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Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

on Implementation of EU Trade Agreements

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DATA USED FOR THE COMPILATION OF INDIVIDUAL REPORTS AND INFORMATION SHEETS

The trade statistics used in this staff working document on the evolution of trade and investment flows are based on EUROSTAT data as available on 30 March 2020 for EU17, except where indicated otherwise. The most recent annual data available for trade in goods are for 2019, and for services and investment for 2018, except where indicated otherwise. GDP growth figures for partner countries for 2019 in sections 5.1 Economic Environment of the country sheets reflect World Bank national accounts data and OECD National Accounts data files, except where indicated otherwise [1].

[1] https://www.worldbank.org/

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE 15 POINTS ACTION PLAN ON TRADE AND SUSTAINABLE DEVELOPMENT

1. Introduction

In 2019, the Commission continued to improve the implementation and enforcement of the Trade and Sustainable Development (TSD) chapters of EU trade agreements, in line with its 15-point action plan of February 2018[2].

The present section provides an overview of the main activities undertaken by the Commission as per the four strands of the action plan: "working together", "enabling civil society", "delivering" and "transparency". More detailed information on the advances in the context of the implementation of the TSD chapter of the various trade agreements[3], including summary accounts of the meetings of the respective TSD committees, can be found in the country sheets. notably section 2.2, "Progress in the implementation of trade and sustainable development provisions".

2. Working together strand

In 2019, the Commission continued to partner with Member States, the European Parliament, as well as international organisations to advance on the implementation of TSD chapters. The main activities are outlined below.

The meetings of the TSD Expert Group continue to be the main channel for engagement between the Commission and Member States on TSD issues. In the three meetings held in 2019 the Commission updated Member States on the advances made in the different implementation processes. These meetings were also opportunities for the Commission and Member States to exchange information on relevant developments in the partner countries, and to coordinate actions to ensure complementarity.

In 2019, the Commission also continued to engage with the European Parliament through monitoring groups, INTA Committee agenda points, and by providing technical debriefs as requested.

With international organisations it is to highlight the close collaboration with the International Labour Organisation (ILO), which has become a key component of TSD implementation. To make this collaboration as operational as possible the Commission and the ILO met twice in 2019 to exchange views on the effective implementation of fundamental ILO Conventions by trade partners. These meetings also allowed the Commission and the ILO to take stock of technical assistance needs, and identify synergies building on the experience gained with other projects with similar objectives.

To be able to swiftly activate technical assistance actions the Commission and the ILO launched the 'Trade for Decent Work' project in the end of 2018. This project has since become a crucial instrument to support the advances in the implementation of labour commitments in TSD Chapters as well as for enacting pre-implementation efforts.

[2] http://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf
[3] South Korea, Central America, Colombia-Peru-Ecuador, Georgia, Moldova, Ukraine, Canada and Japan.

In 2019, the project funded technical assistance actions in Vietnam in support of the labour reforms necessary to comply with TSD commitments under the EU-Vietnam trade agreement. The project also funded actions to enhance the capacity of ILO constituents (including the Vietnamese government, employers and workers' organizations) to advance in the implementation the TSD Chapter with regards to the effective implementation of international labour standards. The Commission and the ILO agreed that in 2020, the project will fund additional activities in Vietnam as well as new actions to strengthen labour inspection in Ecuador and Peru.

The Commission and the ILO also cooperated closely in Central America. The Commission continued to fund the implementation of an ILO project on compliance with international labour standards in El Salvador and Guatemala. In El Salvador, this project provided support to the reactivation of the High Labour Council (tripartite labour consultation body), which had been inactive since 2012.

3. ENABLING CIVIL SOCIETY TO PLAY THEIR ROLE IN IMPLEMENTATION

In 2019, in addition to regularly interacting with EU civil society, notably by participating in the regular meetings of the EU domestic advisory groups (DAGs) created under each trade agreement, the Commission also continued to take actions to facilitate monitoring by civil society and to further promote responsible business conduct. The main activities are outlined below.

Enabling monitoring by civil society

In 2019, the Commission continued to use the Partnership Instrument-funded project (worth 3 EUR million) launched in 2018 to support the DAGs and ensure that they can carry out their monitoring role. More specifically, with this project the Commission covered the travelling costs of a number of members of DAGs from the EU and from trade partners to enable them to participate in Civil Society Fora. The project also financed capacity-building workshops for members of the DAGs of the EU-Georgia DCFTA in March 2019, of the DAGs of the EU-Central America FTA in June 2019, of the DAGs of the EU-Ukraine DCFTA in November 2019, as well as for the members of the consultation mechanisms of the EU-Colombia/Ecuador/Peru Trade Agreement in October 2019. In January 2020, the project financed the organisation of a workshop for civil society organisations in Tokyo to explain the commitments in the TSD Chapter of the EU-Japan EPA. All these events created opportunities for DAG members to receive training and to exchange views among themselves about the nature of TSD commitments and their monitoring role.

As part of its pre-implementation engagement with Vietnam, in December 2019 the Commission also organised workshops in Hanoi for representatives of the government and civil society to prepare the ground for the setting up of a local DAG to monitor the EU-Vietnam FTA.

Promoting the involvement of business

To mobilise the role of the business community in support of the sustainable trade agenda, the Commission continued to promote Corporate Social Responsibility/Responsible Business

Conduct (CSR/RBC), notably via the multiple activities set up under two large (9 million euros worth) EU-funded projects: one focused on Asia[4] (launched in 2018) and one for Latin America. These projects offer practical support to governments' efforts to create enabling conditions for sustainable businesses by promoting CSR/RBC practices and by encouraging and assisting the uptake by businesses of international due diligence guidelines, following international standards.

The project for Latin America was launched in January 2019. It allowed the Commission to join forces with the ILO, OECD and OHCHR, which are the leading institutions in the field. The 4-year project will count on their recognised expertise and long-standing experience in the field to create leverage and ensure the active involvement and buy-in from governments and stakeholders in Latin America.

In the first 6 months of the project, the inception phase led to the identification of the several initiatives to be implemented at the regional and country level, in close consultation with authorities and stakeholders. These initiatives will cover inter alia the development of tools for governments to promote CSR/RBC and the setting up of training activities and awareness raising actions for officials, businesses and stakeholders. As the project covers several countries that are party to existing and future EU trade agreements[5], these initiatives will be deliverables for the implementation of the TSD Chapters. They will eventually constitute key contributions to ensure that the trade liberalisation is led by inclusive and sustainable businesses.

4. DELIVERING

In 2019, the Commission continued to put in place initiatives aimed to deliver material advances in the areas that have been identified as TSD priorities for each trade partner. The setting up of these priorities allows the Commission to focus on the issues that matter the most for each partner.

These initiatives ranged from advocacy and technical assistance to efforts to ensure the early ratification of ILO fundamental conventions, to more assertive actions to enforce commitments where shortcomings are identified. The Commission also partnered with Member States to produce materials to build capacity for TSD implementation and raise awareness. One area that is now receiving increasing attention is the design of concrete actions to use TSD implementation to promote climate action. The main actions in 2019 are outlined below.

Encouraging early ratification of fundamental ILO conventions

With partners in "pre-FTA implementation" and "early FTA implementation" phase, the Commission focused on the ratification of outstanding ILO conventions. With Vietnam, the Commission engaged closely with the authorities and civil society via regular contacts, including two missions to Hanoi in May and December 2019. Such efforts led to concrete results as Vietnam embarked in far-reaching labour reforms to be in line with the TSD commitments in the FTA. In June 2019, Vietnam announced the ratification of the ILO Convention #98 on Right to Organise and Collective Bargaining. Furthermore, the authorities

[4] China, Japan, Myanmar, the Philippines, Thailand and Vietnam.
[5] Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru.

presented a calendar for the ratification of ILO Convention #87 on Freedom of Association and ILO Convention #105 on Forced Labour. In November 2019, Vietnam adopted a new Labour Code. The EU is working closely with Vietnam's authorities to support further necessary reforms of the labour legislation, building on a very close cooperation with the ILO.

The Commission also engaged with Singapore on the need to ratify the outstanding ILO conventions (#87 on Freedom of Association, #105 on Abolition of Forced Labour, and #111 on Discrimination in Employment and Occupation) and to observe the Fundamental Rights at Work principles. Similarly, the EU passed strong messages to Japan about the need to ratify the two missing ILO conventions (#105 on Abolition of Forced Labour and #111 on Discrimination in Employment and Occupation). The Commission raised these issues at the bilateral discussions held during the missions to Singapore and Tokyo in May 2019 to prepare the start of the implementation work of the two FTAs.

Capacity building - Handbook

The Commission continued to support partners in their efforts to put in place institutional frameworks that match the specificities of TSD implementation, which require high levels of internal coordination across several ministries and close monitoring of civil society. Culminating a process that lasted more than one year, in August 2019, Sweden's National Board of Trade published the handbook for TSD implementation for Ecuador, which was developed in partnership with the Commission[6]. This tool can also assist TSD implementation processes by other partners in the future.

Assertive enforcement

The Commission sharpened its monitoring and analysis of partners' compliance with TSD commitments. The two most prominent examples of the increased assertiveness by the Commission in this regard continue to be Peru and South Korea. With both partners, there were important developments.

With Peru, the Commission continued the close engagement aimed to improve TSD implementation. The bilateral understanding reached in Quito in December 2018 to address the EU's substantive concerns allowed for a renewed momentum for TSD implementation in 2019. At the meeting of the TSD Sub-committee of the EU-Colombia/Ecuador/Peru Trade Agreement in Bogota in October 2019, the EU and Peru took stock of the progress made. Peru was keen on showing advances by listing a number of concrete policy developments in the areas of labour and environment. The Commission will continue to monitor closely the situation in Peru, notably on the need to further improve the effectiveness of consultation of civil society on TSD-relevant issues.

With South Korea, the EU resorted for the first time to a bilateral dispute settlement mechanism for TSD issues. In January 2019, the EU and South Korea held consultations in Seoul over the lack of implementation by Korea on the commitments to ratify pending fundamental ILO conventions and to respect in law and practice the core principles of the ILO, notably on freedom of association and right to collective bargaining. As consultations did not resolve matters, a panel of experts was officially established on 30 December 2019.

[6] https://www.kommerskollegium.se/en/publications/guides/tsd-handbook

This is a major step by the EU, which already triggered concrete political reactions in Korea. In October 2019, the Korean Government submitted to the National Assembly bills to pursue ratification of three fundamental ILO Conventions (#87 and #98 on Freedom of Association and #29 on the Forced Labour) and related reforms on freedom of association. However, the National Assembly has not managed to advance so far.

Climate action

As climate change becomes an ever more important component of international engagement, the Commission is using the implementation of TSD Chapters to promote concrete joint actions with partners in this field. The work under CETA is leading the way, following the adoption of the Recommendation on Trade and Climate. On 24 January 2019, the Commission hosted a trade and climate workshop that brought together civil society and businesses to discuss the nexus between trade and climate. As a follow up initiative, on 6 and 7 November 2019, Canada and the EU organised in Montreal a workshop for clean tech firms. The EU and Japan are currently planning on actions along these lines for early 2021 in the context of the EU-Japan Agreement.

5. TRANSPARENCY

The Commission continued its efforts to improve transparency on issues related to the implementation and enforcement of TSD provisions in EU trade agreements, notably by making information more easily accessible on the TSD webpage[7] in the Commission website.

In addition, the Commission is putting in place efforts to agree with all partners the publication of relevant TSD implementation documents. As a result, in 2019 the Commission made the joint reports/statements and/or minutes of the TSD committees of most trade agreements available in its website.

On 29 April 2019 the Commission organised a Civil Society Dialogue session fully dedicated to TSD to give an account of the progress made so far with the implementation of the 15-point action plan. All the information related to that meeting, including the minutes are publically available[8].

The Commission also remains committed to act in full transparency with regard to inputs filed by civil society.

[7] https://ec.europa.eu/trade/policy/policy-making/sustainable-development/

[8] https://trade.ec.europa.eu/doclib/docs/2019/may/tradoc_157891.pdf

PART I: ASIA

ANNUAL INFORMATION SHEET ON PREPARATIONS FOR THE IMPLEMENTATION OF THE FREE TRADE AGREEMENT BETWEEN THE EU AND ITS MEMBER STATES AND SINGAPORE

1. INTRODUCTION

The economic partnership between the EU and Singapore is made up of two distinct agreements, namely a free trade agreement (henceforth the 'trade agreement') and an investment protection agreement. Negotiations began in 2009, with negotiations for the trade agreement and the investment protection agreement being completed in 2012 and 2017, respectively[9]. The EU-Singapore Investment Protection Agreement sets out rules that give EU investors and their investments in Singapore a high level of protection, while safeguarding EU governments' right to pass new laws and update existing ones. It will replace and upgrade bilateral investment treaties that several Member States currently have in place with Singapore. Once ratified, the Investment Protection Agreement will replace investor-to-state dispute mechanism under existing bilateral investment treaties with an Investment Court System. The trade agreement entered into force on 21 November 2019, and the investment agreement will enter into force once ratified domestically by the EU Member States. This information sheet reports about preparations for the entry into force of the trade agreement.

Singapore is a major developed economy. In 2018 it had a GDP of €326 billion and a GDP per capita of €57,900. Over 10,000 EU companies are established in Singapore which is the EU's largest trade partner in Southeast Asia, accounting for one-third of EU trade with the region and over two-thirds of EU foreign direct investment stock in the region. The trade and investment agreements are expected to contribute to solidify this situation by removing remaining obstacles and protecting EU investments. EU trade in goods and services with Singapore in 2018 was worth €118 billion, with the free trade agreement expected to facilitate further growth.

Singapore is an important regional economic actor, and is part of a number of major regional trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership CPTPP[10], the China-Singapore Free Trade Agreement CSFTA[11] and the ASEAN Free Trade Area AFTA[12]. As member of ASEAN, Singapore is also actively engaged in the negotiations for the Regional Comprehensive Economic Partnership (RCEP) comprising ASEAN and its 6 major FTA partners[13]. Singapore's membership of ASEAN also gives it notable political as well as economic influence in the South East Asia region.

The EU-Singapore trade and investment agreements, therefore, represents an important success to solidify and uphold the EU's presence in the region. These are the first agreements on trade and investment the EU ever concluded with an ASEAN member state. The agreements also offer new opportunities for EU companies to expand into other Southeast

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9 The decision to "split" the agreement into a free trade agreement and an investment protection agreement was made following the Opinion 2/15 of the European Court of Justice on the allocation of competences between the European Union and the Member States.

