche (structured finance) and risk capital. While so far the majority of supported projects have been investments in the public or semi-public sector, the significance of support to the private sector particularly through risk capital operations and risk sharing mechanisms targeting small and medium-sized enterprises (SMEs) is increasing.

In November 2010, the Commission decided to create "Climate Change Windows" (CCWs) within all regional blending mechanisms. The CCWs aim to further increase the volume of investment projects related to climate change and are to be established in all regional blending mechanisms.

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[61] The financial leverage of a project is defined as the ratio of grant to non-grant investment in a project. The possible leverage depends on each project and is limited in certain sectors, in which the profitability of projects is rather low, or in countries with high concessionality requirements.

12.2. Other EU blending mechanisms

ACP Investment Facility (IF): Primarily intended to support private sector investment projects, the IF is a revolving fund of €3.5 billion (EDF funds) managed by the European Investment Bank (EIB), supporting investors via loans, equity or guarantee mechanisms. The amount of €400 millions in grants is reserved for financing interest rate subsidies and technical assistance (technical assistance is currently limited to €40 millions, 10% of the grant amount). Since 2003, €290 million from the IF resources have been blended with resources from European Development Finance Institutions (EDFIs) dealing with the private sector such as FMO, Proparco or DEG under the European Financing Partners (EFP) Initiative to finance the private sector in ACP countries. The Commission gives its opinion on project proposals before new projects are approved.

Support for the Facility for Euro-Mediterranean Investment Partnership (FEMIP): FEMIP, managed by the EIB, supports the private sector and the creation of an investment-friendly environment. The Commission supports FEMIP with €233 million in the creation/strengthening of equity resources for SMEs and via technical assistance. Each investment has to be submitted to the Commission for approval.

Global Energy Efficiency and Renewable Energy Fund (GEEREF): GEEREF is a structured fund-of-funds aiming to promote energy efficiency and renewable energy in developing countries. It invests in Private Equity Funds whose investments target SMEs' energy efficiency projects. The Commission has made available €75 million to GEEREF. So far, the other investors are Norway (€10 million) and Germany (€24 million). The EIB/European Investment Fund (EIF) acts as fund manager, but the Commission together with the other investors takes the investment decisions as part of the Investment Committee. Blending is meant to take place at the level of the private equity funds by attracting private investments via the GEEREF investments. In addition private and public financiers are also expected to invest directly into GEEREF.

Finally, it is also worth mentioning the pooling mechanisms set up in the framework of the ACP Energy and Water Facilities under the 10th EDF: within each facility, €40 million have been made available for financing investments in those two sectors, capacity building actions or preparatory studies (either via direct investment grants, interest rate subsidy or technical assistance). Project proposals are submitted by the EIB, Member States development agencies or European development finance institutions.

12.3. The role of the EIB in investments in developing countries

The EIB undertakes operations outside the EU in support of EU external policies based on unanimous decisions of its Board of Governors, either at its own risk for investment-grade operations on the basis of Article 16 of its Statute or through an EU budgetary guarantee covering risks of a sovereign or political nature. This guarantee is provided by means of a mandate (the so called 'external mandate') that takes the form of a decision by the Parliament and Council. Most recently, the EU guarantee was renewed by Decision No 1080/2011 EU of the European Parliament and of the Council of 25 October 2011. The external mandate for 2007-2013 currently covers 68 countries and/or territories in Pre-Accession, Neighbourhood, Asian and Latin American countries as well as the Republic of South Africa.

EIB activities in ACP countries are carried out under the separate Cotonou Agreement with EDF resources and with EIB own resources covered by a guarantee from Member

States. In relative terms, the lending activity outside the EU represents about 10% of the Bank's activity. In 2010, projects signed outside the EU amounted to €8.8 billion out of an overall EIB financing of €71.8 billion.

Regional ceilings of the EIB's General Mandate (2007-2013)

A. Pre-accession countries: €9,048 million

B. Neighbourhood and Partnership countries: €13,548 million broken down into the following indicative sub- ceilings:
- (i) Mediterranean countries: €9,700 million
- (ii) Eastern Europe, Southern Caucasus and Russia: €3,848 million

C. Asia and Latin America: €3,952 million, broken down into the following indicative sub-ceilings:
- (i) Latin America: €2,912 million
- (ii) Asia (including central Asia): €1,040 million

