



European Commission
Trade



DG TRADE 2010 Annual Activity Report

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Personal message by Jean-Luc Demarty, Director-General, DG TRADE

2010 was a year of change. We have seen stronger economic growth as the global economy starts to bounce back, helping to pull the European Union with it. We started to feel the benefits of the Lisbon Treaty such as a strengthened role for the European Parliament in trade policy, the creation of the new European External Action Service and a new role for the EU in the area of investment.

We have set out a new trade strategy "Trade, growth and world affairs" which provides the overall framework for our work in 2011 and beyond, and have seen it get the strong endorsement of EU Member States last December. This strategy builds on President Barroso's vision of Europe in 2020 and is focused on the need to reduce trade barriers, to open global markets and to get a fair deal for all. It allows us to use trade as a motor for growth and jobs, and to continue to monitor and act against protectionist measures and unfair trade practices from third country partners that impede trade flows. A second policy paper on investment set out how we hope to exercise the new EU role in that area.

We have signed our first free trade deal in many years with South Korea, to which the Parliament gave its consent on 17 February 2011, and we have seen new momentum from India to Canada, and even in Geneva, over the whole of our negotiating agenda. We concluded ACTA - an important trade agreement to tackle counterfeiting and address Intellectual Property Rights enforcement. We launched free trade talks with two key partners in ASEAN – Singapore and Malaysia. We remained active in our Eastern and Southern neighbourhood as well – areas which are set to take on even greater focus in 2011. Under the Spanish Presidency, we saw a particularly successful Latin American and Caribbean Summit in May, where we concluded a Multiparty Trade Agreement with Colombia and Peru and on the EU-Central America Association Agreement, as well as relaunching stalled talks with Mercosur after a gap of six years.

In the field of development policy, negotiations continued with ACP partners during the year on economic partnership agreements and we saw the approval by the European Parliament of the first full agreement with Cariforum. Preparatory work was also under way for this year's reform of the general system of trade preferences. We also proposed specific trade measures to help Pakistan in the wake of the 2010 floods.

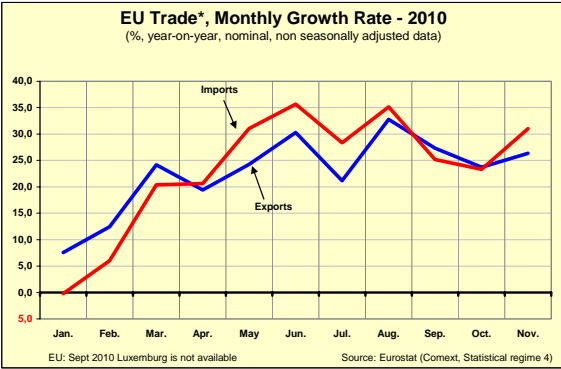
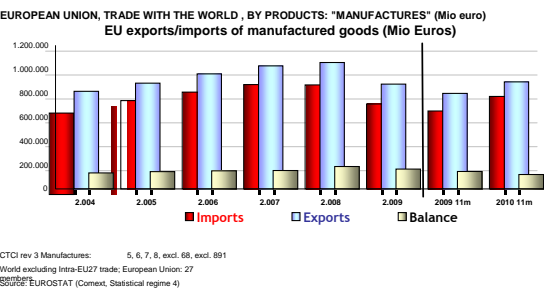
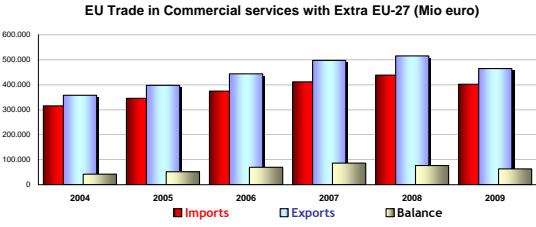
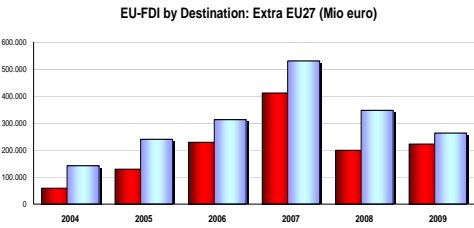
Finally, we ended the year with two successful high level meetings with China and the USA that have added new life to our structured dialogues with both countries. Also in December we successfully concluded work on the bilateral part of Russia's WTO accession in the margins of the EU-Russia Summit.

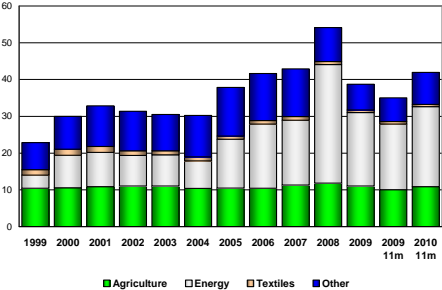
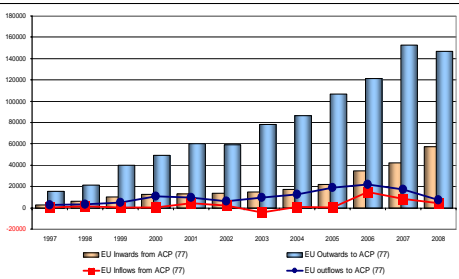
And for me personally, it has been an honour to take on the role as Director-General for Trade on 1 January 2011 and have the opportunity to take trade policy forward over the next few years. I will be building on the successes achieved over the last twelve months and working for the delivery of the ambitious agenda that lies ahead.

This annual report now sets out in greater detail the wide range of activity undertaken by DG Trade over the last twelve months and the launch pad from which we will build and deliver the new strategy for trade. I am proud to be in the position to put this new strategy in place for EU business and citizens alike.

Part 1

Policy Achievements

GENERAL OBJECTIVE 1	Contribute to European smart, inclusive and sustainable growth by ensuring the best trade conditions for EU operators, workers and consumers		
Impact indicators	Latest known result	Milestone(s)	Target (result)
Growth rate of trade flows between the EU and the rest of the world	 <p>EU Trade*, Monthly Growth Rate - 2010 (%, year-on-year, nominal, non seasonally adjusted data)</p> <p>EU: Sept 2010 Luxembourg is not available Source: Eurostat (Comext, Statistical regime 4)</p>	As the economy recovers, reaching pre-crisis growth level.	Positive growth
EU exports/imports of manufactured products to third countries (extra EU-27)	 <p>EUROPEAN UNION, TRADE WITH THE WORLD, BY PRODUCTS: "MANUFACTURES" (Mio euro) EU exports/imports of manufactured goods (Mio Euros)</p> <p>CTCI rev 3 Manufactures: 5, 6, 7, 8, excl. 68, excl. 891 World excluding Intra-EU27 trade; European Union: 27 Source: EUROSTAT (Comext, Statistical regime 4)</p>	As the economy recovers, gradual increase towards reaching pre-crisis level	Reaching pre-crisis level by 2012-2015
EU exports/imports of services to third countries (extra EU-27)	 <p>EU Trade in Commercial services with Extra EU-27 (Mio euro)</p> <p>* "Commercial services" is defined as being equal to "Services" minus "Government services, n.i.e." Source: Eurostat (Cronos)</p>	As the economy recovers, gradual increase towards reaching pre-crisis level	Reaching pre-crisis level by 2012-2015
Level of EU investment in third countries and third country investment into the EU	 <p>EU-FDI by Destination: Extra EU27 (Mio euro)</p> <p>*World excluding Intra-EU trade and European Union: 27 members. Source: Eurostat (Cronos)</p>	As the economy recovers, gradual increase towards reaching pre-crisis level.	Reaching pre-crisis level by 2012-2015

GENERAL OBJECTIVE 2	Foster the sustainable economic, social and environmental development in particular for developing countries (DC) ¹		
Impact indicators	Latest known result	Milestone(s)	Target (result)
Value and diversification of imports from ACP countries into the EU	<p>Mio euro</p> <p>EU Imports from ACP (excl. South Africa)</p>  <p>1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2009 11m 2010 11m</p> <p>■ Agriculture □ Energy ■ Textiles ■ Other</p>	Minimal decrease in times of crisis. As the economy recovers, gradual increase towards reaching pre-crisis level.	Reaching pre-crisis level by 2013
Level of investment flows between the EU and ACP countries	<p>EU-FDI by Destination: ACP (77 countries)</p> <p>(Millia Euro/Euro) euro</p>  <p>1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008</p> <p>■ EU Inwards from ACP (77) ■ EU Outwards to ACP (77) ■ EU Inflows from ACP (77) ■ EU Outflows to ACP (77)</p>	Minimal decrease in times of crisis. As the economy recovers, gradual increase towards reaching pre-crisis level in the mid-term.	Reaching pre-crisis level by 2013

¹ This applies primarily to ACP countries (Africa, Caribbean, Pacific region) and not to countries such as Brazil, Russia, India, China and South Korea.

1.1 TRADE, GROWTH AND WORLD AFFAIRS STRATEGY & LISBON TREATY

Specific objective 1: Develop a new trade policy in line with the EU 2020 strategy and incorporating the Lisbon treaty changes

As announced in the Europe 2020 strategy, a new trade strategy entitled "Trade, Growth and World Affairs", was adopted on 9 November 2010². The paper sets out the triple benefit of trade for Europe: stronger economic growth, more jobs and increased consumer choice at lower prices. It proposes a strategy to reduce trade barriers, to open global markets and to get a fair deal for European businesses. The communication was accompanied by two core documents. A report on "Progress achieved on the Global Europe strategy 2006-2010" reviews progress made over the last five years in achieving further trade opening between the EU and its trading partners. A working paper "Trade as a driver of prosperity" shows the contribution that sustainable, smart and inclusive trade can make to growth and job creation, and examines the most important remaining barriers to trade.