10 https://www.mti.gov.sg/Improving-Trade/Free-Trade-Agreements/CPTPP

11 https://www.enterprisesg.gov.sg/non-financial-assistance/for-singapore-companies/free-trade-agreements/ftas/singapore-ftas/csfta

12 https://asean.org/

13 Australia, China, India, Japan, Korea, New Zealand

Asian markets, as it will provide them with even more opportunities and stronger protection to do business with or establish itself in Singapore, which is the central hub in South East Asia. The Agreements could be seen as an inspiration for trade and investment agreements between the EU and other ASEAN Member States and as a step towards a region to region agreement.

2. THE AGREEMENTS IN SUMMARY

Together, the agreements cover trade in goods (including electronics, pharmaceuticals, petrochemicals and processed agricultural products), services and establishment (including telecommunications, finance, transport and manufacturing), public procurement, intellectual property and investment protection.

In terms of tariff liberalisation, the trade agreement eliminates 84% of customs duties on Singaporean exports to the EU within the first year, and by the third year 90% of tariffs on Singaporean exports to the EU will be removed. Customs duties on remaining qualifying exports will be removed over a period of 5 years. Singapore eliminated all its remaining customs duties for beer, samsu and stout upon entry into force of the agreement and committed to fully bind its current level of duty-free access for all products originating in the EU.

The trade agreement provides enhanced market access for service providers, professionals and investors, and creates a level-playing field for businesses in each other's markets, including through certain sector specific rules on non-discrimination and transparency, covering a wide range of services such as financial services, professional services, computer and related services, research and development, business services and telecommunication services.

With regard to public procurement the trade agreement will improve market access for EU suppliers and for EU goods and services on the basis of a set of rules and principles of transparency, non-discrimination and fairness in public procurement procedures. As party to the WTO Agreement on Government Procurement (GPA), Singapore has already opened up a large part of its procurement market to EU bidders. The Free Trade Agreement increased market access opportunities for EU businesses as Singapore included additional entities as well as subjected more services contracts to rules; the applicable thresholds are also lowered. Additional coverage by Singapore include, for instance, financial services, computer related services, telecommunication services, sewage and refuse disposal, architectural and engineering services.

To continue encouraging innovation, the trade agreement includes a comprehensive intellectual property rights chapter covering provisions on copyright, designs, enforcement and geographical indications (GIs). Upon entry into force, Singapore enhanced its border enforcement measures against goods infringing IPR, covering copyrights and trade marks.

The trade agreement will also promote sustainable development and the involvement of civil society in trade and investment matters. It does so by setting out strong, legally-binding commitments on environmental protection and respect for labour rights. As such, parties commit to respecting, promoting and effectively implementing the principles concerning the fundamental rights at work and to make continued and sustained efforts towards ratifying and effectively implementing the fundamental ILO conventions. The agreement includes commitments by the EU and Singapore on the effective implementation of Multilateral Environmental Agreements to which the EU and/or Singapore have signed up to. Specific provisions on climate change further underline the EU's and Singapore's efforts to tackle climate change. The agreement also promotes cross-cutting schemes such as Corporate Social Responsibility, Responsible Business Conduct, fair trade and green procurement, and creates a mechanism to foster civil society involvement, related to the implementation of TSD and consultative mechanisms.

Non-tariff barriers to trade will be dealt with in electronics, motor vehicles/parts, pharmaceuticals and medical devices and renewable energy.

Under the EU-Singapore trade agreement, the EU and Singapore have committed to strengthen cooperation in customs procedures to facilitate EU exports to enter the country. In addition, the trade agreement includes a Chapter on Sanitary and Phytosanitary Measures, which will further streamline the approval for meat exports, with time limits for the application process and prelisting for establishments to apply.

Furthermore, Singapore has already set up a geographical indications (GI) registry, allowing EU rights-holders to apply for registration. The 2014 GI Act and implementing rules entered into application on 1 April 2019, which opened the procedure for application and subsequent registration of European GI names.

At the beginning 2020, 139 European GI names have been registered and are protected in Singapore under the domestic legislation. They will eventually also be protected under the EU Singapore trade agreement.

3. PREPARATORY WORK FOR THE ENTRY INTO FORCE

General preparations for the entry into force

During the course of 2019, the EU Delegation in Singapore organised several outreach events to promote and raise awareness on the benefits of the FTA. A joint brochure on the agreement was published between DG Trade and the Singapore Ministry for Trade and Industry: https://trade.ec.europa.eu/doclib/docs/2019/february/tradoc_157684.pdf.

Before entry info force of the FTA the Commission published the adjusted list of TRQs for the remainder of the year.

With regard to government procurement, a project is in place under the Policy Support Facility of the Partnership Instrument that will help monitoring the implementation of the government procurement chapter. In addition Commission services and EU delegation in Singapore have carried out preparatory work to identify the actions that Singapore needs to take with a view to comply with the obligations of the GP Chapter of the Free Trade Agreement.

Preparing for the protection of EU geographical indications

An important part of preparatory work concerned the preparations for the protection of EU geographical indications in Singapore. Instead of being protected within the agreement itself, it was agreed that Singapore would allow for the registration of EU geographical indications after the European Parliament's consent, but before conclusion of the agreement. Successfully registered geographical indications would then be given protection under the trade agreement subject to a decision by the EU-Singapore Trade Committee set up under the agreement. During the preparatory phase it became apparent that this protection could be challenged via a so-called "Qualification of Rights" provision in the Singaporean legislation. Before the Council decision to adopt the Free Trade Agreement, Singapore gave additional guarantees to safeguard the protection of registered GIs and clarified the limited scope of this Qualification of Rights procedure.

In July 2019 the Commission organised a seminar for senior EU GI rights-holders and EU Member States on Geographical Indications for Agri-food products, during which the provisions related to geographical indications under the EU Singapore trade agreements were explained.

4. EARLY ACHIEVEMENTS AND UP-COMING IMPLEMENTATION ACTIVITIES

Geographical indications

Following the consent given by the European Parliament on the conclusions of the Agreement in February 2019, and in accordance with Article 10.17(2)(a) of the EU-Singapore Free Trade Agreement (EUSFTA), Singapore set up a geographical indications (GI) registry allowing EU GI holders to apply for registration. The implementing rules entered into application on 1st March 2019, which opened the procedure of GI registration and led to the subsequent official applications of European GI names. At the end of August 2019, the domestic registration process of the EU GIs was finalised and 138 GIs were registered. They are protected under the EU Singapore trade agreement.

Upcoming activities by the Trade Committee

In 2020, the Trade Committee will adopt a decision on the list of protected GIs within the scope of the Free Trade Agreement, so as to provide successfully registered GIs direct protection under the agreement. The Trade Committee will also establish the list of arbitrators tasked to deal with eventual future disputes. The Trade and Sustainable Development Board, the institutional body of the Free Trade Agreement overviewing the implementation of the Trade and Sustainable Development Chapter, is also to be set up within the first year of entry into force of the agreement.

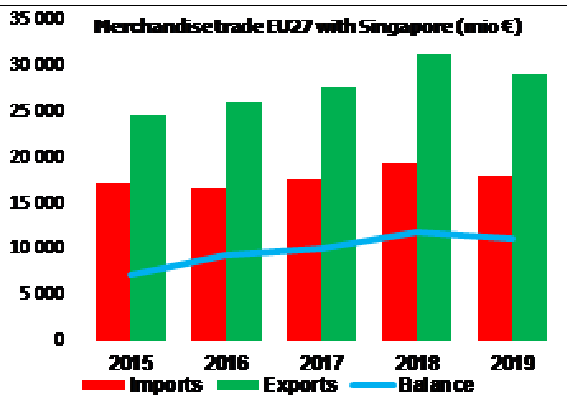
5. STATISTICS

SINGAPORE

Merchandise trade EU27 2015-2019

	2015	2016	2017	2018	2019
Merchandise trade EU27 with Singapore (mio €)					
Imports	17 302	16 648	17 662	19 354	17 938
Exports	24 520	25 961	27 723	31 240	29 063
Balance	7 218	9 313	10 061	11 887	11 125
Share Singapore in EU27 trade with Extra-EU27					
Imports	1.0%	1.0%	1.0%	1.0%	0.9%
Exports	1.3%	1.4%	1.4%	1.5%	1.4%
Total (I+E)	1.2%	1.2%	1.2%	1.3%	1.2%
Share EU27 in trade Singapore with world					
Imports	10.8%	11.6%	10.7%	10.9%	10.3%
Exports	7.2%	8.1%	7.9%	8.0%	7.9%
Total (I+E)	8.9%	9.7%	9.2%	9.4%	9.0%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Singapore: IMF Dots



Total merchandise trade EU27 with Singapore (mio €)

Singapore	2018	2019	Growth mio €	Growth annual %
Imports	19 354	17 938	-1 415	-7.3%
Exports	31 240	29 063	-2 177	-7.0%
Balance	11 887	11 125	-762	
Total trade	50 594	47 002	-3 592	-7.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Singapore (mio €)

Singapore	2018	2019	Growth mio €	Growth annual %
Imports	339	424	86	25.2%
Exports	1 923	1 943	20	1.0%
Balance	1 584	1 519	-66	
Total trade	2 262	2 367	105	4.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Singapore (mio €)

Singapore	2018	2019	Growth mio €	Growth annual %
EU27 imports	19 015	17 514	-1 501	-7.9%
EU27 exports	29 317	27 120	-2 197	-7.5%
Balance	10 302	9 606	-696	
Total trade	48 332	44 635	-3 698	-7.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Singapore (mio €)

Singapore	2017	2018	Growth mio €	Growth annual %
Imports	20 534	22 679	2 144	10.4%
Exports	25 610	30 232	4 623	18.1%
Balance	5 075	7 554	2 478	
Total trade	46 144	52 911	6 767	14.7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Singapore (mio €)

	2014	2015	2016	2017	2018
Imports	13 589	19 061	20 215	20 534	22 679
Exports	18 133	20 020	20 880	25 610	30 232
Balance	4 544	958	666	5 075	7 554
Total trade	31 721	39 081	41 095	46 144	52 911

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Singapore (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	45 140	56 091	115 850	103 392	110 295
Outward	114 965	183 274	173 648	262 596	191 287
FDI Flows					
Inward	-6 287	14 255	47 679	7 872	6 542
Outward		24 430		91 017	-60 938

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT BETWEEN THE EU AND JAPAN

1. INTRODUCTION

This is the first time that the Commission reports on the implementation of the Agreement for an Economic Partnership between the EU and Japan (hereafter "the agreement"). The reporting covers the implementation of EU-Japan trade over 11 months: from February to December 2019. Implementation reports in coming years will cover full-year periods.

The agreement entered into force on 1 February 2019. It is one of the most ambitious trade agreements concluded by the EU so far, providing for broad-based trade liberalisation coupled with rules and disciplines on aspects such as labour rights, environmental protection, antitrust, corporate governance and the commercial activities of state-owned enterprises, among other topics. The agreement thus pursues and develops the EU strive towards comprehensive trade agreements, and it provides a sound basis for the development of economic relations between the Parties.[14]

The agreement is particularly important for the EU agri-food sector, offering huge potential for increasing EU exports of a large number of products, such as wine, pork, beef, cheeses and processed agricultural products. One noticeable achievement is the step by step approval and recognition of oenological practices of the other Party.

A brief overview of activities of the Working Groups and Committees set up by the agreement is also included in the report. The EU implements a policy of transparency as regards the work of these bodies. Their agendas, minutes and decisions are publicly accessible on the Europa website[15].

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

The **EPA Joint Committee** – the highest body under the agreement – which meets at ministerial level – gathered for the first time in Tokyo on 10 April 2019 and it laid the ground for the various specialised committees and working groups to start their work. All specialised committees and working groups, as well as the joint Dialogue with Civil Society and the EU-Japan joint Financial Regulatory Forum, met within the first year of implementation.

In 2019, there were also several events and **initiatives aimed at raising awareness among stakeholders**, with a view to supporting their use of the opportunities opened up by the agreement. Many prominent public and private organisations at national or regional level in Europe, such as chambers of commerce, organised seminars and conferences to present the agreement to the business community. The European Commission supported such efforts by

[14] A summary of the main achievements on the occasion of the first anniversary of the agreement can be found at https://trade.ec.europa.eu/doclib/press/index.cfm?id=2107.

[15] https://trade.ec.europa.eu/doclib/press/index.cfm?id=2042

providing speakers and information materials. The EU Delegation in Tokyo consistently engaged with representatives of European companies in Japan, as well as with Japanese importers, in order to gather their practical experiences and to convey the latest information on implementation steps. Furthermore, the EU-Japan Centre for Industrial Cooperation, which is jointly supported by the EU and Japan, set up a specific "Helpdesk"[16] to address questions from SME, drafted targeted factsheets for the EU operators and organised "webinars" to provide information on key areas of the agreement (agri-food sector, customs procedures, procurement etc.).

In view of the importance of the agreement for the agri-food sector, several specific awareness raising and promotion activities were organised with a specific focus on that area:

- A high level mission was organised in May 2019 with 70 businessmen from the EU agri food sector: training and targeted information on the Japanese market was provided, back-to-back with political discussions at ministerial level;
- In March 2019 EU representatives participated in the major B-to-B agri food fair in Asia (Foodex) with an EU booth dedicated to the authenticity, safety and quality of EU products; a seminar on the opportunities stemming from the EPA for the European and Japanese agri-food operators was organised on that occasion;
- Several promotion activities in various places of Japan were organised to follow up to the participation to the Foodex fair;
- The EU-Japan Centre for Industrial Cooperation, through its EPA Helpdesk, addressed questions from SMEs in the agri food sectors; it also issued targeted factsheets and organised specialised "webminars"[17] to provide information on key areas of the agreement for the agri-food sector.

2.2 Progress in the implementation of trade and sustainable development provisions

Preparations for the implementation of the TSD chapter

The agreement has the most comprehensive chapter on trade and sustainable development ever concluded by the EU. Therefore, the initial focus over the first months after entry into force of the Agreement was on the joint clarification of actions and mechanisms needed for implementation, on the basis of the provisions of the chapter.

Prior to the entry into force of the agreement, Japan commenced its preparation for implementing the trade and sustainable development (TSD) provisions by setting up an inter-ministerial coordination group, led by the Ministry of Foreign Affairs. Later, Japan designated two existing bodies to operate as "domestic advisory groups" for the purposes of the agreement: the "Central Environmental Council" and the "Labour Policy Council".

In May 2019, EU and Japanese officials had already started consultations to prepare the kick-off meetings of the TSD Committee and the Joint Civil Society Dialogue. Discussions on the agendas of both meetings, as well as practical organisational and operational details were held over the course of the second half of the year, leading to the formal meetings in January 2020.