D. Republic of South Africa: €936 million

Climate Change Mandate: €2,000 million

TOTAL: €29,484 million

13. EU SUPPORT TO IMPROVING DEVELOPING COUNTRIES' RESILIENCE AND RESPONSE TO CRISES

Crises, in particular natural disasters, conflicts – often linked to the control of natural resources – and commodity price shocks, can jeopardise developing countries' long-term development efforts. The European Commission has launched its own initiatives to help developing countries address these issues and supports a number of promising international initiatives that promote good governance and transparency in the natural resources sector. Sustainable management of natural resources offers great potential to contribute to poverty alleviation, inclusive growth and sustainable development. In several developing countries, however, the extraction and processing of natural resources have been associated with the misuse of revenues, economic setbacks, environmental destruction, political conflict and state fragility. The evidence from many resource-rich countries shows that they are performing lower on the human development indicators than less-endowed countries, an underperformance referred to by the term "resource curse".

13.1. Forest Law Enforcement, Governance and Trade (FLEGT)

Forests are a vital resource for many developing countries contributing to the livelihoods of the majority by providing food and raw materials for subsistence and supporting the local economy. Wood fuel is often the main source for all domestic and industrial uses.

At the same time, illegal logging is a major problem for many timber-producing countries. Illegal logging slows down sustainable development in some of the poorest countries of the world and is a major contributor to global deforestation. Consumer countries contribute to these problems by importing timber and wood products without ensuring that they are legally sourced. In recent years, however, producer and consumer countries alike have paid increasing attention to illegal logging.

The Commission's **Action Plan on Forest Law Enforcement, Governance and Trade** (FLEGT) was endorsed by Council in 2003. The Action Plan blends measures in producer and consumer countries to facilitate trade in legal timber, and eliminate illegal timber from trade with the EU. It proposes support for timber producing countries, efforts to develop multilateral collaboration to tackle trade in illegal timber, support for private sector initiatives as well as measures to avoid investment in activities that encourage illegal logging.

The cornerstone of the Action Plan is the establishment of voluntary FLEGT Voluntary Partnership Agreements (VPA) between the EU and timber producing countries aimed at stopping illegal logging. FLEGT VPAs are bilateral trade agreements which aim to guarantee that the wood exported to the EU is from legal sources and to support partner countries in improving their own regulation and governance of the sector.

Six countries have concluded a VPA with the EU and are implementing the systems agreed: Ghana, Indonesia, Cameroon, Congo, Central African Republic and Liberia. In addition, four countries are presently negotiating VPAs with the EU: Gabon, Vietnam, Malaysia and the DRC. Furthermore, there are around 15 countries from Africa, Asia and Central and South America that have expressed interest in a VPA.

Key facts about forests and illegal logging:

- Some 1.2 billion people, a fifth of the world's population, depend on forests for their livelihoods.

- Global deforestation still occurs at an alarming rate of 13 million hectares a year. Deforestation is responsible for half of the CO2 emissions from developing countries and account for close to 20% of global emissions, more than the entire global transport sector. Illegal logging is one of the main drivers of deforestation.

- Studies suggest that 20-40% of trade from tropical countries has been illegally harvested timber. Some $15 billion of revenues are lost every year due to illegal logging. Furthermore it is estimated that illegal logging depresses timber prices by 16%.

- The EU is one of the largest consumers of timber in the world. In 2007, the EU imported the equivalent of 180 million m3 of timber for a value of $40 billion.

In addition to the FLEGT VPA, in 2010 a new Regulation was adopted, Regulation (EU) 995/2010 – also known as the EU **Timber Regulation**. The Regulation obliges EU operators placing timber and timber products to exercise "due diligence" so as to minimise the risk of illegal timber being present in the supply chain. It applies to both EU and imported timber and will apply from March 2013. FLEGT-licensed timber is explicitly recognised as complying with the requirements of the Regulation,

Taken together with development cooperation support from the Commission and EU Member States, as well as of course investments of financial and human resources by timber exporting countries, these represent a major effort to ensure the legality of timber in international trade, a basic precondition for sustainable forest management.

13.2. European Commission proposal on mandatory disclosure requirements for the extractive and logging industry

On 25 October 2011, the Commission adopted legislative proposals[62] requiring the disclosure of payments on a country-and-project basis by listed and large unlisted companies with activities in the extractive industry (oil, gas and mining) and logging of primary forests. The EC proposal would apply to EU privately-owned large companies and companies listed in the EU that have activities in the oil, gas, mining or logging sectors. Targeting both types of companies would create a level playing field in the EU. It reflects the fact that large unlisted companies can potentially make significant payments to governments in the countries in which they operate.

Both extractive and forestry industries are often associated with a great source of wealth in resource-rich developing countries. By disclosing payments to governments by the extractive and forestry industries, communities in resource-rich countries would be better informed about government income and from licensing such activity and whether the cost to society from exploited the natural resource is adequate.