In addition, we also contributed to major Commission initiatives in the context of the Europe 2020 strategy and in particular to the communication on 'an integrated industrial policy for the globalisation era' and the Single Market Act.

Following the new EU competence in the field of **investment** arising from the Lisbon Treaty, the Commission started in 2010 to elaborate a genuine EU international investment policy. The adoption on 7 July 2010 of a Commission's communication on foreign direct investment (FDI) and a proposal for a Regulation represents a key step in that direction³. While the communication lays out how the new EU competence on FDI can be used to boost competitiveness and trade resulting in growth and jobs, the draft Regulation sets up transitional arrangements offering guarantees on existing or pending bilateral investment treaties concluded between EU and non-EU countries prior to the Lisbon Treaty. In addition, an amendment to the negotiating directives for Canada as to include investment protection in the scope of negotiations was proposed to the Council in December 2010.

Foreign direct investment (FDI) is a main contributor to economic growth. The EU is the world's biggest player in the field of FDI. By 2009 outward stocks of FDI amounted to €3.6 trillion Euros while EU inward stocks accounted for €2.7 trillion. Those investments are currently secured via post-establishment national treatment commitments undertaken by third countries in EU bilateral agreements and in GATS (General Agreement on Trade in Services), as well as via Bilateral Investment Treaties (BITs) that establish the terms and conditions for investment by nationals and companies of one country in another and set up a legally binding level of protection in order to encourage investment flows between two countries. EU Member States are the main users of BITs globally, with a total number of about 1200 bilateral treaties already concluded.

Result indicators	Latest known result	Target
Adoption of ambitious policy at EU level to implement the EU 2020 strategy	Adoption of communication 'Trade, Growth and World Affairs' on 9 November 2010	Elaboration of new policies in light of experience and external developments

1.2 MULTILATERAL NEGOTIATIONS

Specific objective 2: Achieve better trade liberalisation conditions or/and new trade flows for EU business at multilateral level in the context of the Doha Development Agenda (DDA)

² Available at: <http://ec.europa.eu/trade/trade-growth-and-jobs/>

³ Available at: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=591&serie=355&langId=en>

The Doha Development Agenda (**DDA**) has been the main catalyst of activity on the WTO front in 2010 and the EU has continued to be actively participating in the negotiations in Geneva. Most importantly, the EU co-hosted two important meetings at Senior officials level which were instrumental to kick-start a negotiating process among Ambassadors. This resulted in a strong political declaration to complete the DDA negotiations in 2011 that Leaders adopted at the G20 Seoul summit in November 2010.

2010 saw a major focus on bilateral **Non-Agricultural Market Access (NAMA – tariffs and non-tariff) barriers** involving intense contacts with China, Brazil, Argentina, India, Thailand and refining our non-tariff proposals on electronics, motor vehicles, the mediation mechanism, and a horizontal framework for addressing sectoral non tariff barriers, which has been endorsed by India and Brazil. The EU has also emerged as a key player in the **WTO transparency agenda** by contributing to the WTO monitoring on protectionist measures and by actively participating in Trade Policy Reviews of other WTO Members, most notably China and the United States.

As regards pending **WTO accessions**, Russia dominated the scene with eventually an important breakthrough when the EU and Russia managed to agree on the main outstanding bilateral issues and notably on Russian export duties at the end of 2010. This had a Knock-on effect on Kazakhstan's accession process which has recently accelerated its pace. The EU has also continued to show commitment in supporting the accession to the WTO of Western Balkans and the Commission notably signed its bilateral protocol with Serbia in January 2011. Finally, the EU have been showing great understanding for the developmental constraints of acceding LDCs and this has been instrumental in the progress Vanuatu, Samoa, Yemen and Laos are making towards joining the WTO.

With regard to existing WTO agreements (outside of the DDA), we continued preparation for the review of the **Information Technology Agreement (ITA)** with the goal of starting negotiations in 2011 and completed the 4th review of the WTO Pharma Agreement.

Result indicators	Latest known result	Target
Average level of MFN (Most Favoured Nations) tariffs for all products in developed countries and key emerging economies	<i>EU:</i> 6.7% (2009), 6.9% (2006) <i>US:</i> 4.8% (2010), 4.8% (2007), 4.9% (2004) <i>Japan:</i> 6.1% (2008), 6.1% (2007), 6.5% (2006) <i>Canada:</i> 6.5% (2006), 6.8% (2002) <i>China:</i> 9.5% (2009), 9.7% (2007), 9.7% (2005) <i>Russia:</i> 10.8% (2008), 11.4% (2006) <i>India:</i> 16% (2006/2007), 32% (2001/2002) <i>Brazil:</i> 11.5% (2008), 10.4% (2004) <i>Mexico:</i> 11.2% (2007), 16.5% (2001) <i>Source: WTO, Trade Policy reviews (2007-2009)</i>	Continuing path of reduction of the last 10 years
Level of commitments undertaken by key emerging economies in relation to trade in services	Commitments undertaken by WTO members in the context of the GATS are by and large currently lower than their autonomous level of trade liberalisation	Bring commitments from non-LDC (Least Developed Countries) WTO members close to their autonomous level of trade liberalisation

1.3 BILATERAL/REGIONAL TRADE RELATIONS

Specific objective 3: Improve bilateral and regional trade relations and agreements to complement the level of trade liberalisation achievable through the WTO

Considerable progress was made in 2010 in our bilateral/regional trade negotiations, reflecting EU interest as developed through consultations with stakeholders.

- Both negotiations with **Colombia and Peru** (Multiparty Trade Agreement with Andean Countries) and on the **EU-Central America Association Agreement** were concluded in the May 2010 Madrid EU-LAC summit. The Parties have been involved in the process of legal revision of the agreement with a view to proceed to initialling, signature and ratification in accordance with their respective procedures. Contacts between the EU and Ecuador aimed at integrating Ecuador into the Multiparty Trade Agreement are ongoing.
- Negotiations for an Association Agreement with **Mercosur** were relaunched at the May 2010 Madrid EU-LAC summit and the Parties held 3 negotiation rounds during the second half of 2010.
- Four **EU-Canada** Comprehensive Economic Trade Agreement (CETA) negotiation rounds have been held in 2010. Significant progress has been made in most areas towards reaching a common text and the scope of open issues have been significantly narrowed down. A trade Sustainable Impact Assessment (SIA) relating to the negotiations of a CETA was launched.
- The **EU-South Korea Free Trade Agreement** was approved by the EU Council of Ministers on 16 September 2010 and signed on 6 October 2010. It is expected to enter into force on 1 July 2011. The European Parliament gave its consent on 17 February 2011. The agreement is expected to be provisionally applied as of 1 July 2011. It represents the most comprehensive and ambitious trade agreement ever negotiated between the EU and a third country, and the first trade agreement deal the EU has negotiated with a country in Asia.
- Negotiations for an ambitious and comprehensive **EU-India Free Trade Agreement** advanced throughout 2010. Several negotiating rounds have been held and numerous meetings took place at expert level. The EU-India Summit in December 2010 gave a political push to the process and called for an acceleration of the negotiations with a view to concluding them before summer 2011. The most difficult issues continue to be the tariff negotiations, government procurement and services, as well as sustainable development.
- Following the authorisation by the EU Council of Ministers in December 2009 to launch negotiations for bilateral free trade agreements with individual ASEAN members, the European Commission was able to start negotiations for a Free Trade Agreement with **Singapore** in March 2010 and with **Malaysia** in December 2010. In total, four negotiating rounds have already been held with Singapore in 2010 where substantial progress was made on all areas necessary to agree in 2011 on an ambitious and comprehensive free trade agreement. These free trade agreements should be the first steps towards the launch of negotiations for bilateral agreements with other relevant ASEAN members and the Commission has already conducted exploratory talks for an agreement with Vietnam in 2010. The ultimate objective of one comprehensive free trade agreement with the ASEAN region, however, remains unchanged.

- Negotiations were pursued to complement existing Association Agreements with **Euromed** partners in a number of areas (e.g. trade in agricultural, processed agricultural and fisheries products, Conformity Assessment and Acceptance of industrial products) and to advance in the negotiation of Services and Investment Protocols with Morocco, Tunisia, Egypt and Israel. Work was pursued on the implementation of the proposals agreed by the Trade Ministers of the Union for the Mediterranean in 2009. Their November 2010 Ministerial meeting agreed on the two main actions: (1) an action plan of measures in support of Palestinian trade and (2) the implementation of concrete initiatives to reinforce the Euro-Mediterranean trade partnership and bring it closer to the business, such as a Euro-Mediterranean Trade and Investment Facilitation mechanism.
- 2010 also saw the finalisation of the discussion with Member States on the draft negotiating guidelines on Association Agreements, including the establishment or objective of establishing a deep and comprehensive free trade area with **South Caucasus countries (Georgia, Armenia, Azerbaijan)** in particular in the light of the Lisbon Treaty's entry into force, and subsequent adoption of the directives by the Council in May.
- Towards the end of 2010 **Russia** finally accepted to start text based negotiations on the horizontal trade and investment related provisions of a New Agreement to replace and update the existing Partnership and Cooperation Agreement.
- Five rounds of negotiations took place in 2010 with **Ukraine** and technical progress could be made, the most difficult remaining issues concern tariffs, Geographical Indications and trade-related energy.
- On 22 February 2010 the Commission adopted a Proposal to renew until 2015 the autonomous trade preferences for the **Western Balkans**.