[16] https://www.eu-japan.eu/information-desk
[17] https://www.eu-japan.eu/epa-helpdesk

The Committee on **Trade and Sustainable Development** met in Tokyo on 29-30 January[18]. The Committee reached an understanding on the organisational modalities of the Joint Dialogue with Civil Society. It addressed topics pertaining to labour rights, environmental protection and horizontal sustainability issues. In particular, it discussed the streamlining of bilateral activities on Corporate Social Responsibility and Responsible Business Conduct; the Parties exchanged information about developments concerning multilateral environmental agreements and other international environmental initiatives, including in the areas of climate change, sustainable forest management, oceans and marine litter, and circular economy; and they exchanged views on how to strengthen the implementation of the Agreement through joint or coordinated activities in these and other areas. Both sides presented an update on ratification and implementation of International Labour Organization (ILO) conventions. The EU informed Japan about recent social policy developments in Europe, notably on the social fairness package. Japan reiterated its commitment to the activities of the ILO and also informed about ongoing discussions regarding the ratification of the ILO C105[19] and C111[20], referring to the Resolution of Japan's legislative chambers of 26 June "on Japan's further commitment toward ILO, on the occasion of 100 year anniversary of ILO".

EU and Japan held the first **Joint Dialogue with Civil Society** on 31 January 2020[21]. Representatives from governments and civil society organisations discussed crosscutting issues such as corporate social responsibility, Society 5.0 for Sustainable Development Goals, issues related to trade and environment such as trade-related aspects of circular economy, climate change and low carbon society as well as trade and labour, including updates on ratifications and implementations of ILO conventions update, and female participation in labour market.

Steps taken to promote sustainability goals

Domestically and internationally both sides undertook actions to support their ongoing efforts with regard to sustainability goals. Japan positively used its G20 chairmanship to give further prominence to issues related to the circular economy and the prevention of marine litter – issues on which the EU has an active agenda. On labour issues, on 26 June the Japanese House of Councillors and the House of Representatives adopted a "Resolution on Japan's further commitment toward ILO, on the occasion of 100 year anniversary of ILO", emphasising the importance of the fundamental rights at work and of making efforts towards ratification or implementation of all ILO core conventions.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The agreement establishes ten specialised committees and two working groups. The annual meeting of the Joint Committee at ministerial level plays a supervisory role and ensures that the agreement operates properly. In addition, the agreement establishes a Joint Dialogue with Civil Society and a Joint Financial Regulatory Forum.

18 Minutes available at https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158664.pdf
19 On abolition of forced labour
20 On professional discrimination
21 Report available at https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158782.pdf

The agendas, minutes and decisions of specialised committees and working groups are publicly accessible on the Commission's website[22]. This report presents only some of the main important issues that were addressed.

The **Joint Committee** adopted two decisions. Decision no.1 laid down the Rules of Procedure of the Joint Committee, which apply *mutatis mutandis* to all the bilateral bodies that report to it. Decision no.1 also endorsed several legal texts to render the dispute settlement mechanism of the agreement fully operational: rules of procedure of arbitration; code of conduct of arbitrators; and mediation rules. Subsequently, through its Decision no.2, the Joint Committee established a list of individuals that are willing and able to serve as arbitrators.

The Parties worked intensively throughout 2019 and were able to tackle some initial difficulties experienced in the area of **Customs and Rules of Origin** procedures (see further below in section 4).

The committees responsible for **Trade in Goods; Trade in Services, Investment Liberalisation and E-commerce; and Technical Barriers to Trade** met back-to-back in Brussels in November 2019. The committees allowed an overview of the implementation of the relevant chapters of the Agreement.

In the Trade in Goods Committee the Parties focused, among others, on the quota management procedures for the import into Japan of certain agricultural commodities and processed agricultural products, which were adjusted by Japan in summer 2019 to allow for a better utilisation of the quotas by importers in Japan. In particular, work has been done in the first year to improve the administration of tariff rate quotas (TRQs) by Japan in order to allocate TRQs to importing companies with a proper record of marketing the goods at stake. Indeed, following the first phase of allocation, too many non-genuine agri-food business operators had applied to obtain quotas, particularly in the cheese sector which raised concerns. It is expected that the quota utilisation rates, i.e. the fill rate, will steadily increase in the coming months, thanks to the improvement in management procedures and regular monitoring by the EU Commission.

The **TBT committee** mainly exchanged information about respective regulatory plans concerning the potential restriction of certain chemical substances, revisions to respective medical devices legislation and the EU raised the issue about the alteration of lot numbers on products in Japan.[23]

In the first meeting of the **Committee on Trade in Services, Investment Liberalisation and Electronic Commerce**, the EU reported market access issues in Japan for postal and courier services while Japan reported difficulties regarding mode 4 (delays in issuing visas) in some EU Member States.

The **Committee on SPS Measures** met in Tokyo on 28-30 October 2019. EU and Japan discussed their respective priorities: for the EU prioritised market access applications on beef and certain fruits (cherry, pear and kiwi), regionalisation on African Swine Fever and Avian

[22] https://trade.ec.europa.eu/doclib/press/index.cfm?id=2042

[23] The issue refers to the modification by distributors of the labels originally affixed by producers on the goods. For goods produced in the EU, the labels typically include a number or code identifying the production lot. Such numbers or codes are useful for identification and traceability purposes, particularly in case of product recalls.

Influenza; for Japan prioritised market access applications on poultry meat and black pine bonsai plants and change of classification on poultry and pork products.

The Parties also discussed ways to simplify, expedite and complete approval procedures without undue delay, e.g. using experience gained from assessment results of already approved EU Member States in view of the EU harmonised legislation; the possibility to evaluate EU Member States in groups when conducting the risk assessment and to simplify the procedures of risk assessment on plant quarantine. Food contact materials and additives were among other topics discussed where Parties looked to enhance coorperation during 2020.

The Parties discussed next steps regarding the project for the mutual recognition on regionalisation in the area of animal health, and confirmed their willingness to proceed with the examination through video conferences and other means of communication in order to move forward the discussion and achieve tangible deliverables within the deadlines mutually agreed in advance. Parties agreed that the results will be reported to the next EPA Joint Committee meeting. It was also agreed to establish a technical group dealing with animal health issues whose progress and results will be referred to the SPS Committee.

EU and Japan committed to closely follow up on the progress on the prioritised market acess applications, through video and audio conferences at regular intervals.

The first exchange of possible cooperation on animal welfare issues took place in 2019, although these aspects will be explored during 2020.The parties are now considering the scope of such cooperation and how it could be organised in the future.

The committees responsible for **Government Procurement** and for **Intellectual Property Rights** (IPR) met back-to-back in Tokyo in November 2019. Both committees went through a long list of issues related to the implementation of the two chapters and the latest legislative and policy developments.

The **IPR Committee** had an exchange on the process toward extension of the list of geographical indications (GIs) as foreseen in the Agreement, on IPR enforcement (including actions to guarantee the enforcement of specific GIs) as well as on several issues that remained open during the negotiations (the public performance right and the resale right for the EU; grace period for patents for Japan).

The **Public Procurement committee** met back-to-back with the Railways Industrial Dialogue and focussed in particular on four major issues related to the implementation of the agreement: the implementation of an obligation to publish all procurement notices on a Single Point of Access (Art. 10.4 of the EPA); the communication of legal measures adopted to give effect to the market access commitments under the Procurement Chapter under the FTA; the access of European bidders to Government Procurement in Japan relating to the operational safety of railways and measures to disseminate information relating to the correct application of the EPA Procurement chapter among procuring entities, in particular at sub-central level.

The Committee on **Cooperation in the Field of Agriculture** met in July 2019 in Tokyo (link to report). It was an opportunity to exchange information on agricultural issues of common interest. Exchanges on agricultural policy reforms aimed at addressing the environment and climate change dimension of agricultural activities, as well as organic farming policy reform in the EU and implications for the equivalence arrangements between the EU and Japan took place.

Two bodies held meetings remotely, by videoconference. These were the **Working Group on Wine** in February 2019[24] and the **Committee on Regulatory Cooperation** on 20 January 2020[25]. The videoconference of the Committee on Regulatory Cooperation was devoted to organisational issues, with the aim of establishing a common understanding on the role and functioning of the committee and its relationship with other specialised committees and bilateral fora. The Working Group on Wine adopted two decisions, as envisaged in the EU-Japan Agreement, on the forms to be used for certificates for the import of wine products originating in Japan into the European Union and the modalities concerning self-certification, and on the modalities for cooperation between Contact Points. It has also endorsed the notifications of both sides confirming the approval of several oenological practices as described in Annex 2-E of the Agreement, thus facilitating trade through the recognition of each other's regulations.

Finally, the **Working Group on Motor Vehicles and Parts**[26] addressed ongoing regulatory issues of international relevance, including cooperation in the context of the UNECE WP29, as well as other car-related issues and technical regulations. The Working Group concluded on the desirability to amend the appendices of the Agreement concerning UNECE Regulations implemented by both Parties, in order to reflect the most recent developments and commit bilaterally to the application of the relevant regulations, which facilitate trade.

4. SPECIFIC AREAS OF IMPORTANCE

To ease the **utilisation of tariff preferences** under the agreement, the authorities responsible for Customs matters in the EU and Japan engaged intensively throughout the first year of implementation in order to ensure a common approach to the application of trade preferences. In June 2019, the Committee on Rules of Origin and Customs-Related Matters developed a roadmap of actions to tackle initial difficulties experienced by economic operators[27]. The actions were gradually rolled out by both sides. A simplified procedure for claiming and obtaining tariff preferences was put in place by Japan in two phases – in August and November, having a positive effect on the ease with which operators can effectively utilise the agreed tariff preferences.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Japan is the world's third largest national economy but it faces significant challenges to generate and sustain growth. Over the past decade, Japan's economy moderately expanded but in recent years and up to 2019 real GDP growth was on a declining trend. In 2019 Japan's

[24] See report at https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_157970.pdf
[25] See report at https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158667.pdf
[26] See report at https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc_158628.pdf
[27] https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_157973.pdf

GDP grew by 0.7%. Like for other countries, the COVID-19 crisis will have a marked effect on economic activity.

Public and private investments have been an important growth driver of growth, supported by rising corporate earnings. However, Japan's gross-debt-to-GDP ratio has reached 239%. Central government debt stood at a record JPY 1,110 trillion as of December 2019, having more than doubled in size since 1997. The consumption tax was increased from 8% to 10% in October 2019, with the intention to use the proceeds to finance free education. Headline inflation continues to fluctuate around 0.5% y-o-y, reflecting downward pressures from the recent yen appreciation and upward pressures from the rise in food prices. Real effective exchange rate of the yen is much below long-term averages and further yen appreciation can be expected, which could undermine corporate profitability, investments and exports.

Japan faces the need to address labour shortages and invest in AI and digital upgrading of its businesses, for it to tackle the pressures resulting from negative demographic growth global competition.

As regards Japan’s trade with the world, in 2019 the total value was about €1,300 bl (€ 1,298 bl). The top three trading partners of Japan were China (21% of total trade), USA (15.3% of total trade) and EU27 (10.3% of total trade).

Japan's main import products include: petroleum, LNG, clothing and accessories, medical products and communication equipment. Japan is a major exporter of transport equipment, machinery and chemicals (including medical products).

In 2019, Japan had a trade deficit of JPY1.6 trillion. Japan's exports fell 5.6% from 2018 to JPY76.9 trillion (the US-China and Japan-Korea trade tensions both had a significant negative impact on Japanese trade). Japan's overall imports dropped 5.0% to JPY78.6 trillion primarily due to lower energy prices. On a bilateral basis, Japan enjoyed a trade surplus of JPY6.6 trillion with the US. Meanwhile, Japan posted a deficit of JPY756.4 billion with the EU28.

18 Economic Partnership Agreements (EPAs) have entered into force or been signed with 21 countries/regions to date[1]. On 30 December 2018, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP11 Agreement) with 10 other trading partners entered into force[2]. At the end of 2019, USA and Japan concluded a trade agreement which comprises an Agreement on Trade in Goods, focused on tariff liberalisation on a relatively small amount of bilateral trade[3]; and an Agreement on Digital Trade.

Japan is also engaged in other initiatives, including the Regional Comprehensive Economic Partnership (RCEP) agreement; bilateral negotiations with Colombia and Turkey; as well as negotiations for the trilateral Japan-China-Korea FTA.

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[1] ASEAN, Australia, Brunei, Chile, India, Indonesia, Malaysia, Mexico, Mongolia, Peru, Philippines, Singapore, Switzerland, Thailand Vietnam, the US, CPTPP and the EU-Japan EPA. 51.6 % of Japan’s overall trade is conducted with countries which have EPAs entered into force or signed with Japan.

[2] CPTPP Parties are as follows: Japan, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam.

[3] USA provides for tariff elimination or reduction on 241 tariff lines. The affected agricultural products include perennial plants and cut flowers, persimmons, green tea, chewing gum, and soy sauce. USA will also reduce or eliminate tariffs on certain industrial goods from Japan such as certain machine tools, fasteners, steam turbines, bicycles, bicycle parts, and musical instruments.

5.2 Trade in goods

Since 1 February 2019, bilateral trade with Japan takes place in a new context. On that date, the EPA entered into force and eliminated tariffs for a large number of goods, in particular those that were previously subject to relatively low import duties. In addition, for those categories with higher import duties, the EPA initiated a tariff phase-out period that will eventually lead to full liberalisation. In 2019, Japan implemented two successive tariff reductions pursuant to the EPA, on 1 February and 1 April.

The EPA thus improved trading conditions for most goods traded between the EU and Japan. However, important areas had already been fully or very significantly liberalised beforehand because of Japan's and the EU's WTO commitments. Some of the most important EU export products, such as pharmaceuticals, cars or machinery have benefitted from zero duties when imported into Japan for a long time. Therefore, the EPA was not expected to lead to a sudden and radical surge in EU exports. Rather, its intended effect was to spur trade growth for those goods that were previously subject to moderate or high tariffs and to support overall trade more gradually through non-tariff mechanisms, such as cooperation on customs issues and regulatory matters. In the longer term, the EPA should thus contribute to increasing economic links between the EU and Japan, preserving or increasing their respective shares in trade with each other.

In 2019, trade with Japan pursued an upward trend that started after the financial crisis. It is hoped that the new economic partnership will facilitate a rapid resumption of that upward trend once the Covid-19 crisis is fully under control.

Merchandise trade with Japan increased by 5.8% in 2019 compared to the previous year, in a balanced manner for both EU exports and imports.

Traditional EU exports to Japan, such as pharmaceuticals, transport equipment and machinery benefitted from steady growth. Product categories for which the EPA led to tariff cuts generally experienced higher growth: this is clearly the case for EU agri-food exports such as wine, meat, dairy and tobacco leaves (see following point), but also for industrial goods such as textiles, clothing and footwear (approximately +10% on average).