In order to cover the various types of companies active in these industries, the Commission proposed to revise both the Transparency Directive[63] to cover listed companies and the Accounting Directives[64] to cover large unlisted companies. During the next months, both the European Parliament and the EU Council will consider the legislative proposal, and both bodies must be in agreement for it to be approved.

13.3. The Kimberley Process

In 2003, the EU became a founding member of the Kimberley Process (KP), the UN-backed international initiative to combat ‘conflict diamonds’ that fuelled horrific civil wars in Africa.. The EU has adopted Regulation (EU) n° 2368/2002 setting out detailed rules for implementation of the KP’s certification scheme that aims at preventing diamond trade from funding conflict. The KP’s efforts to promote traceability of diamond production and trade have proved remarkably successful, and have contributed to reducing drastically the occurrence of ‘conflict diamonds’. Furthermore, the Kimberley Process’ emphasis on good governance and transparency has helped stabilise fragile countries and has supported development.

The EU has actively contributed to the Kimberley Process, which it chaired in 2007. the EU continues to chair the KP’s Monitoring Working Group, provides statistical expertise and satellite imagery to strengthen KP’s implementation, and has supported KP implementation in countries such as Liberia or Ghana through technical assistance. KP implementation, however, remains a challenge, and there have been calls for a wide-ranging reform of the KP, in particular as far as its focus on ‘conflict diamonds’ is concerned.

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[62] http://ec.europa.eu/internal_market/accounting/other_en.htm

[63] Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.

[64] COM (2011) 684 Final, Proposal for a Directive of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

13.4. The Vulnerability Flex Mechanism (V-FLEX)

Unlike developed economies many ACPs do not have sufficiently developed counter-cyclical fiscal measures or "automatic stabilisers" such as the use of unemployment benefits to cushion the impact of a decline in overall demand. Low Income Countries (LICs) in particular are highly vulnerable to economic shocks because of the magnified impact on incomes and resultant negative effect on poverty indicators.

In order to reduce the adverse effects of commodity price volatility, the EU designed the Vulnerability Flex Mechanism (VFLEX) in early 2009 as a short-term counter-cyclical tool to help mitigate the effects of macroeconomic pressure on those ACP countries most affected by the global food and financial crises.

The VFLEX had an allocation of €500 million over the period 2009-2010. Some €236 million was allocated to 15 eligible ACP economies in 2009 and the balance of €264 million allocated to 19 eligible ACP countries in 2010. Support was mostly provided as additional disbursements of general budget support, with an allocation to help protect countries faced with liquidity rather than solvency problems from further economic destabilisation. It also avoided cuts in pro-poor or development expenditure.

This followed the creation of the €1 billion worth EU Food Facility at the end of 2008 worth and the re-allocation of European Development Fund (EDF) monies in 2008-2009 under the so-called Envelope B to help them absorb macroeconomic shocks in 2008.

Whilst it is too early to assess the ex-post impact of VFLEX funding there is a general sense that the tool had the desired effect of preventing countries faced with liquidity rather solvency problems from further economic destabilisation. In this sense the immediate impact as a counter-cyclical measure worked.

The role of financial instruments in addressing natural disaster and food security

Financial instrument can play a positive role in relation to natural disasters and food security at both micro and at macro levels. However, in developing countries these instruments and the financial markets remain in general underdeveloped:

- Insurance: Traditionally, countries rely on ex-ante accumulation of reserves, or on ex-post increase in taxes and/or debt levels and/or ad hoc external donor support to address the cost of natural disasters. Providing for disasters by means of insurance secures at least some of the needed resources in advance. The experience in advanced economies shows that many natural perils are insurable, and markets for disaster risk insurance are well established there. Some other countries have also made positive experiences: for instance, a group of Caribbean countries have insured themselves against hurricanes, others against earthquakes and some governments have "insured" themselves against unfavourable developments of key commodity prices by engaging at the futures market. Insurance can also offer a direct (or indirect via the government) financial support to farmers following a bad harvest caused by bad weather. Furthermore, by being insured against major losses, farmers may more easily make the step out of subsistence farming, by buying more inputs and investing in more efficient technology.

- Capital markets: Two innovations have enhanced the possibilities for passing risk to capital markets: the use of parametric insurance triggers and the growth of the catastrophe bond market. Examples of parametric insurance are so-called weather derivatives, which link payouts to the occurrence of a certain weather event (such as precipitation falling short of certain thresholds). As for catastrophe bonds, they are high-yield debt instruments that are usually insurance-linked and meant to raise money in case of a catastrophe such as a hurricane, other adverse weather conditions or an earthquake. They include a special condition which states that if the issuer

(government, insurer or reinsurer) suffers a loss from a particular predefined disaster, then the issuer's obligation to pay interest and/or repay the principal is either deferred or completely forgiven.