Result indicators	Latest known result	Target																								
Number of on-going trade negotiations with countries/regions outside the EU (including Free Trade Agreements - FTA) but excluding Economic Partnership Agreements (EPA) with ACP countries	23 on-going negotiations at different stages with countries/regions in the world, including a new negotiation launched with Malaysia in Autumn 2010. Negotiations concluded with South Korea in October 2009. EU-Peru and Columbia FTAs and the EU-Central America Association Agreement negotiations concluded in May 2010. Following the relaunch of the EU-Mercosur process in May 2010, the parties are now actively engaged in negotiations. Possibility to launch FTAs with Eastern Partnership countries in 2011. Talks with India, Canada and Singapore are at an advanced stage.	Continue and conclude negotiations for FTAs with some of our main trading partners																								
<p><i>Example of South Korea:</i></p> <p>Level of trade weighted average tariff facing EU exports of industrial products to South Korea (HS25-99)</p> <p>EU's share in country's total imports</p>	<p>Trade weighted average tariff (2009): 5.8%</p> <table border="1"> <caption>Eu's share on total South Korea Imports (%)</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr><td>1999</td><td>11.0</td></tr> <tr><td>2000</td><td>10.5</td></tr> <tr><td>2001</td><td>11.0</td></tr> <tr><td>2002</td><td>11.5</td></tr> <tr><td>2003</td><td>11.0</td></tr> <tr><td>2004</td><td>11.0</td></tr> <tr><td>2005</td><td>10.5</td></tr> <tr><td>2006</td><td>10.0</td></tr> <tr><td>2007</td><td>10.5</td></tr> <tr><td>2008</td><td>9.5</td></tr> <tr><td>2009</td><td>9.5</td></tr> </tbody> </table>	Year	Share (%)	1999	11.0	2000	10.5	2001	11.0	2002	11.5	2003	11.0	2004	11.0	2005	10.5	2006	10.0	2007	10.5	2008	9.5	2009	9.5	<p>Once the agreement is up and running, exporters will save €1.6 bio annually from not paying import duties. South Korea and the EU will eliminate 98.7% of duties in trade value for both industrial and agricultural products within 5 years from the entry into force of the FTA with the remaining duties to be eliminated after a transitional period. The FTA will create new trade in goods and services worth €19.1 bio for the EU.</p>
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Result indicators	Latest known result	Target																								
<p><i>Example of Canada:</i></p> <p>Level of trade weighted average tariff facing EU exports of industrial products to Canada (HS25-99)</p> <p>EU's share in country's total imports</p>	<p>Trade weighted average tariff (2009): 2.0%</p> <table border="1"> <caption>EU's share on total Canada Imports (%)</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr><td>1999</td><td>10.5</td></tr> <tr><td>2000</td><td>11.0</td></tr> <tr><td>2001</td><td>11.5</td></tr> <tr><td>2002</td><td>11.5</td></tr> <tr><td>2003</td><td>12.0</td></tr> <tr><td>2004</td><td>12.0</td></tr> <tr><td>2005</td><td>12.5</td></tr> <tr><td>2006</td><td>12.5</td></tr> <tr><td>2007</td><td>12.5</td></tr> <tr><td>2008</td><td>13.0</td></tr> <tr><td>2009</td><td>13.0</td></tr> </tbody> </table>	Year	Share (%)	1999	10.5	2000	11.0	2001	11.5	2002	11.5	2003	12.0	2004	12.0	2005	12.5	2006	12.5	2007	12.5	2008	13.0	2009	13.0	<p>Additional benefits to the two economies estimated at €20 billion per year</p>
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1.4 **SUSTAINABLE DEVELOPMENT**

Specific objective 4: Integrate sustainable development objectives into trade policy, and foster sustainable development and regional integration outside the EU, in particular for African, Caribbean and Pacific (ACP) countries

DG Trade continued to successfully pursue the inclusion of ambitious **sustainable development chapters** in all bilateral agreements. The agreements negotiated between the EU -Peru and Colombia and the EU–Central America include trade and sustainable development chapters covering labour and environment issues as well as civil society involvement. DG Trade also continued to promote liberalisation of trade in environmental goods and services as a contribution to the EU 2020 strategy.

Throughout 2010, the EU continued to provide full free access to the ACP countries and regions with which it negotiated **Economic Partnership Agreements (EPAs)**, including improved rules of origin. 36 ACP countries continue to benefit from duty-free, quota-free access to the EU market under EPAs while another 31 receive such free access under the Everything But Arms (EBA) initiative. Apart from the Caribbean where a comprehensive regional EPA has been achieved, all ACP regions continued negotiations for regional EPAs meant to replace the interim EPAs. The Commission also continued to work with countries that had not yet signed in order to facilitate interim EPA signature and implementation.

Public consultations on the **future Generalised System of Preference (GSP) scheme** have been conducted in 2010, to give all interested parties inside and outside the EU the opportunity to give their views on how the next GSP can further respond to the changing economic environment and development needs of poorer countries as well as how it can continue to promote international standards on core human and labour rights, sustainable development and governance principles. The EU contribution to the incentives for commitment to good governance, development and poverty reduction within the scope of the **GSP+ agreement** allowed us to maintain additional preferential market access to 15 eligible countries. One country (Venezuela) was removed from the list of beneficiaries as it failed to achieve the eligibility by the established deadline, whereas Panama was granted the GSP + benefits in mid-2010.

The EU contributed to the WTO activities related to **Aid for Trade (AfT)** regional and global reviews. Substantial work has been undertaken in 2010 in the lead-up to the Global Review in July 2011. The EU contributed to work in the Enhanced Integrated Framework (EIF) which became fully operational in 2010 and with financial contribution to the WTO DDA Global Trust Fund as well as to the OECD activities.

Result indicators	Latest known result	Target																																																								
Number of ACP countries which have signed European Partnership Agreements (EPA)	The Caribbean region (CARIFORUM) is the only ACP region which signed a comprehensive regional EPA so far (October 2008; Haiti December 2009). As regards interim EPAs, 21 out of 62 ACP countries have initialled interim EPAs (covering mainly trade in goods). Amongst them, 12 countries have signed.	Signature of EPA with all interested ACP countries																																																								
Number of Developing countries (DC) benefiting from preferential market access to the EU (Everything But Arms + GSP) ⁴	176 DCs and transitions economies benefiting from Generalised System of Preferences (GSP), including 50 LDCs (Least Developed Countries) benefiting from EBA (Everything But Arms).	Maintain Market Access for all LDCs and streamline preferential Market Access to DCs and transition economies from 2014 onwards																																																								
Number of DC benefiting from GSP+	15 countries currently benefiting from GSP+ on top of standard GSP treatment. Regular window for other eligible countries to apply for GSP+ treatment by end of November 2011 and benefit from January 2012. Intensified dialogues with GSP+ beneficiaries.	Grant GSP+ preferences to a maximum of eligible applicant countries.																																																								
Value and diversification of imports into the EU for the different ACP regions	<p style="text-align: center;">EU imports from ACP by region</p> <table border="1"> <caption>Estimated data for EU imports from ACP by region (2003-2009)</caption> <thead> <tr> <th>Year</th> <th>SADC EPA</th> <th>West Africa</th> <th>Central Africa</th> <th>Caribbean</th> <th>ESA</th> <th>EAC Pacific</th> </tr> </thead> <tbody> <tr> <td>2003</td> <td>19</td> <td>12</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> <tr> <td>2004</td> <td>21</td> <td>11</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> <tr> <td>2005</td> <td>24</td> <td>14</td> <td>5</td> <td>3</td> <td>2</td> <td>1</td> </tr> <tr> <td>2006</td> <td>25</td> <td>17</td> <td>6</td> <td>3</td> <td>2</td> <td>1</td> </tr> <tr> <td>2007</td> <td>28</td> <td>17</td> <td>7</td> <td>3</td> <td>2</td> <td>1</td> </tr> <tr> <td>2008</td> <td>32</td> <td>22</td> <td>9</td> <td>4</td> <td>3</td> <td>2</td> </tr> <tr> <td>2009</td> <td>22</td> <td>17</td> <td>5</td> <td>3</td> <td>2</td> <td>1</td> </tr> </tbody> </table>	Year	SADC EPA	West Africa	Central Africa	Caribbean	ESA	EAC Pacific	2003	19	12	4	3	2	1	2004	21	11	4	3	2	1	2005	24	14	5	3	2	1	2006	25	17	6	3	2	1	2007	28	17	7	3	2	1	2008	32	22	9	4	3	2	2009	22	17	5	3	2	1	Reaching pre-crisis level by 2013
Year	SADC EPA	West Africa	Central Africa	Caribbean	ESA	EAC Pacific																																																				
2003	19	12	4	3	2	1																																																				
2004	21	11	4	3	2	1																																																				
2005	24	14	5	3	2	1																																																				
2006	25	17	6	3	2	1																																																				
2007	28	17	7	3	2	1																																																				
2008	32	22	9	4	3	2																																																				
2009	22	17	5	3	2	1																																																				

⁴ The EU's Generalised System of Preferences (GSP) is a trade arrangement through which the EU provides preferential access to the EU market to developing countries and territories, in the form of reduced tariffs for their goods when entering the EU market. The standard GSP provides preferences to Developing Countries and Territories on over 6200 tariff lines; while the special incentive arrangement for sustainable development and good governance, known as GSP+ offers additional tariff reductions to support vulnerable developing countries in their ratification and implementation of international conventions in these areas. The Everything But Arms (EBA) arrangement provides Duty-Free, Quota-Free access for all products for the Least Developed Countries (LDCs)