As regards imports from Japan, in 2019 there were noticeable increases for chemicals and transport equipment, in particular passenger cars (+16%). As regards the latter, however, strong yearly fluctuations linked to market and industry circumstances are rather common: the increase in 2019 can only be partly attributed to the EPA, as other factors had an arguably bigger impact (e.g. shifts in production of some models between international manufacturing sites of a same company).

Japan has communicated an **average Preference Utilisation Rate** (PUR) for imports of EU goods of 52.9 % for the period February to December 2019, calculated as the ratio of EU exports to Japan benefitting from a trade preference under the EPA divided by total exports eligible for a preference under the EPA. This means that more than half of all EU goods eligible for tariff preferences actually benefitted from those preferences, which is a promising result for the first year of implementation. At sectoral level, most EU agricultural exports by and large enjoyed the tariff preferences (86.3% on average) with particularly high rates for meats (99%) and wine (93%), dairy products (77%) and cheeses (77%). The rates for industrial goods, owing to usually more complex supply chains and often smaller preference margins, were significantly lower both in Japan and in the EU.

It should be noted that PURs typically grow over the years, as economic operators often need some time to adjust to the new trading conditions (review of supply chains, internal accounting mechanisms, etc.). A better awareness about relevant customs practices in the EU and Japan, which were the object of intensive work in 2019, should also have positive effects. It is therefore expected that, particularly for industrial goods, preference utilisation will grow over time.

The trade balance between the EU and Japan remained broadly stable and in line with the situation in previous years. Exports and imports display gradual growth at a similar pace and are broadly commensurate in value.

Similarly, the EU and Japan's share of the other Party's trade with the world remained stable and broadly in line with long-term trends. In 2019, Japan accounted for 3% of the EU's external trade; while the EU accounted for 10.3% of Japan's trade with the world. There is a very gradual upward trend as regards the importance of Japan as an export market for the EU – something, which the EPA will surely support, in particular in areas such as agri-food.

5.3 Trade in agricultural products

The EU-Japan Economic Partnership Agreement (EPA) is a major agreement for the EU agri-food sector offering big potential for increasing EU exports on a large number of products. The Commission is particularly committed to ensuring a correct implementation of the EPA so that benefits for the agri- food sector materialise. In particular, work has been done in 2019 to seek improvements in the administration of the tariff rate quotas (TRQs) by Japan in order to grant import licenses to established agri-food operators, to support and advance requests for access to the Japanese market upon completion of sanitary and phytosanitary (SPS) procedures, and to agree on the implementation and recognition of regionalisation measures.

In 2019, total trade in agricultural goods between the EU and Japan reached €7.62 billion, with the EU having a large trade surplus of almost €7 billion. Both imports and exports grew by around 15% compared to 2018. In 2019 Japan was the 5th country of destination of EU exports of agricultural goods.

EU exports of agricultural goods accounted in 2019 for €7.28 billion (11.9% of EU total exports to Japan in 2019). The main categories of agricultural goods exported to Japan in 2019 were pork meat (19.1%, for a value of €1.39 billion), cigars and cigarettes (18%) and wine, vermouth and vinegar (13.2%).

EU imports reached in 2019 €347 million (an increase of 14.9% compared to 2018) and consisted mainly of spirits and liqueurs (17%), soups and sauces (15%) and fatty acids and wax (14%).

For sensitive agricultural products, the EU-South Korea FTA foresees specific **tariff rates quotas (TRQs)** the parties grant each other.

TRQs granted by Japan to the EU

For agricultural products sensitive for Japan, the agreement provides **25 specific tariff rate quotas** (TRQs) **reserved for EU exports**. At the end of the first full fiscal year after the entry into force of the agreement (1 April 2019 – 31 March 2020), EU exporters were able to make use of the preferencial treatment granted by Japan under these TRQs to a large extent. For the most significant of them (starch; glucose and fructose; various food preparations, notably of cereals, cocoa and edible fats and oils; some dairy products), the fill rate during the fiscal year was typically comprised between 40% and 70%. For the iconic cheese TRQs, the fill rate by EU exporters reached 47%, probably suffering from the initial difficulties stemming from the administration system set up by the Japanese authorities and which was reviewed after the first quota allocation period. The two most successful TRQs for EU exporters were "butter, skimmed milk powder, milk powder, butter milk powder and condensed milk" and "milk powder for the preparation of chocolate", with a joint fill rate of 86%[1].

The EU did not grant any TRQs to Japan under the agreement.

5.4 Trade in services and Foreign Direct Investments

In 2018, total trade in services between the EU and Japan has increased by 6%. There are reasons to believe that this trend has continued in 2019. As for FDIs, EU-Japan total transactions related to direct investment in 2018 were rather constant while compared to 2017, with the EU outward transactions on the rise in 2018.

6. Conclusions

Year 2019 marked the start of the implementation of the EU-Japan Agreement. The Parties focused on operationalising the institutional structure set up by the Agreement, kicking-off the specific implementation work in the context of specialised committees, and ensuring the correct and smooth application by their respective Customs authorities of the agreed trade preferences. In addition, there were important awareness-raising efforts at EU and national level, as well as through joint undertakings with Japan (notably information actions by the EU-Japan Centre for Industrial Cooperation). In relation to trade and sustainable development, Japan's domestic efforts and the identification by the **EU of TSD priorities for cooperation with Japan**, in line with the European Commission's 15-point action plan, allowed a focused approach to the early stages of implementation. Setting up the mechanisms for **engagement with civil society**, for each Party domestically but also through a joint dialogue, was an important achievement On **labour**, the EU in its discussions with Japan in the TSD committee focussed on the ratification by Japan of two fundamental ILO Conventions (C105 on forced labour and C111 on non-discrimination). On **environment**, the EU engaged with Japan to focus on circular economy and climate action. Finally, emphasis was also placed on **horizontal issues**, notably the uptake of corporate social responsibility (CSR) practices in line with the recognised international guidelines.

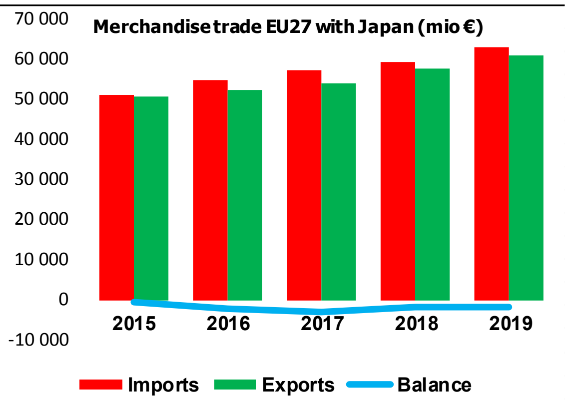
[1] These two TRQs have been merged only for purposes of statistical reporting.

7. STATISTICS

JAPAN

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Japan (mio €)					
Imports	51 096	54 653	57 112	59 430	62 849
Exports	50 713	52 297	54 065	57 724	61 134
Balance	-383	-2 356	-3 048	-1 706	-1 714
Share Japan in EU27 trade with Extra-EU27					
Imports	3.1%	3.4%	3.2%	3.1%	3.2%
Exports	2.7%	2.8%	2.7%	2.8%	2.9%
Total (I+E)	2.9%	3.1%	3.0%	3.0%	3.0%
Share EU27 in trade Japan with world					
Imports	10.0%	11.3%	10.6%	10.6%	10.8%
Exports	8.8%	9.3%	9.1%	9.4%	9.7%
Total (I+E)	9.4%	10.3%	9.8%	10.0%	10.3%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Japan: IMF Dots



Total merchandise trade EU27 with Japan (mio €)

Japan	2018	2019	Growth mio €	Growth annual %
Imports	59 430	62 849	3 419	5.8%
Exports	57 724	61 134	3 411	5.9%
Balance	-1 706	-1 714	-8	
Total trade	117 154	123 983	6 830	5.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Japan (mio €)

Japan	2018	2019	Growth mio €	Growth annual %
Imports	302	347	45	14.9%
Exports	6 276	7 280	1 003	16.0%
Balance	5 975	6 933	958	
Total trade	6 578	7 627	1 049	15.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Japan (mio €)

Japan	2018	2019	Growth mio €	Growth annual %
EU27 imports	59 128	62 502	3 374	5.7%
EU27 exports	51 448	53 855	2 407	4.7%
Balance	-7 681	-8 647	-967	
Total trade	110 576	116 357	5 781	5.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Japan (mio €)

Japan	2017	2018	Growth mio €	Growth annual %
Imports	14 206	14 611	405	2.8%
Exports	25 766	27 878	2 112	8.2%
Balance	11 560	13 268	1 708	
Total trade	39 972	42 489	2 517	6.3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Japan (mio €)

	2014	2015	2016	2017	2018
Imports	11 752	12 854	14 541	14 206	14 611
Exports	18 779	21 302	23 160	25 766	27 878
Balance	7 027	8 448	8 618	11 560	13 268
Total trade	30 531	34 155	37 701	39 972	42 489

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Japan (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	115 078	150 373	181 336	177 422	191 964
Outward	68 050	79 950	98 313	97 541	104 847
FDI Flows					
Inward	8 358	18 101	23 205	9 114	4 061
Outward			-47	1 817	5 931

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-SOUTH KOREA FREE TRADE AGREEMENT

1. INTRODUCTION

The Free Trade Agreement between the EU and its Member States and the Republic of South Korea (in this report referred to as "the FTA") has been provisionally applied since July 2011. On 13 December 2015 it entered formally into force after ratification by EU Member States. The Additional Protocol to the FTA, to take into account the accession of Croatia to the EU, has been provisionally applied since 26 May 2014 and it entered into force on 1 January 2016.

The EU-South Korea FTA is the first of a new generation of comprehensive trade agreements which, apart from market opening commitments also offers a basis for regulatory co-operation in key sectors as well as a substantial chapter on sustainable development with binding provisions upholding and promoting social and environmental standards.

According to the **ex-post evaluation of the EU-South Korea FTA**[28] conducted by an independent contractor, published in March 2019, the EU economy gained additional €4.4 billion and the South Korean economy €4.9 billion through the FTA. This happened despite the fact that the external environment, notably the post financial crisis period was not particularly supportive, weighing on demand and international trade.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

Year 2019 marked the eighth anniversary of the EU-Korea FTA. The implementation of the agreement continues to progress smoothly in many areas, benefiting substantially European and Korean business and consumers, as illustrated by the ex-post evaluation study. At the same time, progress on some long standing issues that have been discussed regularly over the last several years remains limited and unsatisfactory.

A key concern remains the **access of EU beef** to the South Korean market, which has been closed to EU imports since early 2000s. In 2019, South Korea approved the application of two Member States (Denmark and The Netherlands), who can now export beef to Korea, however other Member States are still waiting for the finalisation of their approval process. In addition, South Korea is yet to accept the **principle of regionalisation** for animal diseases. This issue continues to be discussed between the parties, and is highly relevant to create predictable and stable trade conditions for meat and poultry products.

In the area of Intellectual Property, South Korea still needs to establish an effective remuneration system for **public performance rights**. Lack of progress in this area remains a concern to the EU. The revised Presidential Decree, which entered into force in August 2018

[28] https://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157716.pdf

did not sufficiently address the problematic exemption of the majority of retail venues from paying remunerations, neither the low level of fees. The **extension of the geographical indications' (GI) list** protected by the FTA is also still pending. However, the adoption of the Rules of Procedure of the EU-South Korea GIs Working Group in 2019 should ease the way towards adding further EU and South Korean geographical indications to the Annex of the FTA.

In addition to the main issues mentioned above, **numerous technical barriers** to trade in key sectors – as discussed in the last sectoral Working Groups in February 2020 - keep impeding progress towards reaching the full potential of the agreement. Improvements in the area of **customs procedures** could contribute to an increase in the preference utilisation rates, and further facilitate the participation of small and medium sized enterprises (SMEs). Exchanges on customs issues continued in 2019 between the EU and Korea. In particular, discussions on a mutual understanding of Article 27 of the Origin Protocol concerning the verification procedure have been finalized, which should be formally agreed between the EU and Korea in 2020 in the form of a Recommendation made by the Customs Committee.

2.2 Progress in the implementation of trade and sustainable development provisions

In 2019, there the Committee on Trade and Sustainable Development did not meet. As was the case in 2018, the main pending issue was the ratification of the four core ILO conventions and protection of labour rights by Korea, progress on which was still not satisfactory. Consequently, the Commission stepped up the engagement with South Korea and launched dispute settlement proceedings under the FTA in order to address these issues. The panel of experts was formally established on 30 December 2019 to examine the matters and to solve the dispute.

In 2018 the Commission initiated its first dispute settlement procedure under a bilateral trade agreement, following serious concerns in relation to compliance by South Korea with the provisions dedicated to labour rights (ratification of three core ILO conventions and enforcement). During the reporting period, the proceedings in the dispute with Korea on labour obligations under the Trade and Sustainable Development (TSD) Chapter of the FTA continued. On 17 December 2018, the Commission had formally requested government consultations under Article 13.14 of the FTA raising concerns regarding Korea's compliance with the ILO principle of freedom of association and regarding Korea's efforts towards the ratification of four outstanding fundamental ILO Conventions.

- The EU held government consultations with Korea on 21 January 2019 that did not solve all the issues raised in consultations. Therefore, the EU requested on 4 July 2019 the establishment of a panel of experts to examine the matters and to solve the dispute.
- The panel of experts was formally established on 30 December 2019. An organisational meeting between the Parties and the Panel took place in January 2020. In the first half of January 2020 interested parties had the opportunity to submit amicus curiae submissions. A hearing was scheduled to take place in April 2020 in Geneva but had to be cancelled due to restrictions on meetings related to COVID 19. The EU will publish the report. The parties will also transmit the panel report to their

respective Domestic Advisory Groups established under Article 13.12(4) of the EU-Korea trade agreement

The parties shall make their best efforts to accommodate view of the Panel of Experts on the implementation of the Trade and Sustainable Development Chapter of the agreement.

The Committee on Trade and Sustainable Development established under the EU-Korea trade agreement shall monitor the implementation of the recommendations of the panel of experts. It is expected to convene again in 2020.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The institutional provisions of the EU-South Korea FTA (Article 15) established seven Specialised Committees, seven Working Groups and an Intellectual Property (IP) Dialogue. The annual meeting of the Trade Committee at ministerial level plays a supervisory role and ensures that the FTA operates properly. The chronological summary below presents activities of FTA Committees and Working Groups that took place over 2019.