The EU supports the World Bank's commodity risk management team to develop targeted risk management schemes for developing countries. It is also the main donor of the Global Index Insurance Facility, managed by the IFC of the World Bank Group, with the aim to make parametric weather insurance workable on the ground in developing countries.

14. SUSTAINABILITY-BOUND SCHEMES

Sustainability schemes can be a means to secure a greater share of the value added for producers, notably small-holder farmers and cooperatives, in developing countries. Fair, ethical and organic products enjoy growing demand by consumers in emerging and developed countries. Sustainability-bound production and trade schemes offer a market-based business model that can contribute to poverty alleviation and be an effective strategy to increase the development impact of trade, especially for the poorest and most marginalised parts of the population in developing countries.

14.1. Fair and ethical trade

The Commission, in its Communication of 5 May 2009 on "Contributing to sustainable development: The role of fair trade and nongovernmental trade-related sustainability assurance schemes[65]," recognised the potential contribution to sustainable development of fair trade and other trade-related sustainability assurance schemes[66]. Underlining the voluntary nature of such schemes, the Commission has opted for an approach which aims not to privilege one scheme above another and to let the private initiatives and the market (including through public procurement) do their work.

Following the 2009 Communication, the Commission undertook a number of initiatives in support of fair and ethical trade:

- Public procurement: Adoption in January 2011 of "Buying social[67]," a document that provides specific guidance to public authorities on how to promote fair and ethical trade through their purchasing policies and practices a guide to social considerations in public procurement. It encourages contracting authorities to take sustainability issues into account in a neutral, non-discriminatory way in their purchasing decisions.

Tackling rural poverty in the Occupied Palestinian Territory

Agriculture is one of the most significant sectors of the Palestinian economy and the country’s 11 million olive trees provide a living for some 100,000 families. To help improve the income of some of the more marginal olive farms, the EU funded a three-year project targeted at about

[65] COM(2009) 215 final

[66] Other communications have made similar statements, including the 2006 Communication “Making Europe a pole of excellence on corporate social responsibility” and more recently the 2011 Communication on “A renewed EU strategy 2011-14 for corporate social responsibility”

[67] "Buying Social - A Guide to Taking Account of Social Considerations in Public Procurement"

2,400 olive-farming households in 10 villages in the West Bank. The project aimed to improve efficiency by providing olive farmers with training on pruning techniques and pest control and also improve product quality by clamping down on the rampant adulteration of new oil with old oil or the mixture of olive oil with other types of oil. By the end of the project, 467 new farmers became certified as organic producers and the area of land dedicated to growing olives using the organic system had increased by 338%, well above the target of 200%. Delays in sending collected harvests to olive presses were reduced and hygiene at olive presses was improved. A number of olive mills in the area were refurbished and provided with spare parts and technical training. Production at the farms of certified organic Fairtrade olive oil increased from 112 tonnes in the first year to 282 tonnes in the third year of the project. The project has shifted the focus of oil farmers in the West Bank from quantity to quality and the main aim is now the extraction of high quality olive oil. The project is widely seen as a success with olive oil from the area recently taking a number of national and international awards for its quality.

- Financing: Funding of specific development cooperation programmes has helped increasing the participation of small producers in developing countries in various schemes, such as 'Fair Trade'. Further support for the uptake and development of fair and ethical trade has been provided mainly through:

  - General trade and private sector development support programmes that aim to foster an improved business enabling environment or strengthen productive capacities and can benefit all private sector actors, including those active in fair trade and other sustainability schemes;

  - More targeted trade and private sector development support programmes, including pro-poor value chain and responsible supply chain development, capacity-building for small holders and producers, development of fair and ethical trade product lines, etc.

  - Support for fair and ethical trade in agricultural, rural development and food security programmes contributes to poverty reduction, given that the majority of poor people live in rural areas and work in agriculture. Support to such programmes helps ensure that agricultural development can benefit small producers in a sustainable way and protect their rights.

  - Support for non-state actors in the areas of awareness-raising and educational activities in EU Member States, activities supporting market transparency of voluntary standards schemes in the EU, or impact assessments or development of fair and ethical trade activities in developing countries;

- Policy coherence: The Directorate General for Trade hosts the Commission's fair trade focal point.