1.5 TRADE RELATIONSHIPS WITH MAJOR PARTNERS

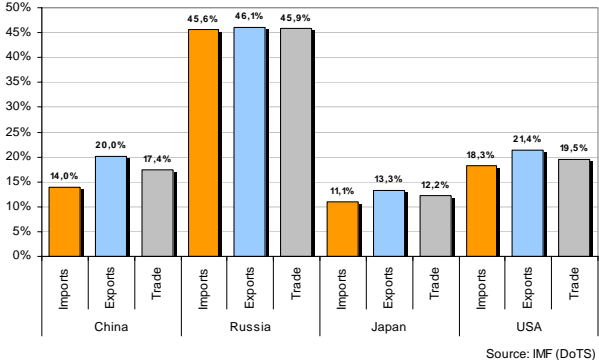
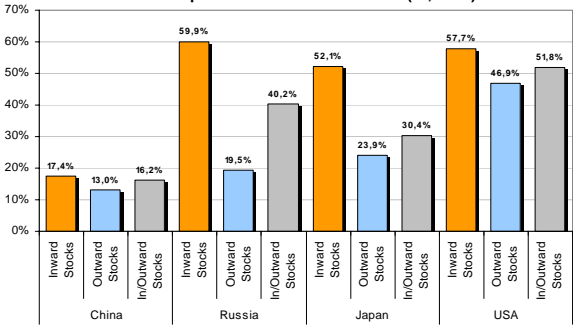
Specific objective 5: Strengthen trade relationships and improve market access and conditions for European business in our key trade partners (China, US, Japan, Russia)

Various policy initiatives and increased intervention by the Chinese government in the economy fuelled concerns in Europe and among European industry about the worsening business climate for foreign companies in **China** and unfair Chinese competition. Commission efforts focused on the need for a level-playing field and reciprocity in market openness while at the same time aiming to avoid a protectionist backlash and ensuring EU industry can continue to take full part of China's growth and vast opportunities that the Chinese market still presents. Much attention was devoted to exploring the feasibility for negotiations on a comprehensive bilateral investment agreement. The 3rd High-level Economic and Trade Dialogue (HED) at the end December 2010 also helped reinforce high-level exchanges between the EU and China on economic policy questions and direct the EU-China dialogue in a positive, constructive mode following the EU-China Summit in October 2010. Intensive work was carried out on the two offensive and two defensive WTO dispute cases between China and the EU as well as in the context of the US 301 complaints. The raw materials case in particular looks at key issues for EU competitiveness.

After the launch of the High Level Group on the future of our bilateral relations with **Japan** following the 2010 Summit, discussions progressed in line with the programme set and a complete first review of the status of the bilateral trade relations has been accomplished. In the meanwhile, the Commission secured some progress on the elimination of long-standing Japanese non-tariff barriers notably in the following sectors: automotive, medical devices, wood construction products and public procurement.

Incremental work in the **EU-US Transatlantic Economic Council** (TEC) format built momentum to strengthen cooperation on a number of issues, such as innovation, e-health, energy efficiency and chemicals. The EU-US High Level Regulatory Co-operation Forum (HLRF) also substantiated EU-US cooperation by agreeing on early exchanges of planned regulations. EU-US relations on IPR (Intellectual Property Rights) enforcement were taken one step further in the framework of the IPR Working Group, notably in order to coordinate efforts towards emerging markets. Work on trade irritants and obstacles remained ongoing in 2010, but contacts have been intensive with US counterparts in trying to solve trade issues.

Preparation and participation to two **EU-Russia** Summits and several ministerial and senior official level meetings with Russia took place in 2010. These meetings have contributed to the conclusion of an EU-Russia agreement to resolve outstanding bilateral issues in the context of Russia's accession to the WTO, to some movement in the Russian position in the New Agreement negotiations and a better understanding of the implementation of the Customs Union between Russia, Kazakhstan and Belarus and to ensuring a transitional period in this process to allow EU operators enough time to adapt.

Result indicators	Latest known result	Target																				
<p>EU share in trade in goods of our major trading partners</p>	<p style="text-align: center;">EU share in partner's trade in goods (% , 2009)</p>  <table border="1" data-bbox="548 205 1143 562"> <caption>EU share in partner's trade in goods (% , 2009)</caption> <thead> <tr> <th>Partner</th> <th>Imports</th> <th>Exports</th> <th>Trade</th> </tr> </thead> <tbody> <tr> <td>China</td> <td>14.0%</td> <td>20.0%</td> <td>17.4%</td> </tr> <tr> <td>Russia</td> <td>45.6%</td> <td>46.1%</td> <td>45.9%</td> </tr> <tr> <td>Japan</td> <td>11.1%</td> <td>13.3%</td> <td>12.2%</td> </tr> <tr> <td>USA</td> <td>18.3%</td> <td>21.4%</td> <td>19.5%</td> </tr> </tbody> </table> <p style="text-align: right; font-size: small;">Source: IMF (DoTS)</p>	Partner	Imports	Exports	Trade	China	14.0%	20.0%	17.4%	Russia	45.6%	46.1%	45.9%	Japan	11.1%	13.3%	12.2%	USA	18.3%	21.4%	19.5%	<p>Positive evolution</p>
Partner	Imports	Exports	Trade																			
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<p>EU share in services imports of major trading partners</p>	<p>EU share in services imports of (2009): China: 16% Japan: 16% Russia: 42% US: 50% <i>Source: Eurostat, WTO</i></p>	<p>Positive evolution</p>																				
<p>EU share in trade in FDI stocks of our major trading partners</p>	<p style="text-align: center;">EU share in partner's trade in FDI Stocks (% , 2008)</p>  <table border="1" data-bbox="548 777 1117 1108"> <caption>EU share in partner's trade in FDI Stocks (% , 2008)</caption> <thead> <tr> <th>Partner</th> <th>Inward Stocks</th> <th>Outward Stocks</th> </tr> </thead> <tbody> <tr> <td>China</td> <td>17.4%</td> <td>13.0%</td> </tr> <tr> <td>Russia</td> <td>59.9%</td> <td>19.5%</td> </tr> <tr> <td>Japan</td> <td>52.1%</td> <td>23.9%</td> </tr> <tr> <td>USA</td> <td>57.7%</td> <td>46.9%</td> </tr> </tbody> </table> <p style="text-align: right; font-size: small;">Source: Uncatd, Eurostat (NewCronos)</p>	Partner	Inward Stocks	Outward Stocks	China	17.4%	13.0%	Russia	59.9%	19.5%	Japan	52.1%	23.9%	USA	57.7%	46.9%	<p>Positive evolution</p>					
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1.6 MARKET ACCESS

Specific objective 6: Ensure effective enforcement of existing trade agreements, create new Market Access opportunities for European business (including SMEs) with a focus on non-tariff barriers to trade and ensure sustainable and secure raw materials and energy supply.

Negotiations of the **Anti-Counterfeiting Trade Agreement (ACTA)** were successfully concluded on 24 November 2010. It resulted in a balanced and positive agreement that will mean improved international standards of Intellectual Property Rights enforcement. After the conclusion of the negotiations, the European Parliament adopted a Resolution supporting ACTA.

Under the **Market Access Strategy**, around 50 trade barriers were fully or partially eliminated. This includes 17 of the 205 key barriers identified in a joint exercise between the Commission, Member States and business in 32 of the EU's main export markets. DG Trade also continued its determined push to prevent, alleviate, or remove **TBT** (Technical Barriers to Trade) and **SPS** (Sanitary and Phytosanitary) **barriers**.

A selection of 2010 success stories

- **Egypt** changed its strict labelling requirements for textiles.
- **Canada** eliminated a postal monopoly on letters intended for delivery outside Canada.
- Joint market access actions at various levels contributed to a reform of **Israel's** tax regime for spirits.
- After various interventions by the Commission, **Indonesia** changed her system of double import licensing. **Indonesia** also granted an exemption for European companies from burdensome import licensing and import controls.
- In **Argentina**, requirements for importers to present an invoice from the original manufacturer and an original certificate of origin for non-EU originating goods were dropped. The removal of this barrier was particularly welcomed by the EU clothing industry which suffered considerably from the burdensome requirements
- **India** postponed twice the implementation of the mandatory standards and certification regime for tyres, although we still have serious concerns
- The last remaining restrictions relating to the **influenza virus H1N1** were lifted (Indonesia, Thailand, and Ukraine) and only China continued to ask for additional declarations until early 2011.
- The EU and the **US** agreed on how to include and pass-on additional information on the phytosanitary status of seeds that is needed for **re-exporting seeds** to third country markets. This means lower cost and greater predictability for this globalised industry. The solution found also adds impetus to international standard setting work.
- A number of countries lifted **BSE related restrictions** at least for some EU Member States (Gulf Cooperation Council, Malaysia, Singapore, The Philippines, and South Africa), or started procedures that should lead to an opening (Australia, Singapore).
- Improvements or full solutions have been achieved for exports of caffeinated drinks to Canada, bovine and caprine semen to Chile, sweet wine to China, seed potatoes to Egypt and Morocco, cotton to Egypt, breeding horses to India, Lanolin to Israel, soft cheese to Malaysia, or Emmental cheese to South Korea.

The consequences of the economic crisis also triggered a number of **protectionist measures** by some of the EU's trading partners in 2010 that needed careful monitoring. Two reports with an analysis of current trends were published and fed into parallel exercises

in the G20 which in turn contributed to avoiding a major protectionist backlash in the aftermath of the crisis.