The **ministerial Trade Committee** met on 9 April 2019 in Seoul. Both sides agreed that the FTA was a success that had significantly increased bilateral trade and investment even though some concerns on implementation persist, on the EU side, the main points of concern include the long delayed market access for EU beef and the non-ratification by South Korea of four fundamental ILO Conventions. Furthermore, the deteriorating business climate in South Korea remains a challenge for businesses to fully benefit from the FTA.[29] The main areas discussed in the ministerial meeting were the following:

- *EU beef exports*: While recognising some positive developments related to the beef issue, the EU highlighted that the Korean market remained closed for EU beef; in response, South Korea agreed to rapidly complete the technical steps for the most advanced applicants.
- *Trade and sustainable development:* The EU recognized that some efforts had been made by the South Korean government but the question remained whether progress had been sufficient to avoid moving to the next stage in dispute settlement under the FTA.
- *Car sector:* With regard to the car sector, both sides endorsed the finalisation of the administrative amendment of the car annexes under the written procedure. This update of EU and Korean rules will increase predictability and legal certainty for car producers and related industries. The EU side also raised the concerns that the car sector has highlighted regarding the difficult business climate.
- *IPR:* The EU also reiterated its Intellectual Property Rights related concerns (i.e. public performance rights and geographical indications, see explained above)
- *Issues presented by South Korea:* South Korea repeated its request for market access for Samgyetang (chicken ginseng soup) and asked for a solution for the long-standing

[29] According to the ECCK Business confidence survey, European companies overall value Korea as an important market, at the same time 62% of responding companies feel that conducting business has become more difficult: https://ecck.eu/wp-content/uploads/2020/03/Business-Confidence-Survey-2019_20200302.pdf

surimi issue[30]. South Korea also expressed concerns about the adverse effect of the EU steel safeguards measures on Korean producers.

The 6th meeting of the **Trade Remedy Cooperation Working Group** was held on 20 May 2019 in Seoul, back-to-back with the International Seoul Forum on Trade Remedies organised by the Korea Trade Commission (KTC)[31], in which the EU side participated. During the 6th meeting of the Trade Remedy Cooperation Working Group, the two sides updated each other on latest developments in domestic trade remedy laws, policies and practice. The EU side notably debriefed South Korea on the entry into force and implementation of the two latest amendments to the EU Trade Remedy basic legislation, namely the 'new anti-dumping methodology' and the 'modernisation of trade defence instruments', which had entered into force in December 2017 and June 2018 respectively. South Korea expressed concerns with respect to the EU steel safeguard measures and the EU briefed South Korea on the upcoming review investigation of the steel safeguard measures. The EU expressed concerns with the respect of general fairness and transparency principles in an investigation conducted by South Korea against Italian exports of stainless steel bars. The EU invited South Korea to revise its policy and methodology accordingly. The two sides also shared statistics on Trade Defence cases and exchanged views on global trends in trade remedy investigations, and related WTO litigation.

The 6th EU-South Korea **Cultural Cooperation Committee** convened on 13 May 2019 in Seoul, followed by a 2 day study visit to various South Korean cultural institutions. The topics discussed included performing arts, culture and cities, new developments in cultural and creative sectors- namely cultural entrepreneurship, the cultural content industry and the connections between arts, science and technology- architecture and audio-visual co-productions.

The **Committee on SPS Measures** met in Sejong City on 4 September 2019 to discuss a number of pending SPS issues that concern bilateral trade. In particular, the EU raised the pending applications for access of EU beef to Korea, where Korea confirmed the approval of applications from two Member States (Netherlands and Denmark). The recognition of regionalisation measures and import rules related to pesticide residues were discussed, in addition. South Korea requested clarifications about the state of play on their pending application for export of chicken-ginseng soup to the EU. The Committee meeting was preceded by a one-day seminar to discuss the control of African swine fever.

The 7th meeting of **Intellectual Property (IP) Dialogue** was held in Seoul, on 6 November 2019.

Update on legislative developments: Both sides informed each other of the latest domestic legislative and policy developments concerning industrial property rights. The EU provided details on definitions of online content-sharing service providers in the EU regulations and the relationship with the Korea-EU FTA.

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30 The issue relates to the interpretation of the content of Alaska Pollack as the "primary ingredient" in the surimi paste. For the EU, this means a content of at least 85%, while Korea seeks a lower percentage.

31 South Korea's authority dealing with trade defense.

Public performance rights: Views were exchanged on the current state of play regarding the implementation of the Korea-EU FTA in relation to public performance rights. The EU raised concerns with regard to the full FTA implementation of the related provisions.

"Infringing" goods: Both sides shared the measures taken to resolve problems related to infringing goods and views on the issue of online platforms and the circulation of counterfeit products. Korea informed the EU about the recent crackdown on websites circulating pirated copyright contents and on counterfeit products in street markets. On 'Counterfeit and Piracy Watch List', Korea asked the EU about the selection of the listed online and offline marketplaces and any procedures for objections, and the EU provided the procedures in detail. Both sides discussed the importance of participation and cooperation by right holders in actions to control counterfeit goods.

On 6 November 2019, the **7th meeting of the Working Group on Geographical Indications** (GIs) took place in Seoul.

Addition of geographical indications: Both sides discussed the issue of the addition of GIs in line with the Rules of Procedures and relevant procedures to include additional GIs in Korea and the EU. Parties gave a short overview on their respective GI systems, highlighting the similarities and differences. Discussions also covered the procedure of the addition of GI names such as the trademark/earlier rights monitoring, examination procedure, publication in the respective official journals, the opposition procedure. Korea introduced the domestic regulation regarding the addition of GIs, 'Regulations on Procedures for Oppositions to GIs Protected under Trade Agreements.' The EU side confirmed that the 46 EU GI names were to be added to the list and all relevant documents on the EU names had been once again provided to the Korean authorities.

Update on legislative developments: Both sides updated each other on the latest legislative and international developments related to quality policy, newly available databases as well as respective ongoing trade negotiations and recently signed agreements. As concerns timeline, both sides were committed to reach a positive outcome and work expeditiously to avoid unjustified delays.

The 5th meeting of the **Working Group on Government Procurement** took place on 6 November 2019 in Seoul. Both sides updated each other on the latest developments related to public procurement (PP) and on their respective ongoing trade negotiations (and recently signed agreements). As far as potential trade barriers are concerned, the discussion covered, among other topics, access to the parties' respective high-speed rail markets, where both sides saw the need for improvements. The EU also raised the issue of use of Korean standards in its public procurement tenders. As a conclusion, both parties were committed to ensure the FTA implementation and the correction of any irregularity in the effective public procurement market access.

With regard to cooperation issues, it was agreed to start discussions on SME support policies and mutual exchange of best practices. The issues of enhancing e-procurement and of access to reliable procurement statistics and the need to exchange the relevant data were also discussed.

Four important FTA committee meetings took place in early February 2020. In order to keep the annual frequency, these meetings will take place again in late 2020.

The 8th meeting of the **Working Group on Pharmaceuticals and Medical devices** was held in Seoul on 4 February 2020. Both sides discussed procedural transparency concerning rules governing both sectors. In light of EU concerns, Korea informed about recent efforts made to ensure that pricing and reimbursement decision-making procedures take place in a fair, transparent and reasonable manner in both sectors. Concerning medical devices, Korea informed about revisions made to the Integrated Medical Device Information System (IMDIS). Upon request from Korea, the EU informed about the EU's organisation and structure related to delivery of health services and medical care. Further discussions concerned i.a. the EU Medical Devices Regulation, the KC certification for components used in medical devices, the revised premium pricing policy that amended the conditions for rewarding innovations for new pharmaceutical products.

The **Dialogue on Electronics** met in Seoul on 5 February 2020. Both Parties exchanged information on the evolution of trade flows and on the technical workshop organised on 20 September 2019. With a view to ensuring a higher level of symmetry in the respective commitments, discussions were held on the review of appendix 2-B-3 to reduce the number of items listed (which are not subject to simplified conformity assessment procedures) and on the need of enlarging the scope of Annex 2-B of the Agreement to cover radio equipment testing. The EU informed about its new product specific eco-design implementing regulation. Finally, both Parties agreed to have another technical workshop in the second half of 2020.

The **Working Group on Motor Vehicles and Parts** met in Seoul on 6 February 2020. In the first part of the discussion, the Parties reviewed the state of play of existing market access issues. Main issues discussed were the technical update of Annex 2-C (on motor vehicles and parts) of the Agreement, the business climate in Korea, the impact of the Korean Special Act on the Protection and Support of Microenterprises, the restriction of access to the Korean market for certain vehicles (based on the vehicle width) as well as the Korean certification of car parts regime. New market access issues discussed included a potential substantial amendment of Annex 2-C to uphold its level of ambition, new requirements for tyres by Korea, rules of origin related issues (e.g. the interpretation by the Parties of "products originating"), emission standards and pollutant emissions (including the emission-related components certificate applied by Korea) and the future introduction of the EU Whole Vehicle Type Approval applying to medium and large-sized commercial vehicles.

Finally, the **Trade in Goods Committee** was held on 6 February in Seoul, giving an opportunity to take stock of issues not covered by specific sectoral Working Groups. According to established practice, the Committee was debriefed on the outcome of the Electronics dialogue held on 5 February and it was agreed to continue joint work with a view to ensuring a higher level of symmetry in the respective commitments of the Parties. The other areas discussed by the Committee were the following:

Competition: The EU reiterated its concerns with regard to an increased support to shipbuilding by the government and the EU requested more transparency and to continue the dedicated dialogue. Korea mentioned an ongoing EU in-depth investigation on subsidies to a Korean company in Hungary, while the EU reiterated its proposal for the full implementation of the FTA's provisions on competition, including on subsidies.

Other issues: While Korea underlined the importance of digital trade as a way to boost bilateral economic cooperation, the EU raised several market access issues concerning cosmetics, baby clothing and the new labelling criteria of packages.

4. ACTIVITIES SUBJECT TO SPECIFIC MONITORING AND SPECIFIC AREAS OF IMPORTANCE

In line with Article 14 of the FTA Protocol on Rules of Origin, South Korea's imports of key car parts and electronics from the most important suppliers (outside the EU) have been monitored. Like in the past, China and Japan remain the largest car parts suppliers. Japan still pays full duty on car parts while China benefits from tariff reduction (within the South Korea-China agreement most car parts will be liberalised in 10 or 15 years).

		2019 total import (1,000 $)	2019 main import sourcing (outside the EU) and evolution of imports (1,000 $)					
			1st	2018	2019	2nd	2018	2019
ctronic sector								
HS 8522	Parts and accessories for pictures and sound reproducing and recording apparatus	26.785	China	18.232	17.810	Japan	2.108	2.201
HS 8527	Reception apparatus	176.644	China	73.744	105.994	Malaysia	50.898	24.472
HS 8529	Parts for reception apparatus	4.976.588	China	1.023.065	2.734.900	Vietnam	757.471	1.416.857
Core car parts								
HS 8407	Spark-ignition reciprocating or rotary internal combustion piston engine	589.904	Japan	226.852	165.819	China	21.154	118.156
HS 8408	Diesel or semi-diesel engines	711.271	Japan	181.951	136.315	China	50.773	49.033
HS 8409	Parts for engines of 8407 or 8408	1.100.830	China	220.214	237.877	Japan	179.184	191.392
HS 8708	Parts and accessories for motor vehicles of headings 8701 to 8705	3.866.658	China	1.136.596	1.203.616	Japan	736.982	729.595

Source: KITA

The import pattern has not fundamentally changed since the EU-South Korea FTA has been signed and there has been no significant increase in imports of car components and key electronics from the largest suppliers into South Korea in 2019 compared to 2018. Based on these trade statistics, it is not possible to establish a link between the allowance of duty drawback and the increase in EU imports of cars from South Korea.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

South Kore's GDP grew by 2% in 2019 and thus remained subdued as the global slowdown and trade tensions held back exports, while high uncertainly weighted on investment, according to the OECD[32]. A gradual recovery in global semiconductors and expansionary fiscal policy were considered as the main factors supporting the economy at that time. The

[32] http://www.oecd.org/economy/korea-economic-snapshot/

current pandemic has dramatically changed the economic environment in South Korea and worldwide and the April 2020 IMF forecast suggests a recession of 1.2% of GDP in South Korea in 2020.[33] This expected drop in output remains mild compared to forecasts for other developed economies and can be explained to some extent by the successful containment of the COVID-19 crisis in early spring 2020 in South Korea.

5.2 Trade in goods

Both the EU and South Korea are strongly integrated in global value chains and remain valuable trading partners in the bilateral context. The EU-South Korea annual trade in 2019 amounted to almost €91 billion. In 2019, South Korea was the EU's ninth largest trading partner overall and it accounted for 2.2% of the EU's total trade in goods. The EU was South Korea's third largest trading partner in the same year (after China and the US). The liberalisation of trade in goods has been beneficial for both partners. EU exports in goods rose from €25.5 billion in 2010 to €43 billion in 2019 while EU imports of South Korean products also grew significantly over the same period, albeit at a slightly slower pace, as values increased from a higher starting point of €36 billion in 2010 to €47 billion in 2019.

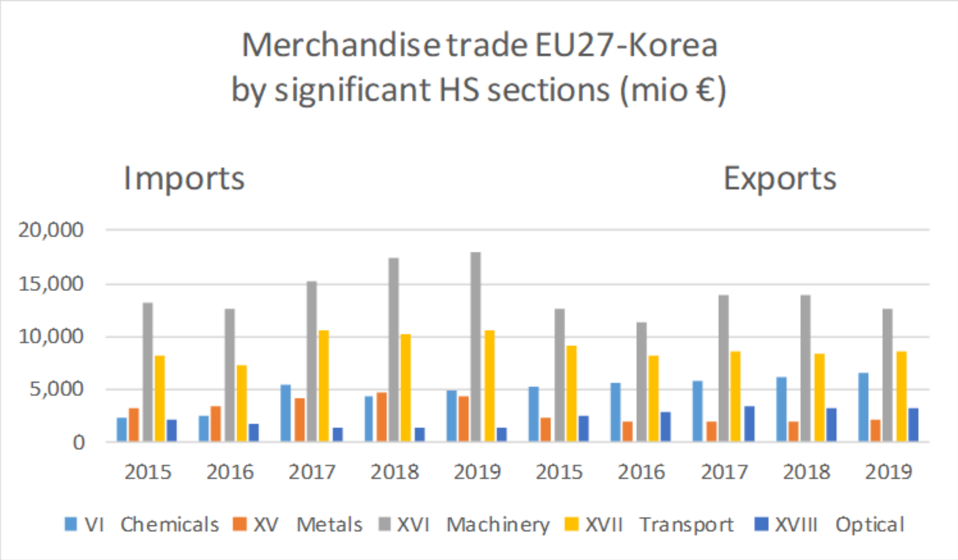
EU merchandise exports to South Korea continued to decrease in 2019 (by 1%, recording €43.3 billion). EU imports from South Korea increased by 3%, amounting to €47.4 billion. This lead to an almost double **EU's trade deficit with South Korea of €4 billion,** compared to the previous year, and in contrast to the development of the EU's overall trade balance with the rest of the world, which increased in the same year.