EU support for the International Trade Centre (ICT) for transparency in voluntary sustainability standards

The European Commission provides €200,000 worth of support to ITC for the further development and dissemination of the Trade for Sustainable Development (T4SD) project, a web portal providing free, impartial, comprehensive, up-to-date and comparable information on voluntary sustainability standards. The project aims at improving transparency in voluntary sustainability standards and strengthening the capacity of policy-makers, producers, exporters and buyers to participate in more sustainable production and trade.

14.2. Organic production

Organic farming is a method of agricultural production which uses organic production methods and places the highest emphasis on environmental and wildlife protection and, with regard to livestock production, on animal welfare considerations. Organic production involves holistic production management systems for crops and livestock, emphasizing on-farm management practices over off-farm inputs. This is accomplished by avoiding, or largely reducing, the use of synthetic chemicals such as fertilizers, pesticides, additives and veterinary medicinal products, replacing them, wherever possible, with cultural, biological and mechanical methods.

Under EU rules, farming is considered to be organic if it complies with Regulation 834/2007 of 28 June 2007 on organic production and labeling of organic products. The EU regulatory system allows for all third country imports to be labelled as organic and sold on the EU market either by recognising the equivalence of the non-EU system or by approval of control bodies who undertake to certify product as complying with EU rules. Developing country imports are mostly managed by approved certifying bodies, both international bodies and bodies from developing countries. Within the EU, the Commission manages directly labelling schemes for organic farming which are open to producers in developing countries.

The EU accounts for 48% of the world market for organic product and was worth about €12 billion at wholesale price in 2009.

African Union – EU initiative on agricultural quality products

In order to boost awareness of the potential of organic farming in Africa, the African Union (AU) Commission and the European Commission, meeting in June 2011 in the "College-to-College" process, agreed to hold a joint workshop on organic farming. The conclusions of the workshop, held in Brussels, Belgium, in July 2011, evidenced substantial activity across Sub-Saharan Africa in the development of organic farming. In particular, for smallholders using low-input or no-input production, the transition to a productive agricultural system using rotation, composting, rotation and improved seed, can be accompanied by increasing yields (contrary to the experience in developed countries), which offers the perspective of sustainable intensification by conversion to organic methods. The workshop also noted the development of the AU's Ecological Organic Action Plan (2011), which provides a blueprint for development of the sector across Africa.

14.3. Other schemes

A wide variety of other certification and product assurance schemes operate, in particular in the agricultural, fisheries and forestry sectors, to give importers, buyers and consumers guarantees about product including from developing countries. Many focus on environmental and sustainability criteria, such as carbon emissions, water use, sustainable farming, sustainable fishing, or adherence to good agricultural practice (e.g. in the use of pesticides).

Over 400 private schemes operate in the agricultural sector[68] alone, providing information to consumers about product characteristics or production attributes, backed up by certification. Consumers must be able to have confidence in the labelling claims and in 2010, in response to comments from stakeholders, the Commission adopted a Communication on agricultural product quality policy[69] addressing EU and private schemes in the agri-food sector. Concerning private schemes, EU best practice guidelines for voluntary certification schemes for agricultural products and foodstuffs[70] were adopted by the Commission after extensive consultation with stakeholders. The guidelines lay down best practice for these schemes including transparency recommendations and the need to take account of impacts of schemes on producers in developing countries and facilitate their participation in such schemes.

15. MULTILATERAL ASPECTS

The EU has consistently advocated trade liberalisation and a strong rules-making system flanked by a robust dispute-settlement mechanism as a driver for establishing and promoting a sound and growth-oriented domestic framework, and for ensuring a level-playing field in the global trading system. In this context, transparency and monitoring the implementation of WTO rules by its members also remains essential (including under the Trade Policy Review Mechanism). While the system offers substantial opportunities for all, the EU has strived to ensure that developing countries, and particularly LDCs, effectively benefit from the multilateral system.

15.1. WTO accession

One of the indicators of the attractiveness of the multilateral trading system lies in the momentum towards membership. Out of the 48 LDCs, 31 have already become WTO members. Some 29 countries are currently candidates for WTO membership/applicants in negotiations; most of those are developing countries, including 12 LDCs.

Whilst the EU is convinced that seeking WTO accession is a driver for reforms of domestic administrative, regulatory and institutional practices and rules, and creates the conditions for benefiting from increasing global trade flows, the EU also acknowledges that such a process is often long and demanding. It can constitute a challenge, especially for countries facing capacity constraints and having to address policy shortcomings and structural weaknesses. The EU has thus constantly showed readiness to respond to technical assistance needs in the context of WTO accessions.