Progress on implementation of the **IPR Enforcement Strategy in Third Countries** was noticeable in 2010 with many countries and especially with **China**. Main achievements include the entry into force of the revised Implementing Rules of the Chinese Patent Law (February 2010), the adoption of China's Action Plan for IPR Protection for 2010 (April 2010), the agreement to launch the IPR Task Force on patent quality (May 2010), the launch (by Premier Wen Jiabao) of a special campaign to fight intellectual property rights infringement and the manufacture and sale of counterfeit goods (October 2010), the extension of the EU-China Customs Action Plan on IPR Enforcement (December 2010), the agreement on intensifying bilateral negotiations for a bilateral co-operation agreement on geographical indications (December 2010).

Progress was made along the three pillars of the trade strategy for **raw materials** notably negotiation, enforcement and outreach. The EU efforts were successful in moving the topic forward in the OECD and in bilateral dialogues with the US (TEC), Japan and others. Export duties were successfully taken up in WTO accession negotiations (Russia) and bilateral negotiations (Korea, others). The EU, together with the US and Mexico, advanced in the ongoing WTO case on raw materials against China.

In addition, **energy** provisions aimed at securing EU's supply and economic interests have been proposed in all ongoing negotiations with relevance from an energy perspective, notably Ukraine, Libya and Canada, and are being developed for Mercosur.

Result indicators	Latest known result	Target
Number of active WTO dispute settlement cases involving the EU as complainant or defendant with our main trading partners	As of 1 February 2011, the EU is actively involved in 40 WTO disputes: in 16 of these cases the EU is the complaining party while in the remaining 24 cases the EU is on the defending side. These cases relate to the EU's relations with 15 of its trading partners (including 7 offensive and 6 defensive cases with the US / 3 offensive and 2 defensive cases with China).	Successful outcome in WTO cases up for decision and other positive developments in main ongoing disputes, including where feasible the settlement of disputes
Degree of success in removing identified barriers to trade (incl. behind the border measures such as TBTs, NTBs ⁵ , SPS)	Approx. 50 barriers have been partially or fully lifted following interventions with third countries at various levels. 205 key barriers identified and updated throughout 2009 and 2010 constitute the benchmark for Commission and Member States actions on Market Access.	High number of cases addressed with third countries and partially/fully solved
Number of SME-related trade policy actions	SME-specific trade policy actions such as IPR China Helpdesk, TDI SME Helpdesk are in place. SME business support structures created with EU funding have a strong market access component.	Increasing number of SME-related trade policy actions
Level of risk that the EU IPR (Intellectual Property Rights) holders run when exporting and carrying out FDI transactions	IPR protection scores for the EU and trading partners: ⁶ EU27: 7.7 / US: 8.5 / Japan: 8.3 / Korea: 7.0 / ASEAN: 5.7 / India: 5.3 / Mercosur: 4.9 / China: 4.8 / Russia: 4.6 / Candidates -Balkans: 4.5 / Neighbourhood: 3.6 (<i>Source: IPRI 2010 Report</i>)	Improvement in scores of our main trading partners

⁵ Non-Tariff Barriers

⁶ The scores highlight the risks that EU IPR holders run when they export IPR-intensive goods, carry out FDI transactions in IPR-intensive sectors or licence their IPR rights to agents in these countries. The score can range from 0 (no protection i.e. high risk) to 10 (perfect protection i.e. no risk)

Result indicators	Latest known result	Target
Level of protection and enforcement of EU IP rights in key priority markets	The 2009 IPR Enforcement Report of the Commission identified three categories of priority countries ⁷ . Success dialogue stories in 2010 include: agreement to launch IPR task force on patent quality in China; launch of negotiations for bilateral agreement on the protection of geographical indications in China; resolution of the data protection for pharmaceuticals issue in Russia; Initialling of ACTA agreement in November 2010.	Successful negotiation of an ambitious IPR chapter in bilateral trade agreements. Successful IPR Dialogues with key priority countries Entry into force of ACTA.
Degree of cooperation between the Commission, Member States, industry and key countries to tackle barriers	The Market Access Advisory Committee and technical Working Groups coordinate market access related work amongst key players. Market Access Teams in major export markets promote market access issues at the local level. Cooperation with Member States is reinforced through the new key barriers section in MADB. Key Market Access barriers are followed up with third countries in bilateral relations.	High degree of cooperation in all major markets

1.7 TRADE DEFENCE

Specific objective 7: Continue to ensure that economic operators, and in particular SMEs, can rely on trade defence policy that is adapted to existing and possibly changing global economic environment

In 2010, trade defence measures were imposed on imports from third countries, affecting EU market because of unfair practices, such as dumping and subsidisation.

A selection of TDI cases in 2010

1. New anti-dumping investigation on imports of **ironing boards** originating in the People's Republic of China (PRC) and produced by an exporting producer which was found not dumping during the original investigation which led to the imposition of a definitive anti-dumping duty. This was a novel approach to deal with exporting producers not found dumping in an original investigation following the WTO DS ruling in the case of Mexico Beef and Rice. This new anti-dumping investigation established that the sole Chinese exporting producer which was not found dumping in the original investigation was now dumping and, thus, a definitive anti-dumping duty was imposed.

2. Anti-dumping investigation on imports of **glass fibres** originating in the PRC. This investigation covered a wide range of types of glass fibres which raised serious concerns to users for a number of applications. Provisional measures were imposed at a rather high level, but following extensive analysis of comments made mainly by users, the Commission proposed at the final stage of the investigation a reduced product scope by excluding a group of distinct product types and consequently recalculated the level of dumping and injury leading to a lower level of definitive measures.

3. Anti-dumping investigation on imports of **melamine** originating in the PRC. Within the context of the market economy treatment (MET) assessment of Chinese exporting producers it was concluded that the Chinese domestic market of major raw materials such as natural gas and urea was distorted as a result of significant State interference and MET was therefore denied to all Chinese producers.

4. Review on imports of **silicon** originating in the PRC. This was the first case where the issue of export taxes imposed by China on exports of raw materials such as silicon metal were tackled. The price distortion caused by such State policies and the risk of subsequent predatory behaviour if measures were allowed to lapse, were assessed in this investigation which led to the extension of measures albeit at a lower level. Silicon is one of the materials included in the Commission's Raw materials Initiative.

⁷ The 3 categories of countries are as follows: 1. China; 2. Indonesia, the Philippines, Thailand, Turkey; 3. Argentina, Brazil, Canada, India, Israel, Korea, Malaysia, Russia, Ukraine, USA, Vietnam

5. Anti-circumvention investigation on imports of **steel wire ropes and cables** originating in the PRC and consigned from S. Korea and Malaysia. This was the largest anti-circumvention investigation in terms of cooperation. Genuine production could be distinguished from illegal consignments of Chinese origin products which meant that circumvention practices could be tackled without affecting legitimate exports.

6. Anti-dumping investigation on imports of **aluminium road wheels** originating in China, where duties were imposed. The case has been extremely complex and difficult due to the importance of the economic interests at stake. It revealed the full strength of the WTO-plus elements of the EU trade defence system: the lesser duty rule and the Union interest test. In application of the lesser duty rule, it was ensured that the amount of the duty did not go beyond what was necessary to offset the injurious effects of dumping. Given the vital interest of the downstream industry in the case, the Union interest test proved crucial in ensuring that the effects of duties were not disproportionate. Due to sound technical analysis the case gained support of the majority of Member States demonstrating the strength of the EU TDI system in a globalized economy.

The **enforcement** activities aimed at ensuring effectiveness and reacting to irregular practices ranged from the monitoring of price undertakings to a general monitoring of trade defence measures in force. At the end of 2010 there were 22 undertakings in force from seven countries covering eight products.

Third countries have initiated 39 trade defence investigations against EU exports during the year 2010. Although this represents a slight decrease compared to the exceptionally high number of 44 new initiations in 2009, 2010 was still a year above average in terms of number of new cases. Therefore, our intense monitoring continued in 2010. Furthermore, China, a relatively new user of the instruments against the EU, has significantly increased its activity.

A study identifying the difficulties that **small and medium-sized enterprises** face when involved in trade defence investigation was finalised in 2010⁸. The study includes a number of recommendations and possible solutions which will be discussed with the Member States and industry stakeholders. During 2010, the Trade Defence Services have continued to maintain a **regular dialogue with its stakeholders**. This meant the continuation of regular meetings on technical issues with importers distributors and the producers' associations, by means of two dedicated seminars (held respectively in September and October 2010), participation to conference and working groups organised with various trade associations.

Result indicators	Latest known result (end 2010)	Target
Number of measures in force	144	Maintaining and improving a system to combat distortions in international trade. Ensuring that EU economic operators, including SMEs, can rely on the best service in the conduct and follow-up of our trade investigations.
Number of on-going investigations	58	
Percentage of investigations concluded within deadlines (2010)	100%	
Number of trade defence measures in force and monitored	51	
Number of cases before the ECJ	42	
Number of cases raised in WTO	2	

⁸ Available at: http://trade.ec.europa.eu/doclib/docs/2011/february/tradoc_147475.pdf

PART 2

Management and Internal Control Systems

2.1. INTRODUCTION TO DG TRADE

2.1.1 Organisational characteristics, administrative structure and accountability chain

EU Trade policy serves to contribute to the EU goals of prosperity, solidarity and security in Europe and around the globe by aiming to shape a trade environment which leads to a more prosperous, stable and equitable world. The Commissioner for Trade, supported by the Director General and his staff, is committed to developing and implementing trade policies that help world trade and development thereby boosting competitiveness, jobs and growth in the process.

We have a full agenda: negotiating bilateral and multilateral trade agreements, ensuring that the rules we agree are actually applied, and working closely with the WTO and other multilateral institutions. This allows us to tackle international trade and customs barriers, backed up where needed with EU legislation. We cover all areas of activity from manufactured goods to services, intellectual property and investment. We ensure that our businesses can operate fairly in the EU and across the world and are ready to make full use of our powers to tackle unfair competition and dumping. Furthermore, as European success is inextricably bound up with the success of our trading partners, both in the developed and developing world, sustainable development and development policy in general are central to our overall approach.