Relatively weak EU exports to South Korea could be explained to some extent by weak domestic demand. Amid the downturn in the semi-conductors cycle and the US-China trade dispute, South Korea's domestic demand continued to be slow. Annual growth of South Korea's domestic demand in 2019 was only 1.2% - following its sharp slowdown to 2% in 2018 from 5.6% in 2017.

As was the case in 2018, the **EU's trade deficit with South Korea** in 2019 came mainly from trade in industrial products. Industrial products account for 99% of EU imports from South Korea and 93% of EU exports to South Korea; and EU exports to South Korea of industrial products decreased 1.3% while imports from South Korea increased 3%.

Sector wise, **machinery and appliances** was the largest sector in trade in goods between the EU and South Korea, accounting for 33% of total bilateral trade in value terms. EU exports to South Korea in this sector fell by 9% in 2019 year on year (as compared to a 7% drop over the previous reporting period), while EU imports from South Korea increased 3%. By contrast, EU exports to South Korea in the sector of **transport equipment**, accounting for 21% of total bilateral trade and the second largest export category, increased by 4% while imports rose by 5%.

[33] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020



Source: Eurostat

5.3 Trade in agricultural products

Overall trade in **agriculture goods** between the EU and South Korea increased by some 5% in 2019, in line with the EU trade with the rest of the world. EU exports of agricultural goods to South Korea grew by 4.6% in 2019, and stood at €2.96 billion. Imports of agricultural goods from South Korea grew by 11% and stood at €181 million, resulting in a trade surplus for the EU of €2.78 billion.

In terms of **exports of agricultural goods**, the EU exported to South Korea mainly pork meat (22%), chocolate, confectionery and ice cream (5.7%) and cheese (5.4%). While the exports of pork meat decreased by 12% compared to 2018, the exports of chocolate, confectionery and ice cream and of cheese grew by respectively 16.6% and 20.5% over the same period.

Imports of agricultural goods from South Korea in 2019 were concentrated in three main categories: pasta, pastry, biscuits and bread (24.9%), waters and soft drinks (20.4%) and preparations of vegetables, fruits or nuts (15.5%).

The main impediments to expanding trade in agricultural goods remain unchanged when compared to the previous reporting period. First, with the exception of two EU Member States (NL and DK who were granted access in 2019), approvals of EU **beef**[34] remained pending for 10 Member States. With regard to **poultry**, there was no progress in revising the South Korean policy of country-wide import bans in the event of an outbreak of avian influenza. Similarly, the country-wide bans of **pork** imposed on Belgium, Hungary and Poland due to African Swine Fever (ASF) were not lifted by South Korea. South Korea filed applications for beef exports to the EU in 2018 which might indicate a stronger trade orientation in the South Korean administration with regard to this sector.

[34] The ban was introduced by South Korea in early 2000s due to a Bovine Spongiform Encephalopathy (BSE).

For sensitive agricultural products, the EU-South Korea FTA foresees specific **tariff rates quotas (TRQs)** the parties grant each other. The tables below show the rate of utilisation of these quotas by the EU and South Korea, respectively. The fill rate of these import quotas applied by South Korea to goods originating in the EU decreased for 3 out of 10 product groups. Only in case of oranges the TRQ was not used in the two reference periods.

TRQs granted by South Korea to the EU

	Utilisation Rate (%)	
	7/2017 to 6/2018	**7/2018 to 6/2019**
Milk Powder, Condensed milk (cream)	100.0	100.0
Butter	99.9	100.0
Food Whey	99.0	98.1
Cheeses	99.1	99.0
Prepared dry milk	60.5	79.7
Natural honey	49.1	16.6
Oranges	0.0	0,0
Marling barley, malt	80.8	90.7
Supplementary feed	99.2	99.9
Dextrin	70.6	73.5

TRQs granted by the EU to South Korea

South Korea did not use its quotas in 2019.

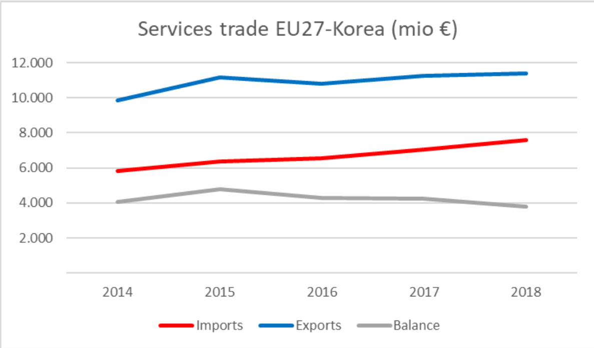
Utilisation rate of TRQs opened by the EU to South Korea						
		TRQ		**Utilisation in TRQ period ending in:**		
Sector	**TRQ description**	**Quantity**	**Unit**	**2017**	**2018**	**2019**
Preparations	Biscuits	270	t	0%	0%	0%
Tobacco	Cigarettes	250	t	0%	0%	0%

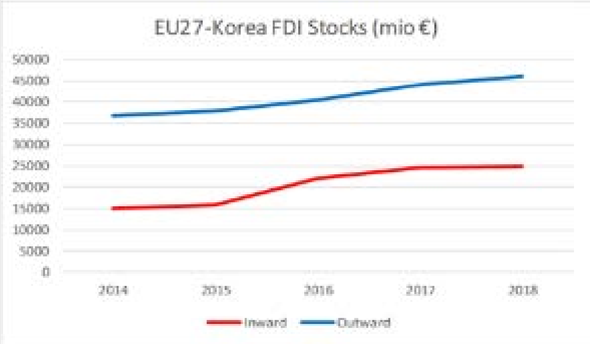
5.4 Trade in services and Foreign Direct Investments

Total trade in services between the EU and South Korea stood at €19 billion in 2018, up 4% year on year, as compared to 8% in 2017. Since the entry into force of the agreement, trade in services has been growing in both directions. In 2018, EU exports of services to South Korea increased by 1% to € 11.4 billion, while imports from South Korea rose by 8% (€ 7.6 billion) over the same period. Although trade in services has grown in both directions since the entry into force of the agreement, the EU has consistently held a trade surplus with South Korea that peaked at €4.8 billion in 2015. The EU surplus fell to €4.2 billion in 2017 and 3.8 billion in 2018, due to the stronger increase in imports.

As is the case with goods and services, the EU- South Korea FTA has also stimulated growth in FDI between the two partners. Latest available data shows that the stock of EU FDI in South Korea rose by 4% in 2018 and stood at €46 billion while the stock of South Korean FDI in the EU also registered an increase of 1% to €25 billion in the same year.

EU-South Korea services trade and investment stocks (2014-2018)





6. CONCLUSIONS

For more than nine years, the EU-South Korea FTA has offered a sound institutional framework for bilateral trade and investment between the EU and South Korea. In the majority of areas, the implementation works well, supporting economic development on both sides, even though some long-standing implementation issues persist, as outlined in section 2. In contrast, positive examples of areas in which progress was achieved thanks to bilateral co-operation are illustrated in the box below.

Preference utilisation rates for EU exports to South Korea have increased gradually and reached over 80% in 2019 marking a positive trend over the entire implementation period. Regular meetings of the numerous FTA committees and working groups help in this respect, serving as a valuable channel of communication that allow clarifying implementation issues and exchanging information, including on regulatory developments in the EU and South Korea. The current COVID-19 pandemic has imposed immense economic challenges on both the EU and South Korea. In such a context, the role of a stable FTA framework that defends free and fair trade is more important than ever.

Box 1: Examples of positive co-operation within the FTA framework

Enforcement of Intellectual Property Rights (IPR)

The overall level of protection and enforcement of IPR in South Korea has continued to improve. Following regular discussions, including at the FTA IP dialogues, there have been successful efforts to combat counterfeit goods on street markets, notably in the Seoul area, and to curb online infringements.

As regards the online sale of counterfeits, under the active guidance of the South Korean Intellectual Property Office (KIPO), large online platforms seem to have stepped up their cooperation with South Korean authorities and EU stakeholders to clean up the online market place. KIPO has steered discussions between South Korean e-commerce and social media platforms as well as brand owners, which could soon lead to the conclusion of a Memorandum of Understanding between these interested circles with the aim to reduce the availability of counterfeit offers on relevant platforms. While at this stage a MoU between right holders and platforms has not been concluded yet, in September 2019 KIPO and several South Korean online platform companies including Naver and Kakao, signed a MoU for the prevention of the distribution of counterfeit goods on-line.

Packaging requirements for the purpose of recycling

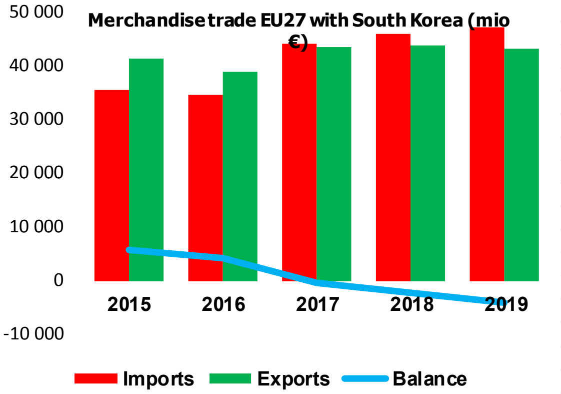
In August 2019, the South Korean Ministry of the Environment announced the details of its newly amended legislation on the classification of packaging material for the purpose of recycling. Draft implementing regulations contained discriminatory labelling requirements and levies for a number of EU products, notably wine and spirits. The EU engaged in an intensive collective approach with like-minded countries (US, Australia and New Zealand), Member States, the industry. It raised its concerns in the WTO in November and February, and followed up at the 8th Trade in Goods Committee under the EU-South Korea FTA in February 2020. As a result of these intensive and close monitoring activities, the Ministry decided to create exemption clauses and accepted to exempt wine and whiskey (the most problematic items) from labelling requirements from all countries. Additional discussions are ongoing to obtain a similar labelling exemption for olive oil coloured glass bottles and to understand what this entails for the proposed levy.

7. STATISTICS

SOUTH KOREA

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with South Korea (mio €)					
Imports	35 576	34 648	44 028	45 964	47 352
Exports	41 383	38 801	43 512	43 748	43 334
Balance	5 807	4 153	-516	-2 216	-4 018
Share South Korea in EU27 trade with Extra-EU27					
Imports	2.2%	2.2%	2.5%	2.4%	2.4%
Exports	2.2%	2.1%	2.2%	2.1%	2.0%
Total (I+E)	2.2%	2.1%	2.3%	2.3%	2.2%
Share EU27 in trade South Korea with world					
Imports	11.7%	11.5%	10.9%	10.4%	10.2%
Exports	7.7%	8.0%	8.1%	8.5%	8.7%
Total (I+E)	9.5%	9.6%	9.3%	9.4%	9.4%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade South Korea: IMF Dots



Total merchandise trade EU27 with South Korea (mio €)

South Korea	2018	2019	Growth mio €	Growth annual %
Imports	45 964	47 352	1 388	3.0%
Exports	43 748	43 334	-414	-0.9%
Balance	-2 216	-4 018	-1 802	
Total trade	89 712	90 686	974	1.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with South Korea (mio €)

South Korea	2018	2019	Growth mio €	Growth annual %
Imports	163	181	18	10.9%
Exports	2 838	2 969	131	4.6%
Balance	2 675	2 788	113	
Total trade	3 001	3 149	149	5.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with South Korea (mio €)

South Korea	2018	2019	Growth mio €	Growth annual %
EU27 imports	45 801	47 171	1 370	3.0%
EU27 exports	40 910	40 365	-545	-1.3%
Balance	-4 891	-6 806	-1 915	
Total trade	86 711	87 536	825	1.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with South Korea (mio €)

South Korea	2017	2018	Growth mio €	Growth annual %
Imports	7 052	7 596	544	7.7%
Exports	11 274	11 390	116	1.0%
Balance	4 222	3 794	-428	
Total trade	18 326	18 986	660	3.6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with South Korea (mio €)

	2014	2015	2016	2017	2018
Imports	5 809	6 385	6 533	7 052	7 596
Exports	9 875	11 181	10 808	11 274	11 390
Balance	4 066	4 797	4 275	4 222	3 794
Total trade	15 683	17 566	17 341	18 326	18 986

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with South Korea (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	14 934	15 953	22 086	24 582	24 903
Outward	36 836	37 944	40 280	44 017	45 996
FDI Flows					
Inward			1 388	1 760	2 743
Outward	7 238		2 406		1 209

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PART II: THE AMERICAS

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA) BETWEEN THE EU AND ITS MEMBER STATES AND CANADA

1. INTRODUCTION

The EU-Canada Comprehensive Economic and Trade Agreement ("CETA") has been provisionally applied since 21 September 2017. At the time of writing, 14 Member States had notified the completion of their ratification process (Austria, Czech Republic, Denmark, Estonia, Spain, Croatia, Latvia, Lithuania, Luxembourg, Malta, Portugal, Finland, Slovakia and Sweden). The ratification process is still ongoing in other Member States.

In 2019, work continued on the foundations of the Investment Court System (ICS) already established in CETA. Although the ICS provisions are not provisionally applied, the contours of the further work on the ICS have been agreed between EU and Canada in the Joint Interpretative Instrument on CETA[35]. In particular, the Commission adopted in October 2019 four proposals for specific rules putting in place the CETA's ICS provisions in the following strands of action: (1) the rules regarding the functioning of the Appellate Tribunal, (2) the code of conduct for the Members of the Tribunals, (3) the rules for mediation and (4) the procedure to adopt binding interpretations.

These rules prepare the ground to put in place in CETA a reformed approach to investment dispute settlement and implement the ground-breaking path established by the EU's reforms of investment dispute policy. In particular, they will ensure an effective appeal function, the first such appeal function to become operational in international investment agreements. They will ensure the implementation of the highest ethics standards included in the agreement. They put in place rules on mediation for investment disputes, an area which traditional investment agreements have largely overlooked. Finally, they flesh out a framework for the adoption of binding interpretations (already foreseen in the agreement), facilitating the Parties' maintenance of control of the interpretation of the agreement.

The Commission proposals were adopted by the Council, representing EU Member States, in May 2020. The European Parliament has been kept informed of the discussions. They can be formally agreed with Canada in the relevant CETA committees. They will only enter into force when the ratification of CETA is completed by all EU Member State thus allowing the implementation of the ICS.