Taking account of the specific needs and challenges faced by LDCs, the EU, along with other WTO members, has continuously expressed willingness to streamline and simplify the accession process for these countries in a way that both preserves the robustness of

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[68] See 2010 'Inventory of certification schemes for agricultural products and foodstuffs marketed in the EU Member States' prepared for the European Commission, at:

http://ec.europa.eu/agriculture/quality/certification/inventory/inventory-data-aggregations_en.pdf

[69] COM(2009) 234, 28.5.2009

[70] 2010/C 341/04, OJ C 341 of 16.12.2010 p.5.

the system and responds to their requests for assistance and guidance. This approach, clearly set out in the 2002 Communication, has translated into a strong EU support to the General Council Decision of 10 December 2002 on the accession of LDCs, against which any LDC request for accession is now assessed. Thus, the EU holds the view that, while there should be clear commitments in terms of reforms, there is room for a flexible approach in terms of commitments on trade in goods and services, and the EU duly exercises restraint in that respect.

15.2. Taking development into account in mainstream WTO work

Following the Uruguay Round, the WTO agreements provide for a consolidated framework for liberalisation and a comprehensive set of rules. The EU believes that these ensure that the conditions for fair and balanced competition are in place at a global level, but also acknowledges that the implementation of these agreements may create difficulties for some developing countries struggling with internal weaknesses. In many areas, the WTO agreements already take account of such challenges and include commitments to provide assistance to developing countries in order to improve their regulatory, administrative and institutional capacity. The EU has been keen to address the needs expressed in that context.

Aid for Trade (AfT) plays a key role in helping developing countries, especially LDCs, to improve their trade-related knowledge and capacity in order to make the most of the WTO agreements. Beyond technical assistance, developing countries can rely on specific – more favourable – provisions allowing for special and differential treatment (SDT) enshrined in the various WTO agreements or further developed on the basis of these.

The EU has taken the position that SDT provides flexibilities that may prove suitable for addressing the specific needs of some countries either horizontally or on a case-by-case basis. The EU has for instance played a leading role in the intensely negotiated Decision on the Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health adopted in 2003 and which establishes a mechanism aimed at allowing poorer countries to benefit from generic versions of patented drugs. Likewise, the EU was actively engaged in the negotiation leading to the adoption in 2004 and revision in 2009 of a Procedure to Enhance Transparency of Special and Differential Treatment in Favour of Developing Country Members under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures. So far, the EU has also be the only one to put this provision into practice.

This being said, while flexibilities remain a useful tool, practice raises the issue as to why they have been used so little. For instance, the system established under the Declaration on the TRIPS Agreement and Public Health was used only once, while no member has had recourse so far to the Procedure to Enhance Transparency in the SPS field.

15.3. Intellectual Property Rights and development

While the majority of existing IP rights (IPRs) are held in developed countries, developing countries, in particular emerging economies, are fast redressing the balance of ownership, thus making IPRs increasingly relevant. Some of the main benefits of IPRs in developing countries include the protection of their own intellectual assets, promoting foreign investment, safeguarding jobs and tax revenues, and combating risks regarding health and safety. As in developed countries, the situation in developing countries varies

greatly in terms of their innovative potential, the education of their work force, and in the structure and funding of research and development.

Geographical Indications (GIs), which identify and protect the name of a product whose quality, reputation or characteristics is essentially attributable to its geographic origin, are of particular relevance to developing countries. In addition to providing protection of legitimate producers against misuse and imitation, offering the possibility of registering GIs encourages diversification of production and related tourism; it can furthermore contribute to preserving natural resources, rare plants or breeds and traditional know-how.

Marketing under GI-protected labels is a proven way of distinguishing quality products in the market place. This assists consumers seeking products linked with their specific region of production, and enables producers of authentic product to secure a price premium. By linking the attribute with its origin, the GI system also ensures that the value added of the label accrues to the original producers in the geographical area. In sub-Saharan Africa, the regional intellectual property offices are in the process of developing and implementing effective GI systems. In addition the African Union Commission and the European Commission have launched a joint initiative to boost development of GIs in the frame of the AU-EU "College-to-College" process.