To achieve these aims DG TRADE works closely with other Commission services (both those shaping the external EU agenda and the internal market), so as to ensure that overall EU policy forms a mutually reinforcing, cohesive whole. Additionally, as the EU's prime negotiator DG TRADE's success is equally dependent on its close working relationships with the other European Institutions, the Member States and other international organisations.

In order to fulfil its mission DG TRADE has two related, but in nature distinct, operational activities: Trade policy and Trade defence; and is organised into eight Directorates. The Director General is supported in managing operations by two Deputy Director Generals, who bear overall responsibility for the Trade operations Directorates B, C and D; and E, F, G and H respectively.

Operational activities are supported by the Resources Directorate, the Policy Coordination unit, the Hearing Officer and the Internal Audit and Evaluation unit; each of these entities reporting directly to the Director General.

The Resources Directorate must work within the frameworks as defined by the horizontal services. As to the operational directorates there are necessarily certain differences between the way the relevant services work. Whereas Trade defence administrators (Directorate H representing 26,5% of total staff) operate in a case handling environment with strict rules and procedures, Trade policy negotiators (multilateral and bilateral) are involved in negotiations, each one being – due to the ever-changing political and economic context – unique.

2.1.2 The specific risk profile of DG TRADE

DG TRADE is not a large spending DG. Total appropriations for 2010 amounted to +/- €17,6 million (€12,3 million in operational credits €5,3 million in administrative credits). Financial management, whilst clearly important is, however, not considered to be an area of high risk for DG TRADE. The main risks to the achievement of DG TRADE's mission are rather operational and/or reputational; and are a combined function of:

- **The external environment:** As noted above the success of DG TRADE's mission is largely dependent on good working relationships with its internal and external partners in a dynamic and unpredictable globalised world. This requires effective communication and coordination and an ability to be able to swiftly adapt priorities and workloads. Furthermore the increased need for transparency and accountability are particularly relevant in a sensitive area such as trade policy.
- **Human resources:** As in all Commission services DG TRADE staff have to cope with very heavy workloads. With several areas of activity being highly specialised there is a risk to business continuity when several activities pick up pace at the same time or if certain critical staff were to leave the DG. The nature of DG TRADE activities (i.e. implying the handling of politically sensitive information) also demands that staff (are seen to) conduct themselves in accordance with the Commission's ethical principles.
- **Technology:** DG TRADE activities are highly dependent on the continued availability of IT services.

2.1.3 Working arrangements

Under the Barroso II Commission Karel De Gucht has been appointed to act as Commissioner for Trade from early February 2010 onwards and was promptly provided with a briefing on internal control and the effectiveness of its implementation as well as a briefing on completed and on-going audits.

During the year under review DG TRADE's senior management met with Commissioner Karel De Gucht on 30 March and 9 December 2010 to inform the Commissioner of any significant issues related to internal control, audit and OLAF investigations. The Commissioner was provided with an overall appreciation on the state of implementation and effectiveness of internal control within DG TRADE and an overview of the results of completed audits. DG TRADE was not aware of any issues which should be brought to his attention in relation to OLAF investigations.

2.1.4 Change of Director General/Authorizing officer by Delegation

On 15th November 2010, David O'Sullivan took office as Chief Operating Officer of the European External Action Service. Dr Péter P. BALÁS, Deputy Director General at DG TRADE, performed the duties of Acting Director General from 15th November to 31st January 2010.

In both cases, an overview of the state of ongoing cases from a financial management point of view has been prepared in accordance with Art 3.3 of the Charter of tasks and responsibilities of authorising officers by delegation. Moreover, the Internal Control Coordinator issued the state of play of audit recommendations, as well as a detailed description of actions undertaken and planned beginning of 2011.

2.2. THE FUNCTIONING OF THE ENTIRE INTERNAL CONTROL SYSTEM

During 2009 the decision was taken to raise the profile of internal control within the DG with a view to increasing awareness and understanding; and ultimately to promote increased internal control effectiveness. Several actions were undertaken in 2009, such as a management presentation, a written assessment by all DG TRADE management on the effective implementation of all standards and an assessment of the effectiveness of internal control by non-management at the beginning of 2010.

For the year 2010, two management seminars were organized focusing on certain control standards (financial management, setting of objectives and risk management). The exercise, whereby the effective implementation of internal control standards is assessed, focused on the internal control standards which were considered partially effective in the previous year's exercise and on the 2011 prioritized control standards. In January 2011, an assessment of the effectiveness of the following internal control standards was carried out through a staff survey using the BUDG ICMT tool.

2.2.1 Compliance with the requirements of the control standards (See also section 2.2.2)

2.2.1.1 Results staff survey

With regard to **ICSs 5 and 6 (Objectives and performance indicators and Risk management)**, the survey carried out suggests that the introduction of the Unit Management Plan in 2010, and the experience gained from the pilot project methodology, strengthened the support of organisational performance and risk management throughout the DG. Considerable action was undertaken in 2010 to raise awareness, to embed SPP/Risk Management in the day to day management culture and to adapt the general methodologies to DG TRADE's needs and activities. The survey indicates that there is less concern as to the applicability of the methodology on DG TRADE activities. More reach out to all staff was proposed, where possible by linking unit objectives to job related objectives.

With regard to **ICS 10 (Business Continuity)** it should be appreciated that continuity awareness under *business as usual* conditions remains strong in DG TRADE. With regard to *business continuity in the event of a crisis*, staff in general appears to be less aware of the relevant procedures. There is a general request to be provided with necessary training and practical guidance. DG TRADE will continue its efforts to raise awareness amongst staff on their role in the event of a crisis, adapting the theoretical framework to the more practical needs of management and staff. The lessons learned from a recent Crisis Management exercise will be used to review the Business Continuity Plan.

With regard to **ICS 11 (document management)**, the results of the survey indicates that the migration toward ARES was positively welcomed and contributed to knowledge amongst staff about electronic filing. DG TRADE is confident that all documents (including relevant e-mails) are systematically registered and filed. There is general recognition that the relevant information is available and sufficiently known. Building on the ARES migration and the practical experience of 6 months Go-live, DG TRADE can develop rules for retention periods and clarify arrangements for paper filing. Furthermore, staff expressed the need for further internal training and more practical guidance.

With regard to **ICS 14 (evaluation of activities)**, the survey carried out suggests that there is a need to increase awareness. Evaluation activities were reorganised in September 2009, with the creation of a unit in charge of coordination of impact assessments, sustainability impact assessments and ex-post evaluations, to ensure an efficient coordination and

coherence between the different types of evaluations. Strengthening the communication on evaluation activities and results towards all relevant staff will contribute to convincing staff of the relevancy of evaluations in policy work. Early identification of evaluation needs and further development of a multi-annual evaluation plan, in view of reducing time pressure, was raised.

2.2.1.2 Staff mobility in relation to sensitive functions

With regard to **ICS 7 (staff mobility in relation to sensitive functions)** it should be noted that there are only a limited number (5) of staff for which mobility should be considered at the end of 2010. As was the case in previous years DG TRADE conducted a systematic examination of all functions in 2010 in order to identify those which are sensitive, to identify possible mitigating controls, to identify possible de-sensitising measures and ultimately to identify possible cases of staff mobility. For example, a thorough examination of sensitive functions in the "Market Access and Industry" Directorate has taken place in 2010, and several sensitive functions were also moved around to different case handlers.

2.2.2 Effectiveness of implementation of the prioritised standards.

DG TRADE prioritised four internal control standards in its 2010 Annual Management Plan, namely:

- ICS 5 Objectives & performance indicators
- ICS 10 Business Continuity
- ICS 11 Document Management
- ICS 12 Communication (internal)

ICS 5 Objectives and performance indicators

Considering the specific context of certain DG TRADE activities, in particular the constantly evolving external environment in the context of bilateral and multilateral negotiations, ICS 5 will always be a particularly significant internal control standard for DG TRADE. During 2009, considerable efforts were made to improve the quality of organisational performance indicators and to ensure their effective integration into day-to-day management practices. In 2010, specific actions were undertaken to improve even further the quality of organisational performance management, including the definition of appropriate indicators and the transposition of high level objectives on to the operational level.

- Providing the necessary **support tools**, by the introduction of Unit-level Management Plan. A pilot project with four volunteering units was welcomed positively. As a result, it was implemented throughout most of DG TRADE.
- **Raising awareness of management** focused on the importance of performance management and planning in general. In particular, a dedicated management seminar was organised in October 2010 on the topic of DG TRADE's 2011 Management Plan (including risk management).
- **Communicating internally/externally**, in particular by producing a 5-page leaflet summarising the main outcomes of our activities in 2010 that was distributed to all staff internally, as well as to the other Institutions. In addition, DG TRADE's Management Plan and Annual Activity Reports are also now available on DG TRADE's website.
- **Increased involvement of relevant staff** in the planning process through hands-on training and active participation in the Commission-wide community of practitioners.

DG TRADE considers this standard to be **effectively implemented**. In 2011, efforts will be pursued to benefit from the increased ownership generated by the introduction of the Unit Management Plan, thereby contributing to the consolidation of objectives at DG level.

ICS 10 Business Continuity

ICS 10 was prioritised in 2010 following identification of the potential risk of sudden loss of knowledge caused by over-reliance, or increased dependence, on certain critical members of staff. Moreover, it was felt important to promote within DG TRADE an effective response in the event of a crisis.