The Commission continues to be engaged with Member States and stakeholders to create awareness of the opportunities that CETA offers to ensure EU companies big and small are able to derive the benefits from the agreement. As part of these efforts, the Commission developed specific guides and webinars to assist EU businesses, which are or want to become active on the Canadian market (notably on the protection of geographical indications and public procurement). More such guides are in the process of being developed. The

[35] Para. 6 ("Investment Protection") of the Joint Interpretative Instrument on the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union and its Member States (OJ L 11, 14 January 2017, pp. 3–8)

Commission also updated its Market Access Data Base to provide more information useful to EU exporters to Canada, in particular SMEs for whom access to information is a critical barrier to access the international markets.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

In 2019, the EU continued to engage with Canada in the relevant CETA Committees to resolve its implementation concerns on CETA. For the EU, the implementation issues relate mainly to agricultural exports. Although, the EU exporters are fully using new market access opportunities, there are a few challenges in some sectors. At the same time, Canada is concerned that the EU has not been able to fully implement the CETA Conformity Assessment Protocol yet.

Tariff rate quotas for cheese

The quotas offered by CETA constitute an important market access opportunity for EU exporters (i.e. a 137% increase of the pre-CETA tariff-free quota). The quotas have been filled completely since the provisional application of CETA. The quota fill rate was 96.4% in 2018 and 96% in 2019. The increased access to the Canadian market under CETA enabled the value of EU cheese exports to Canada to increase by 27% or €167 million in 2018 and by another 15% in 2019, compared to 2018. With CETA, Canada has become the EU's fourth largest market for cheese exports (in value).

At the same time, the EU still has some concerns on the management by Canada of the new Tariff Rate Quotas (TRQ) for cheese. While the fill rate is excellent, the EU considers that the Canadian quota management system could be improved. The quota uptakes are currently concentrated in the second half of the calendar year and there appear to be an important rate of quota transfers potentially indicating that the quotas did not go to those most likely to use it, contrary to what is required under the terms of CETA. Half the quota is held by Canadian cheese producers themselves. The EU is engaging with Canada on the CETA TRQ review in the context of the CETA Agriculture Committee as foreseen by the Agreement. Furthermore, the EU has contributed to a recent public consultation by Canada on a comprehensive review of its Tariff Rate Quotas Management system.

Discriminatory practices in the wine and spirits sector

Canada in 2019 continued to apply discriminatory practices in the wines and spirits sector at provincial level and at federal level. Although individually the effect of some of the many measures may not be significant, the combination of them has distorting effect on imported products. The EU is concerned in particular about the federal *Excise Act* that introduces levies which are only imposed on imported wines while wines made from 100% Canadian-sourced grapes are fully exempted. Unfortunately, the tax has been maintained in the 2020 budget. The tax has also been challenged in the World Trade Organisation by Australia and the EU is active as a third party in the case.

At the same time in 2019 some progress was achieved through bilateral discussions with Canada on provincial measures:

- With effect of 8 July 2019, British Columbia has removed the regulations requiring only British Columbian wine to be sold on grocery store shelves, which were in place since 2015. The government of Ontario is currently reviewing and modernising the rules on retail of alcoholic beverages and the EU is closely following these developments.
- At the request of the EU, Canada carried out in 2019 new audits on the Cost of Service Differentials (COSD) for the provinces of Ontario and Quebec and shared the results of the audits with the Commission. The results of the audits should lead to a decrease in the cost of services charged on EU products in both provinces.

Overall, the EU wines and spirits exports have significantly increased since the provisional application of CETA. Removing the existing barriers will allow the sector to use the full potential of CETA.

Implementation of CETA recommendations

In 2019, the EU and Canada made progress in the implementation of the three recommendations adopted by the first CETA Joint Committee in September 2018 and addressing notably: (i) the EU's and Canada's joint commitment to effectively implement the **Paris Agreement**; (ii) the importance of making trade policies more responsive to **gender**; and (iii) the **support for SMEs** so that they benefit from the trade opportunities offered by CETA.

Concerning **SMEs,** the EU and Canada established the respective SME Contact Points and published dedicated online websites for SMEs in April 2019. The websites include information such as (i) a user friendly summary of the CETA text for SMEs; (ii) links to the equivalent website of the other Party; and (iii) information on access to its market, import requirements and other information that the EU and Canda consider of assistance to SMEs of the other Party.

The SME Contact Points held two meetings in July and October 2019, via videoconference and in person in Brussels. During these meetings, the Contact Points shared information on their policies related to SMEs, including their utilization of CETA. They also shared information on their work regarding awareness of trade agreements, capacity building for businesses, practical tools for exporters such as the EU's Trade HelpDesk and Enterprise Europe Network and Canada's Tariff Finder.

More detailed information on the work carried out to implement the first two recommendations is available in section 2.2 below.

2.2 Progress in the implementation of trade and sustainable development provisions

The second meeting of CETA's Trade and Sustainable Development (TSD) Committee took place on 13 November in Ottawa. The EU and Canada met in a collaborative atmosphere and took stock of the various threads of the extensive implementation work on-going under all the three TSD chapters (Chapter 22 - Trade and Sustainable Development; Chapter 23 – Trade and Labour; and Chapter 24 – Trade and Environment) and under two of the Recommendations by the Joint Committee (on trade and gender and trade and climate). The Recommendations on gender and climate were adopted at the first meeting of the CETA Joint Committee in September 2018.

On **trade and gender**, the EU and Canada reviewed the very intensive work reflecting the *Joint trade and gender workplan*. The plan's objectives, consisting mainly in sharing information, experiences and best practices concerning policies and programmes related to trade and gender have been almost fully met through a series of meetings and workshops, the only outstanding items are exchanges on gender-based analysis and gender-responsive trade agreements. The EU and Canada also identified additional ideas for potential future action, including follow-up to the gender declaration in WTO MC 11, encouraging the Domestic Advisory Groups (DAGs) to engage more actively on trade and gender issues and a possible exchange on gender aspects across the agreement, starting with the TSD committee for climate, environment, labour, corporate social responsibility (CSR) and other relevant CETA committees.

On **CSR/responsible business conduct (RBC)**, the EU and Canada took stock of what was done in terms of raising awareness of business on both sides and facilitating business' uptake of CSR as well as in terms of promoting uptake of CSR in third countries (notably Latin America and Asia). The parties agreed to further consider whether they can support the proposal presented by the Canadian business organization for CSR. The EU reminded Canada of the increased attention in the EU and some Member States on mandatory due diligence and referred Canada to the on-going impact assessment led by the Commission.

On **environment and climate action**, the EU gave an overview of the European Green Deal (link where further information can be found). Canada confirmed that climate and environment were important political priorities. Possible future joint actions were identified by both parties, as follows:1) sharing information on environmental cooperation with third parties, 2) follow-up from the TSD committee chairs to other CETA committees with a view to sharing experiences on climate, and possibly other TSD areas, 3) developing a proposal for a joint initiative/event with a trade link during the World Circular Economy Forum to be hosted by Canada in September 2020, 4) involving Canada in the EU's trade and biodiversity study, (5) retaining plastics as priority for cooperation. Clean-tech, climate adaptation and just transition were discussed as crosscutting items for the cooperation on climate and the environment.

On **labour**, the EU and Canada exchanged views on three areas: comparison of domestic legislation/policy developments, multilateral and third country cooperation. Under multilateral, the EU and Canada agreed to continue their leadership roles in ILO, G7 and G20. On third country co-operation, the parties recapped their on-going cooperation in Vietnam, Peru, Colombia and identified additional third countries where an exchange on labour issues would be useful (e.g. Ukraine and Honduras).

On the **early review** of the provisions of the TSD chapter, the EU and Canada reviewed the steps that were taken (in line with the discussions held in the 1st TSD committee meeting, including a dedicated video-conference in February 2019 followed by an exchange of proposals. Canada considers that the review should lead to a prompt strengthening of the legal enforceability of the TSD provisions by introducing trade sanctions or fines (in line with its own enforcement model) and submitted a written proposal in this respect. The EU considers that the Parties should jointly review the implementation and enforcement of all CETA TSD provisions and only on the basis of such a comprehensive review, to be carried out on a yearly basis, identify potential shortcomings and define the best solution to address them. The TSD committee discussed the substance and form of the reporting to the Joint committee as regards the early review. In response to the request from DAGs for a closer involvement and transparency, it was agreed to share the proposals with the respective DAGs and to hold dedicated sessions on each side to explain the proposals to the DAGs.[36]

In the spirit of transparency and following well established practice, the TSD committee finished with a session including the chairs of the DAGs to debrief them about the government-to-government discussions. The issues discussed included: climate, trade and biodiversity, just transition in relation to the climate action and early review. The DAGs welcomed the successful Civil Society Forum (see further below) of the 12 November which preceded the meeting of the TSD committee on 13 November, and conveyed their assesment that the discussions were meaningful and allowed for ample opportunity for discussion and questions.

In the run up to the TSD committee several preparatory meetings with civil society took place. The first meeting between the EU and Canadian DAGs was organised and allowed both groups to have productive interactions and discussions. On 12 November 2019, the second **CETA Civil Society Forum**[37] took place. The forum consisted of a full day programme with dedicated sessions on labour, climate and environment, the early review, and an open session (in which coroporate social responsibility and gender were discussed). For each session, the Commission and the Canadian government set the scene and appointed moderators facilitated discussions. A great variety of comments and interventions were expressed and allowed civil society representatives to exchange views and raise questions concerning the implementation of CETA's TSD and other chapters and the meeting was live streamed to ensure greater participation.

[36] On the EU side, the first discussion with the EU DAG on the two proposals took place on 20 February 2020.
[37] See report at https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158679.pdf

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

In 2019, 14 of the 20 the committees and dialogues established under CETA met. For more details, the agendas and reports of these meetings can be found on the Commission's "CETA – Meetings and documents" webpage[38].

Committees

The **CETA Joint Committee** meeting did not take place in 2019. In the EU, elections for the European Parliament were held in May 2019, a new Commission President was elected by the Parliament in July and the College of Commissioners entered into service in December. In Canada, federal elections were held in October and the new cabinet was appointed in November. As a consequence of these political transitions, the new European Commissioner for Trade and the new Canadian Minister for International Trade were appointed to their function only at the end of the year, leaving little time for the organisation of the second meeting of the CETA Joint Committee. The second meeting of the Joint Committee, initially planned for the first half of 2020, had to be postponed because of the COVID crisis. The EU and Canada are committed to organise this meeting at the earliest possible as soon as the conditions permit it.

The activities of the other committees and dialogues were as follows:

The second **Sanitary and Phytosanitary Joint Management Committee (**SPS JMC) meeting took place in February 2019. Based on the priorities identified at the first meeting, the Committee agreed follow-up actions on several pending market access issues, as reflected in more detail in the public report[39]. Both sides shared information on the latest regulatory developments in the area of SPS, planning of upcoming audits, communication of new disease outbreaks and ongoing work related to e-certification.

As an outcome of the discussion on **animal issues**, both sides agreed to continue to work at the technical level to resolve pending issues related to Schmallenberg virus and Epizootic Hemorrhagic Disease virus in order to facilitate trade of live animals and germplasm.

The need for further simplification of the process to list export-approved establishments was also discussed and the EU informed about recent amendments regarding the certification of fish landed in Canada by EU-approved vessels and re-exported to the EU.

Exchanges also took place on specific issues related to **plant health**, where Canada confirmed its follow-up on the application of Italy and some Member States for imports of fresh tomato with vines, stems, and calyces into Canada and on potato minitubers. Both sides also committed to continue working together on a project on alternatives to the use of methyl bromide.

Under the framework of the EU-Canada **Regulatory Cooperation Forum** (see below) an expert meeting on animal welfare took place on 6 June 2019 by video conference. It focused in particular on long distance animal transport and the state of play concerning the developments on animal welfare regulations in the EU and Canada. It was agreed to further continue the dialogue focusing on topics of mutual interest.

[38] http://trade.ec.europa.eu/doclib/press/index.cfm?id=1811

[39] http://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157809.pdf

The **CETA committee on Agriculture** met on 23 September 2019 in Ottawa. Reviewing their respective trade data, both Parties welcomed increased bilateral trade across most agricultural goods. Canada raised concerns about the EU's beef and pork quota management system but acknowledged that the low fill rate of the quotas were essentially due to lack of capacity in Canada to produce according to EU standards. . The EU expressed concerns about the Canadian cheese quota administration and Canada announced that it would publish new draft tariff rate quota administration rules in early 2020. Other issues discussed were Canada's price class for milk protein ingredients as well as European national measures on origin labelling.

The **CETA committee on Wines and spirits** met on 24 September 2019 in Ottawa. The Parties had a detailed discussion on the implementation of the CETA Joint Declaration on wines and spirits. Canada reported on recent policy changes in Ontario and British Columbia, which were expected to reduce discriminatory treatment in accessing certain segments of the retail market in those provinces. The EU expressed concerns about the discriminatory nature of Canada's excise duty on wines, and about enforcement of the protection of certain EU Wines and Spirits GIs, which the Canadian counterparts explained they were resolving. The EU provided an overview of its legislation on certain duty reductions and wine import certificates.

The Committee on **Geographical Indications (GIs)** convened on 26 November 2019 by videoconference. The EU raised concerns about the enforcement of the protection of certain EU GIs and the lack of a list of companies entitled to use the grandfathering clause. Canada enquired about the EU-China 100-for-100 GI Agreement and asked for an update on the latest developments on EU legislation on GIs, on the process to reclassify GI territories in the EU and on EU quality schemes.

On 21 November 2019, the **Joint Sectoral Group (JSG) on Pharmaceuticals** convened by videoconference. The Committee took note of administrative arrangements signed between DG SANTE and Health Canada on 23 May 2019 to facilitate the effective implementation and monitoring of the CETA Good Manufacturing Practices Protocol (GMP) on Pharmaceuticals. Both sides discussed future areas of cooperation including the possible extension of the scope of the CETA Protocol on Pharmaceuticals to include active pharmaceutical ingredients as well as an assessment of the inspections conducted by the parties outside their respective territories.

On 11 December 2019, the **Trade in Goods Committee** convened via videoconference. The Committee welcomed the ongoing cooperation and exchange of information on non-food consumer product safety and encouraged further collaboration on this matter. The Parties had discussions on preferential utilisation rates and the challenges associated with measuring and interpreting them. The Parties also discussed the implementation of the Protocol on conformity assessment and Canada reiterated concerns with the delay on the EU side for recognizing the Standards Council of Canada pursuant to the Protocol. Furthermore, the Parties sought information on new policy developments in particular the following: Health Canada regulatory changes related to "front of pack labelling", the EU regulatory changes related to the classification of cobalt and titanium dioxide as well as the EU Regulation 2019/1020 on market surveillance and on compliance of products. The Parties also reported on the discussions of the Joint Sectoral Group on Pharmaceutical products, the Agricultural Committee, the Geographical Indications Committee and the Wines & Spirits Committee.