Example of a protected geographical indication: Darjeeling

In October 2011, the EU registered[71] the name 'Darjeeling' as a protected geographical indication (PGI) to designate tea from gardens situated at an altitude of between 600 and 2,250 metres on steep slopes in the district of Darjeeling, in the state of West Bengal, India. The environmental factors of the area and the production method, including selective hand harvesting of leaves, result in a tea having specific characteristics. The final registration decision of 'Darjeeling' clarified that the name only be used as a sales designation for tea that is wholly produced in the geographical area in accordance with the specifications. Blends of Darjeeling and other teas may not bear the name 'Darjeeling' as the sales designation. However, existing users of the 'Darjeeling' name to designate teas not in conformity with the specifications were granted a transitional period limited to five years to continue to use the name. The Darjeeling registration illustrates how developing country producers can ensure that a product marketed under the registered geographical indication corresponds to the specifications laid down by the producers themselves.

The geographical indication system enables producers of a specific and geographically-linked product in developing countries to exercise some control over the quality, handling and marketing of the product in the EU. In particular, the producers collectively can ensure that products like coffee and tea sold under the protected name corresponds to the quality specification laid down, ensuring the consumer receives the authentic product.

The Commission's Policy Coherence for Development Work Programme 2010-2013 contains a section on IPR, include the following three targets:

[71] Commission Implementing Regulation (EU) No 1050/2011 entering a name in the register of protected designations of origin and protected geographical indications (Darjeeling (PGI)) OJ L 276, 21.10.2011, p.5.

- To make better use of IPRs for development, for example to promote investment and innovation and to facilitate IPR protection in the EU of export products from developing countries.

- Ensure that balanced IPR provisions (e.g. in bilateral agreements) help developing countries to leverage the value of their intellectual creations and to promote technological progress, innovation and support domestic and foreign investment.

- Preserve access to affordable medicine in line with the principles of the Doha Declaration and subsequent WTO agreements and EU legislation.

The Commission incorporates a differentiated approach according to countries' level of development, particularly in regard to LDCs. For instance, in examining specific needs and requirements in relation to TRIPS implementation, the EU has agreed to give favourable consideration to a duly motivated request from LDC Members to extending the previously agreed implementation deadline of 1 July 2013, as well as appropriate technical assistance. Concerning patents related to pharmaceuticals, the transition period under the TRIPS agreement is until 2016 for all LDCs.

Access to medicines and public health

It is important to ensure access to medicine, including generics, for developing countries, while ensuring incentives for further pharmaceutical research and innovation through the protection of intellectual property rights (IPRs). To this end, a careful balance needs to be maintained between these two objectives. In this respect, the EU played a leading role in the adoption of the WTO Doha Declaration on TRIPS and public health in 2001. The EU was also actively involved in the negotiation of the WTO Decision of August 2003 on the implementation of Paragraph 6 of the Doha Declaration which allows developing countries to grant compulsory licences for the production of medicines for export.

The EU is also the largest provider of resources to support public health policies in developing countries In addition, the EU has:

- Implemented at the EU level the WTO decision allowing the manufacturing and export under compulsory licence of generic medicine to developing countries with public health problems and without sufficient production capacities, and accepted the Protocol amending the TRIPS Agreement to make this solution permanent (Regulation (EC) No 816/2006);

- Established a tiered pricing mechanism with regard to essential medicines (Council Regulation (EC) 953/2003). Price segmentation between developed countries and the poorest developing countries is necessary to ensure that the latter are supplied with essential medicines at heavily reduced prices;

- Clarified that clinical trials conducted with a view to the marketing of generic medicines shall not be regarded as contrary to patent rights (Directive 2004/27/EC). This facilitates the preparation of generic medicine in advance of loss of exclusivity.

In addition, it is vital to protect public health by preventing the marketing of fake, low quality and potentially high risk medicines.

Last but not least, it shall be noted that EU FTAs do not prevent the other party from using the TRIPS flexibilities or, generally, promoting access to medicines.

15.4. Effective participation of developing countries

The progressive transformation of the global system has gone hand in hand with a stronger affirmation of developing countries in the WTO decision-making process. While "developing countries" – a 'status' based on self-designation – do not constitute a group per se, they form the wider part of the WTO constituency and have increasingly participated in the work of WTO committees, be it in formal sessions or in more informal settings such as small-format consultations. LDCs have organised themselves as a distinct group with contributions of its own. This transformation has also been tangible in the litigation pillar of the WTO. For instance, from a mostly defensive position upon its accession in 2001, China has now become a litigator equivalent to the EU or the US.

The WTO is one amongst many international organisations where the shift in economic power at the global scale has resulted in developing countries gaining a major say. That changing picture therefore raises the issue of whether and how to adapt institutions like the WTO to new realities in order to maintain the smooth functioning of these entities while ensuring that due consideration is given to countries most in need.