Overall awareness continues to be strong in terms of business as usual continuity. The system of back-ups and hand-overs are well embedded in the organisational culture. A validated Business Continuity Plan was developed and publicised. The successful participation in the Crisis management exercise on 7th and 8th October led us to conclude that business continuity is effectively implemented.

- DG TRADE has **improved the business continuity plan and understanding** throughout the DG of how our organisation will respond in the event of an incident.
- **Awareness-raising** among management staff throughout the year, whereby all were invited to review their respective business continuity plans.
- DG TRADE's participation in a **Crisis Management Exercise** in October was evaluated positively. The outcome of the exercise was discussed at management level. Experience gained from this exercise will be used to further improve the Business Continuity Plan.
- All staff was again **reminded of the existing guidelines and arrangements** to be made to ensure continuity of operations in the event of departure or absence of members of staff.

DG TRADE considers this standard to be **effectively implemented**. In 2011, DG TRADE will continue to systematically inform all newcomers of the guidelines on arrangements to ensure continuity of operations in the event of departure or absence and also provide all staff with the necessary training and practical guidance on business continuity.

ICS 11 Document Management

In 2010, the main focus was set on the migration to ARES. Expectations were high for 2010 and many actions were undertaken in view of a successful deployment. Overall the introduction of ARES was positively welcomed throughout DG TRADE. In order to prepare the migration to ARES a comprehensive planning document was drawn up.

Actions carried out in 2010, in relation with ARES and handling of sensitive/confidential information, included:

- The **organisation of dedicated seminars** informing staff and management about the ARES implementation and its effects. In addition, the dedicated webpages on the Intranet were completely revamped.
- The setting up of an intensive **training programme** and a **dedicated helpdesk** during the migration to ARES and the inclusion of Document Management (including a section on the handling of sensitive and EUCI documents) in the mandatory newcomers' training .
- The setting up of an **ARES community** and regular **flashes to all staff** highlighting new evolutions and best practices.

- The constant **monitoring** of the usage of the ARES system, issuing regularly reports with outstanding actions.
- Regarding the handling of classified information, the usage of RUE within DG TRADE was closely monitored.

The migration to ARES in 2010 was indeed the catalyst for defining what a document management should be in DG TRADE. All actions undertaken in 2010 have contributed to the recognition of ARES as a corporate filing tool and the improvement of knowledge on electronic filing. The year under review was primarily dominated by the roll out of ARES. The successful implementation of ARES and the lessons learned after half a year of running in will be a sound basis for strengthening and harmonizing even further the procedures on electronic and paper filing, as well as to define the corresponding rules in relation with retention period of files.

ICS 12 Information and Communication

As noted above, DG TRADE negotiates commercial agreements on the basis of negotiating directives adopted by the Council. Negotiations and the respect, and correct application, of international trade rules contain a degree of risk over which DG TRADE has only limited control since much depends on the degree of engagement and/or compliance of third parties. Indeed, the outcome of trade negotiations such as the Doha Round of trade talks under the WTO (on-going since 2001) depends on whether there is consensus among the 153 WTO Members.

Moreover, particularly in the current economic climate, this is an area of high public and media expectations. In order to be accountable for what we do to the public and interested parties, but also in order to support the best outcomes for the European Union in policy terms, DG Trade pursues an active external communications strategy as well as ensuring internally that staff are familiar with our key messages and comfortable articulating them.

The following actions have therefore been undertaken during 2010:

- Communication is an integral part of policy development and our negotiating strategy. This has been reinforced by a system of regular Internal **Newsflashes and a Bilateral Bulletin to all staff** on trade developments in FTA and other bilateral trade negotiations. Moreover, DG TRADE puts emphasis on **keeping key Delegations informed** of developments that concern them. More generally our communication efforts are closely coordinated with DG COMM (particularly, with the Commissioner's press team). Particular efforts were made to coordinate the DG's participation in the Shanghai Expo 2010.
- A **Communication Network** has been ongoing throughout the year focused on coordinating communication and outreach activities with key stakeholders, including European Parliament and civil society. The Communication Network seeks to ensure a coherent approach to communication and information issues within DG TRADE. The network also helps tailoring communication priorities, selected according to political priorities and stakeholders' interests.
- Specific **outreach activities** on the economic partnership agreements in ACP countries have been started in 2009 - a programme that we have continued in 2010; road shows ('train the trainer') have been organised in order to promote the Export Helpdesk.
- We launched an **EU wide survey on trade topics** through Eurobarometer with a view to feeding the results into the preparations for the Future Trade Policy communication. The survey was part of a set of questions used in face-to-face interviews in the Member States and the results have been published in November.

- The Future Trade Policy has been announced beginning of November, and in this context we organised a communication and promotion campaign to help publicise the new policy. The communication activities around this event included extensive press and media coverage, a dedicated webpage on DG Trade's website, presentations to the Member States, the European Parliament, the Delegations and Representations, and the organisation of road shows in the Member States, involving the **staff as "ambassadors"**.
- In terms of our external outreach, our regular trade e-newsletter is distributed to around 30,000 subscribers and produced in several language versions including Chinese, Japanese and Arabic in cooperation with our Delegations; in parallel our Civil Society Dialogue provides a further communications channel to business, NGOs and other actors.
- A new visual identity has been developed for DG TRADE's communication tools. The new layout has been applied to a number of publications including the renewed trade strategy "Trade, Growth and World Affairs".
- In terms of internal communication, DG TRADE organised an Away-day offering **workshops to the staff** around multicultural issues and working environment.

The systematic approach to both internal and external communication adopted by DG TRADE, defining what should be communicated, to whom and when, has enabled management and staff to fulfill their responsibilities effectively and efficiently. DG TRADE's communication strategy has ensured that its external communication is effective, coherent and in line with the Commission's key political messages.

2.2.3 Conclusion

DG TRADE considers that its systems of internal control are adequate, functioning as intended and achieving their related objectives. In terms of the effective implementation, DG TRADE considers itself to be fully compliant. The assessment of the effectiveness of the ICS revealed that actions undertaken in 2010 have satisfactorily resolved the weaknesses detected and constitute a good basis for further strengthening internal control in 2011.

Even though the standards have been assessed as effectively implemented, the staff survey highlighted areas, such as ICS 10 Business Continuity and ICS 14 Evaluation of activities, which were indicative of a lack of understanding and/or awareness. Indeed, these systems can only continue to function properly if adequately understood and appropriately applied by **all** staff. Efforts will need to be pursued in 2011 with a view of raising overall awareness. The detailed results of the assessment have resulted in a report with a view to establishing appropriate follow-up.

2.3. INFORMATION TO THE COMMISSIONER

The main elements of this report and assurance declaration, have been brought to the attention of Commissioner De Gucht on 30th March 2011.

PART 3

Building Blocks towards the declaration of assurance

3.1 BUILDING BLOCKS TOWARDS REASONABLE ASSURANCE

Materiality criteria

In theory, the quantitative materiality threshold is set at 2% of the budget amount allocated to the respective ABB activity. In DG TRADE this threshold applies to any transaction that has been registered as an exception procedure and that has not been duly justified by the responsible authorising officer.

Indeed, DG TRADE's activities are preponderantly of a political nature (trade negotiations) and procedural (case-handling by the Trade defence Directorate), involving only a very modest level of financial management.

In such an environment, the services rely mainly on ex-ante controls and actions by the internal audit capability designed to assess the appropriateness and effectiveness of the internal control system. Mainly qualitative criteria are therefore taken into account when determining the materiality of detected weaknesses.

3.1.1 Building block 1: Assessment by management

As noted above DG TRADE has a relatively small budget in Commission terms, which was implemented as follows:

Administrative expenditure (excl. external staff)	€ 5,254,357
<i>Joint management</i>	€ 3,900,000
<i>Grants (cross sub-delegation DG AIDCO)</i>	€ 0
<i>Procurement activities and other expenditure</i>	€ 8,430,000
Total operational expenditure	€ 12,330,000
Total appropriations DG TRADE 2010	€ 17,584,357

Although DG TRADE only has a relatively small operational budget (+/- €12,3M in 2010), it does acquire services for economic studies, organising conferences, IT support and other services. These services are generally provided by specialised consultants through public procurement and are implemented through **direct centralised** management.

DG TRADE also executes part of its operational budget by **joint management** by making contributions to international organisations with a view to implementing multilateral programmes and initiatives in the field of trade related assistance to strengthen the capacity of developing countries to participate effectively in the multilateral trading system and regional trading arrangements and to improve their trade performance.

IT support relates primarily to the financing of the management of the Market Access Database and the SIGL (*Système Intégré de Gestion des Licences*) system to monitor the import of certain quota-related products. Unavailability of the SIGL infrastructure could in particular disrupt the European textile imports and damage our reputation vis-à-vis the Member States and/or Trade partners. These risks are mitigated by constant maintenance efforts, systems upgrades and improvements, and thoroughly tested disaster recovery plans.

DG TRADE has operated the financial circuit model 3 (decentralised with counter-weight). All transactions are therefore subjected to independent ex-ante verification process. DG TRADE Directors act as Authorising Officer by Sub Delegation (AOSD) for commitments and Heads of units as AOSD for payments.