15.5. The Doha Development Agenda

The EU remains convinced that the completion of the Doha Round remains the best avenue for boosting recovery and enhancing growth worldwide. Responses to the Commission's on-line public consultation showed broad support for a fast conclusion and implementation of the Doha Round. Several respondents also emphasised that the DDA and the multilateral level should remain the EU trade policy's priority.

Trade facilitation

With production processes becoming deeply intertwined and business competitiveness increasingly conditioned by rapid and seamless supply chains, trade facilitation (involving measures to simplify and modernise customs and other import and export procedures and requirements) has become a core element of any trade-led development strategy. For businesses, this is crucial to promote transparency, cut red tape and stop the proliferation of incompatible requirements. For governments, trade facilitation provides greater security through more effective controls, it improves the investment climate and promotes higher customs revenues[72] (which still account for a large share of developing countries' fiscal revenues but where losses can exceed 5% of GDP because of inefficient border procedures).

Trade facilitation projects can be extremely effective in this respect: in Burundi, tax revenue increased by 25% between 2009 and 2010 after the Burundi Revenue Office was implemented; custom reform in Cameroon increased revenue by 12% while the number of declarations assessed by officials in a day increased by 130%; in Colombia, the administrative procedure for certifying origin was cut down from 2-3 days to ab average of 10 minutes; in Ethiopia, custom reform increased import transactions by about 190% and export transactions by 200%, and custom revenues increased by 51%; the time needed to register a new business in Mexico went down from 34 days to 2.5 hours, eliminating double certification costs of $213 million; in Mongolia, data processing modernisation reduced imports clearing time from more than 3 hours to 23 minutes, and export clearing time from over 2 hours to 13 minutes on average.

[72] To be noted that trade agreements do not necessarily lessen tariff revenues. Studies show that the DDA could actually increase tariff revenues in Africa thanks to the elimination of prohibitive tariffs and trade volumes increases.

There is a growing literature showing that trade agreements in their own right (simply by cutting tariffs and boosting trade volumes) lead to lower transport costs and trade facilitation improvements (a 10% increase in trade volumes reduce transport costs by 0.8%). An agreement on trade facilitation as mandated under the DDA offers substantial development benefits by ensuring coherent reforms in all WTO members to facilitate trade both domestically and on the export markets. While all WTO members stand to benefit, this would be particularly useful for developing countries and the landlocked countries among them. Moreover, the ongoing negotiations break new ground in respect of special and differentiated treatment. They envisage an implementation structure tailored to the individual needs and capacities of each developing country and supported, where required, by donor assistance. The EU has provided specific support within the framework of the ongoing WTO trade facilitation negotiations including regular funding of participation officials from capitals in the meetings of the Negotiating Group on Trade Facilitation, a contribution to the need assessment exercise and an ongoing contribution to the process of implementation planning with regard to the future Trade Facilitation Agreement channelled via the UNCTAD Trade Facilitation Trust Fund.

In this multilateral negotiation exercise, it was clear from the outset that all members were to contribute, just as benefits were expected for all. That said, the Doha Round was conceived as a development round, where the development of a consolidated system would be combined with appropriate flexibilities for the poorer countries. In line with its mandate, the EU has strived for suitable arrangements throughout the negotiations.

In terms of market access, the EU has for instance supported the development of specific modalities for small and vulnerable economies or a specific treatment of livelihood of agriculture in the draft Agriculture Modalities. Anticipating and already going beyond the implementation of the commitments agreed at the Hong-Kong Ministerial Conference in 2005, the EU is one of the few WTO members offering duty-free quota-free access to LDCs across the full range of tariff lines. The EU also believes that the new regime of rules of origin it has applied to LDC countries since 1 January 2011 under the GSP scheme will also greatly contribute to improving their market access.

16. CONCLUSION

The present Staff Working Paper supports the European Commission's Communication on "Trade, growth and development – Tailoring trade policy for those countries most in need".

It illustrates the dramatic transformations that have taken place in the world economy in the past decade, with deep implications for trade, investment and development policies. Developing countries have undergone radical changes. Some, particularly emerging economies, have reaped the benefits of open and increasingly integrated world markets and are now amongst the largest and most competitive global economies. Yet others continue to lag behind with the associated cost of deeper marginalisation. LDCs in particular, most of them in Africa, face many difficulties and are the most off-track to achieve the MDGs.

The Staff Working Paper also illustrates the EU's considerable achievements in delivering on its trade-related development commitments. At the same time, it makes it clear that more remains to be done, and sometimes differently, to ensure that the EU's trade and investment policies for development are fit for purpose for the next decade. This notably concerns the need to differentiate among developing countries to focus on those most in need, and to improve the way EU instruments deliver.