A combination of preventive, detective and corrective controls are embedded into the programming and planning, verification, execution and monitoring, management and reporting and communication processes so as to ensure effective mitigation of these risks. These include⁹:

- Risk Management;
- The annual programming exercise;
- Formal appointment of project officers;
- A detailed internal financial procedures manual;
- Financial circuits designed to ensure compliance with the financial regulation and its implementing rules and the vade mecum on public procurement;
- A financial verification registry (including a section for the recording of all exceptions);
- Quarterly accounting controls;
- Formal reporting requirements and hand-over procedures for AOSDs;
- Formal Spring and Autumn reviews on budget implementation;
- Detailed Quarterly management reporting on key resource related indicators;
- Weekly bulletins on payment delays;
- The functioning of an Administrative Coordination Assistant's network;
- Internal financial training actions;
- The management of a Gift Register;
- At least annual reminders in relation to ethical duties and obligations;

Key indicators of legality and regularity in use for 2010:

Objective	Indicator	Target	Note	2010	2009	2008
Compliance with Commission guidelines on payment times	Percentage of payments files executed within COM targets	> 90% (30 days)	1	93,4% (15,22 days)	78% (28 days)	87%
High budget execution with respect to annual and final budgets	% of budget execution: commitments	> 90%	2	94,24%	88%	95%
	% of budget execution: Payments	> 90%	3	65,02%	88%	88%
RAL	% of commitments less than 3 years old	>95%	4	98% less than 3 years	96% less than 3 years old	93% less than 3 years old.

⁹ A detailed description of the key controls and how they function is provided in annex 5

Objective	Indicator	Target	Note	2010	2009	2008
Compliance with ICS 8	Nr of financial exceptions	Keep stable/ reduce	5	18	20	21
	Nr of exceptions (missions)	Keep stable/ reduce		8	N/A	N/A
	Nr of decisions overriding controls	None		None	N/A	N/A
Handling of OLAF cases	Number of cases referred to OLAF	None	6	None	N/A	N/A
Complaints in procurement procedures	Number of legal cases following complaints in procurement procedures	None		None	N/A	N/A

Note 1 - Payment deadlines Payment deadlines improved substantially in 2010. At the same time, the average number of exceptions to the target deadlines set has been considerably reduced. Noticeable progress was achieved in 2010 after the introduction of new procedures in 2009 and 2010 and a re-organisation of responsibilities following the arrival of a new finance team in 2009. It reflects efforts made by all the DG and new measures taken by Unit A1 to reduce payment processing time. A significant contribution to this improvement is the new weekly reminder sent to all concerned financial actors about payments which are overdue and which will be due soon. DG TRADE expects this positive evolution to continue in 2011.

Note 2 – Commitment rate A significant proportion of DG TRADE's appropriations are intended to support initiatives connected with the conduct of new multilateral trade negotiations and expert studies and seminars in connection with the preparation of policy and negotiating positions, legal and other expert assistance required in implementation of existing trade agreements. As such, they largely depend on the pace of many ongoing negotiations. Implementation of these actions, were subject to constant monitoring and follow-up in 2010.

Note 3 – Payment execution The rate of execution is lower than last year.

- The level of commitment appropriations required decreased from the 2009 to 2010 budget, whereas the level of payment appropriations requested for the 2010 budget did not follow the same pattern for the 20.0201 budget line. Moreover, the unused budgetary appropriations were not needed for a transfer in accordance with Art. 26 §3. of the Financial Regulation in the course of 2010. In 2011, the requested level of payment appropriations was reduced accordingly.
- Fewer expenses were presented for some of the joint management actions implemented under the 20.0203 budget line (Aid for Trade) or the international organisation was reporting with delay.

Note 4 – Reste à liquider (RAL) Efforts continued in 2010 to reduce the level of RAL by enforcing strict monitoring of outstanding commitments, and particularly the potential abnormal RAL. End of 2010, only 2% of the outstanding commitments related to pre-2008.

Note 5 – Exceptions (Compliance with ICS) The rate of financial exceptions remains stable. An examination of the nature of the exceptions reveals that the majority of them relate to the changes to a contract which were not endorsed by the authorizing officer by subdelegation through a formal amendment (i.e. changes to the budget of an action). In 2010, DG TRADE has strengthened its controls in the area of exceptions by ensuring that the responsible Director is systematically informed of the exceptions detected by the Financial Verifier at the time of financial verification. From 2010 onwards, two new key indicators have been introduced. The rate of recorded exceptions in relation with missions decreased from 15 to 8. They mainly relate to late transmission of expenses to PMO and late authorization of the mission in the system. In 2010, no overriding of controls was registered

Note 6 – OLAF cases and legal cases The two related key indicators have been added from 2010 onwards. In 2010, no legal cases incurred after a complaint in a procurement procedure and no cases were referred to OLAF.

3.1.2 Building block 2 - Results from audits

Results from work carried out by the DG TRADE IAC

During 2010 the IAC completed audits on:

- **Human resources:** The audit concentrated on the aspects of human resources managed directly by DG Trade (strategic planning and allocation of human resources, aspects of the recruitment process under the responsibility the DG, and training). The scope of the engagement did not include the human resources processes that may affect DG Trade but are under direct management of other Commission services (such as the management of lists of laureates). The auditors concluded that the audited processes are compliant and generally effectively and efficiently implemented.
- **Payment processes and procedures:** The audit confirmed that DG Trade's internal controls related to the processing of payments are effectively and efficiently implemented. The auditors noted that DG Trade's performance regarding the timely processing of payments has considerably improved compared to early 2009. The audit also confirmed the legality and regularity of a sample of selected transactions.
- Additionally, the fieldwork for an audit of process and procedures related to **internal communication and coordination** was completed and a draft report was issued in early 2011. This report is currently under review by management.
- In 2010, the DG TRADE IAC also carried out follow-up audits relating to the **management of the missions budget and to procedures for handling sensitive information**. These follow-up audits revealed that implementation of audit recommendations was progressing well though further action is still necessary to fully address some of the weaknesses observed in the original audit on handling sensitive information. The draft report on the follow-up to that audit was issued early 2011 and the report is currently under review by management.

Results from work carried out by the IAS

The only audit carried out by the IAS in 2010 on the activities of DG Trade related to the second follow-up audit on selected internal control standards (the original audit report had been issued in 2007). The IAS concluded that all the recommendations addressed to DG TRADE that resulted from the 2007 audit on "Implementation of selected Internal Control Standards in DG TRADE" have been adequately and effectively implemented.

Results from work carried out by DG BUDG

End of 2010, DG BUDG carried out a follow-up to the validation of local accounting systems. DG BUDG concluded that all recommendations, except one, addressed to DG TRADE and resulting from the 2009 validation exercise have been adequately and effectively implemented. The only recommendation still outstanding as partially implemented, relates to the inclusion of tasks and controls to be performed by all actors in the new financial manual, still under consideration.

Results from work carried out by the Court of Auditors

The Court did not carry out any special audits on DG TRADE during the course of 2010. As part of the DAS procedure the underlying documentation supporting the 2009 AAR was reviewed. No transactions were selected for substantive testing. DG TRADE received a green light from the Court for its 2009 AAR.

3.1.3 Building Block 3: Follow-up of previous years' reservations and actions plans for audits from previous years

In 2010 DG TRADE continued the formal system of comprehensive reporting to the Director General on progress made in the implementation of *all* audit recommendations. Action plans are now systematically drawn up following any audit (or consultancy) and included in the formal reporting to the Director General (including through the resources report), but also discussed regularly in the monthly ACA network meetings. These measures continue to raise awareness and improve ownership of audit results and the need to follow-up recommendations on a timely basis as well as highlighting those areas where implementation is delayed and explaining why. It should be noted that no critical audit recommendations have been made regarding DG TRADE in 2010, nor were there any open critical recommendations from previous years.

3.1.4 Building block 4: Assurance received from other Authorising Officers in cases of crossed sub-delegation

AOSD declarations

All (sub-delegated) authorising officers have been requested to sign a declaration at the end of year confirming that all transactions authorised by them during 2010 were legal and regular, that they have been implemented in accordance with the principles of sound financial management and DG TRADE's internal financial procedures. All AOSD are required to review the list of exceptions at the end of the year and confirm that they have correctly followed procedures when authorising an exception and explicitly confirm that from their perspective all exceptions have been declared. Additionally all directors are required to sign for responsibility for all exceptions occurring as part of their Directorate's activities. Where deputisation has taken place the signing AOSD has noted those transactions which he has authorised on behalf of another AOSD and the responsible AOSD is required to confirm that he has taken note that these transaction have been signed in his absence and that he accepts responsibility for carrying out any further actions in relation to the commitment/payment in question.

Cross sub-delegations

In 2008 and 2009, DG TRADE has sub-delegated an amount of €1 million per annum to DG AIDCO on budget line 20.020100. This activity aims at financing projects with a view to promoting fair trade in partner developing countries, to be carried out by non state actors and to be selected through a multi-country call for proposals. A year-end report has been received from DG AIDCO on the management of these funds in accordance with the instrument of cross sub-delegation. Once the pre-financing payments were made by headquarters, responsibility for managing the projects was transferred to the Delegation of Colombia and India. As the underlying actions are still ongoing, no instalments were made in 2010. DG TRADE will continue to monitor the actions in close collaboration with DG AIDCO and the Delegations concerned.

Co-delegation

DG TRADE did not recourse to co-delegation in 2010.

3.1.5 Completeness and reliability of the information reported in the building blocks

DG TRADE considers that the information contained in the building blocks 1-4 above gives a full and fair presentation of the systems in place to ensure that resources assigned to the DG have been used for their intended purposes and in accordance with the principles of sound financial management and those of legality and regularity.

3.2 RESERVATIONS

DG TRADE has not identified any specific issues or systematic weaknesses or shortfalls in its management and internal control systems that would give rise to material reservations or that would have an impact on the assurance contained in the annual declaration.

PART 4

Declaration of assurance

I, the undersigned,

Director General of DG TRADE

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex post controls and the work of the internal audit capability.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

Brussels, 31 March 2011

signed

Jean-Luc DEMARTY