The Committee on **Government Procurement** met on 22 February 2019 in Brussels. Canada reported on progress made to date in establishing a Single Point of Access where information on all public tenders in Canada would be stored and informed the EU of the technical updates that need to be made to Annex 19-8 of Canada's market access schedule so as to ensure that relevant publication media contacts are correct and both Parties discussed the process for such updates. Furthermore, the EU and Canada shared information concerning promotional activities, in particular the publication of guidance documents, to facilitate the access and participation of suppliers in each Party's respective procurement markets; they also discussed the modalities for the exchange of statistics and information about procurements awarded to suppliers in the Parties' respective jurisdictions. The EU provided a comprehensive presentation of its policies regarding "Green Procurement".

The **Joint Committee on Mutual Recognition of Professional Qualifications** met in Brussels on 16 April 2019. The Committee officially acknowledged the receipt of documents submitted by the Canadian Architectural Licensing Authorities and the Architects' Council of Europe with a view to providing a joint recommendation on a Mutual Recognition Agreement between Canada and the EU concerning the profession of architects. The Committee discussed the joint submission in light of Article 11 of CETA and exchanged views on procedural next steps related to a possible future mutal recognition agreement. In this regard, the EU and Canada had further exchanges in the course of 2019.

The **Committee on Financial Services** met in Ottawa on 12 June 2019. The EU and Canada discussed the respective financial sector regulatory developments and policy priorities. Other topics discussed included resolution and stress-testing the resilience of financial institutions, the implementation of Basel III standards, recent developments in financial services trade and multilateral institutions such as the G7, G20 and the Financial Stability Board, capital markets, financial technologies, open banking, modernization in payments infrastructure and consumer protection, cybersecurity and sustainable finance.

The second meeting of CETA's **Regulatory Cooperation Forum** took place in Ottawa on 3 and 4 February 2020. The EU and Canada reviewed the five work plan items for regulatory cooperation that had been selected as priority areas at the first meeting of the forum in December 2018: (i) exchange of information on the safety of consumer products; (ii) re-testing of cosmetics-like drug products; (iii) co-operation on pharmaceutical inspections in third countries; (iv) cybersecurity and the internet of things; and (v) animal welfare – transportation of animals. These items were developed and successfully implemented over 2019 due to the ongoing work of Canadian and EU regulators. Regulators provided the regulatory forum Co-chairs with updates and next steps for the current work plan items. By way of example, concerning consumer products' safety, the ongoing exchange of information providing Canadian and European regulators detailed information about dangerous products placed on their respective market was now operational and the work plan completed in 2019. Regulators in Canada and the EU organised, in November and December 2019, a coordinated awareness-raising campaigns on the risks of button batteries to children. Additional joint communication campaigns are planned for 2020. Concerning re-testing of cosmetics-like drug products, in February 2019, Canada and the EU agreed to a common pilot project to eliminate quarantine and confirmatory re-testing of sunscreen products imported from the EU. The pilot was successful in engaging a number of EU exporters. In 2020, Canada is supportive of expanding the pilot to other types of low-risk cosmetic-like drug products, such as anti-dandruff shampoo and toothpaste.

The EU and Canada also explored potential opportunities for further cooperation, on the basis of stakeholder input and feedback from EU and Canadian regulators. Of the three selected topics, one (wood pellet boilers) required further discussions, and two (Standards Council of Canada and CEN-CENELEC agreement and paediatric medicines) were adopted as additional work plan items that would be developed over the coming year.

Following the discussion with regulators, the regulatory forum Co-chairs and regulators from the EU and Canada debriefed civil society stakeholders about the forum's activities and results. Audiences from multiple physical locations participated in this exchange: stakeholders participating in person in Ottawa, in Brussels via video link, and from desks and conference rooms via video or teleconferencing. Stakeholders in Ottawa and Brussels commented on the successes of the current work plan items over 2019. Stakeholders stressed the importance of continuing work in this forum on animal welfare. Co-chairs expressed openness to receiving suggestions from stakeholders for new topics, specifically regarding new and emerging issues. It was further stressed that all regulatory cooperation activities were voluntary, and required mutual interest from both Canada and the EU to be considered for an regulatory cooperation forum work plan. In that light, stakeholders were encouraged to communicate any potential issues to the EU or Canada at their convenience.

Dialogues

The **Dialogue on Biotechnology** took place on 4 March 2019 in Brussels and by videoconference. The EU updated Canada on the status of two GMO applications. The EU provided policy updates on "Precision Breeding Techniques", on the legislative proposal on Transparency and sustainability of Risk Assessments of the European Food Safety Authority and on Member States' GM Food and Feed Opt-Out Proposal. Canada provided policy updates on GMOs and new techniques in agricultural biotechnology, on traceability of GMOs and exports to the EU as well as on Low Level Presence and precision biotechnology.

The **Bilateral Dialogue on Raw Materials** took place on 6 March 2019 in Toronto and discussed aspects of the raw materials life cycle, with a particular focus on critical raw materials, minerals and metals, clean tech / clean growth, climate neutral economy, innovation, investment opportunities, and responsible business conduct. The EU and Canada also agreed to continue discussions on EU-Canada coordination in international fora and to exchange best practices on sustainable mining as well as to find synergies to boost investment opportunities in exploration and mining in the EU and Canada. Stakeholders presented the outcomes of the stakeholder's forum held on the previous day and indicated an interest in better understanding how they could support the dialogue.

The **Bilateral Dialogue on Forest Products** held a productive meeting on 24 May 2019 by videoconference, discussing trade in forest products, sustainable forests in the fight against climate change, the implementation of the EU bioenergy sustainability criteria post-2020 and EU-Canada co-operation on research and innovation.

The meeting of the **Bilateral Dialogue on Motor Vehicle Regulations** was held via videoconference on 20 June 2019 and focused on regulatory developments with respect to motor vehicles. The Parties discussed vehicle safety issues, real driving emissions and future emission standards, connected and automated driving, automated shuttles, exemptions processes on both sides and global technical regulation updates.

4. SPECIFIC AREAS OF IMPORTANCE

In 2018, the **preference utilisation** rate for EU27 exports to Canada was at 38%. In 2019, this figure increased to 48%. Preference utilisation rates for EU exports of cars and car parts, which constitute 39% of EU27 eligible exports, are still relatively low at 26% and foregone duty savings for this sector represents one third of all foregone duty savings in relation to EU exports to Canada. The Commission has engaged with the industry to understand the reasons for this relatively low and slow uptake of CETA preferences in the sector. It appears that different factors play a role in this context, need for greater time for industry to put in place necessary IT systems across their supply chain to enable the preparation of the necessary origin documentation. Industry has also confirmed that the fact that preferences can be claimed retroactively for a period of three years provides this sector greater leeway to claim tariff preferences that have not been claimed to date in the future. Other reasons provided by industry are the relatively low tariffs applied by Canada on imports of cars and car parts, the gradual phase-in of tariff dismantling and some difficulties encountered in reconciling administrative work on CETA's rule of origin for cars with work on rules of origin provisions in other EU FTAs. On the other hand, preference utilisation rates for clothing and apparel articles, knitted and not knitted, which stood at 53% and 50% in 2018, increased to 61% and 53% respectively in 2019. Taking into account feedback from the textile industry on possible ways to improve preference utilisation rates in the sector, the Commission has prepared a practical guide on rules of origin for clothing and apparel in CETA published in 2019 on DG TRADE's website in multiple EU languages. Preference utilisation rates for footware, representing the fifth most important eligible exports, went from 65% in 2018 to 72% in 2019.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

With a population of 36.3 million, Canada has the 10th largest GDP by nominal and 16th largest by PPP in the world. As with other developed nations, the country's economy is dominated by the services industry, which employs about three quarters of the workforce. But Canada has also the third highest estimated value of natural resources - Canada is among the world's leading exporters of potash, uranium, nickel and zinc, and a major producer of aluminium, cadmium, cobalt, copper and gold, the world's third largest proven petroleum reserves, and is the fourth largest exporter of natural gas. The oil and gas sector accounts for 5.6 per cent of Canada's GDP and between 11 and 20 per cent of its exports, depending on the year. The agriculture and agri-food manufacturing sector accounts for 2.6% of total GDP.

With the world's longest coastline, Canada has the 8th largest commercial fishing and seafood industry in the world.

Canada's economy has been growing steadily for years, with a GDP growth that jumped up to 3% in 2017, was of 2% in 2018, and 1.7% in 2019. Before the COVID-19 crisis hit, economy was operating at near capacity and GDP was expected to grow by 1.6 % in 2020 and 1.8 % in 2021. In November 2019, the manufacturing PMI hit a nine-month high amid faster output growth. Employment was low (5.6% overall, with many sectors in the fastest-growing Provinces (Ontario, Quebec) signalling acute labour shortages) and inflation close to the Bank of Canada's 2% target. The October 2019 federal election left the Liberals to govern with a minority caucus and highlighted the economic and political divide - in particular on climate change policies and the transition from being an oil-based economy to a green economy - between the Prairies, relying on a resources-based economy, particularly fossil fuels, and the other Canadian provinces. Before the outbreak of COVID-19, climate change was expected to be a central focus of the federal government's 2020 budget.

The Canadian economy is heavily influenced by the fortunes of its southern neighbour, with close financial links and 75% of Canadian exports headed to the US. In September 2018, Canada signed up on a revised NAFTA (or so-called USMCA or CUSMA) in which it had to make important concessions. For Canada, the passage of the deal through Congress in 2019 was the opportunity to bring back into the discussion some of their negotiating asks. The four issues the Democrats raised (ensuring stricter labour standards in Mexico; stronger dispute settlement; more flexible patent protection terms for biologics, leading to cheaper drugs; commitment of USMCA partners to environment protection) were supported by Canada, and the renegotiated NAFTA - is considered as satisfactory by Canada.

Canada is one of the world's most open economies, and although the US will always be the first commercial partner, Canada has put sustained efforts into diversifying its markets. As of 2019, Canada had 14 free trade agreements in force with 51 countries. When the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP[40]) came into force at the end of 2018, Canada became the only G7 country with free trade agreements with all of the other partners. The declared focus of Canada's trade policy is now the implementation of its trade agreements, in particular CETA and CPTPP, and ensuring Canada reaps their full benefits.

In its Fall Economic Statement 2018, the Government of Canada set a target of increasing by 50 percent Canada's overseas (non-US) exports by 2025. In 2019, Canadian exports of goods and services to overseas markets grew 1.1 percent, underperforming the 5.2 percent growth rate required to reach said target. Lower exports to China due to diplomatic tensions between Canada and China leading for instance to a ban on Canadian canola, was one of the main factors for this underperformance as exports to overseas markets outside of China grew by 3.7 percent. The growth in Canada's services exports to overseas markets remained consistent, reaching 5.2 percent in 2018 and 6.0 percent in 2019. However, services still accounted for only 29 percent of overall overseas exports in 2019.

[40] The CPTPP entered into force for Australia, Canada, Japan, New Zealand, Mexico and Singapore on 30 December 2018, and for Vietnam on 14 January 2019.

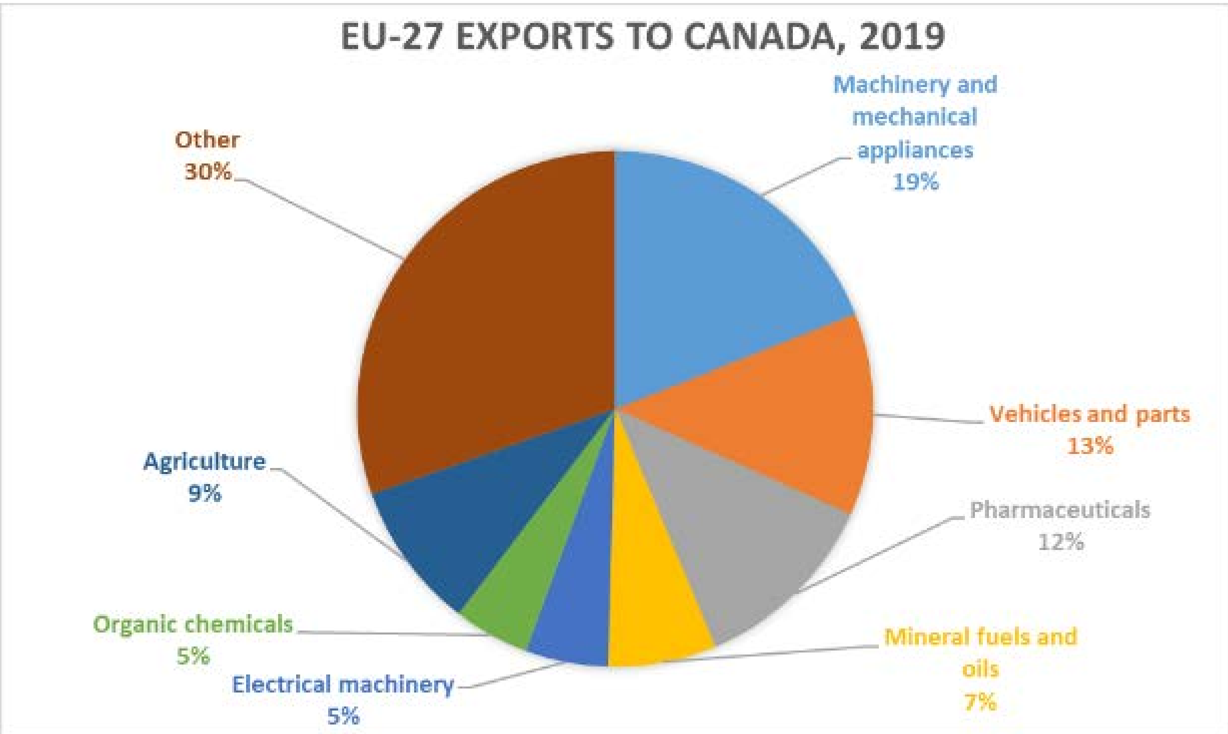
The EU is Canada's second-biggest trading partner, behind the US. Most of CETA has been provisionally applied since 21 September 2017. Although trade has increased on both sides since CETA provisional application in September 2017, EU companies have been faster on the take-up.

5.2 Trade in goods

In terms of total trade in goods (imports and exports), in 2019 Canada was the EU's 12th largest trading partner, with trade flows worth 59 billion euros, or 1.5% of the EU's total trade with third countries. The EU has a positive trade balance of 17.6 billion euros, this is a 1.9 billion euros improvement compared to 2018. In 2019, Canada was the country with the 7th largest positive trade balance for the EU.

EU exports to Canada

In 2019, **EU goods exports** to Canada totalled 38.3 billion euros, which is **an increase of 3.1 billion euros or 9%** when compared to 2018 (35.2 billion euros). This is a much stronger increase than the total EU goods exports to third countries, which went up by 3.5% during the same period. Canada is the EU's 10th largest export destination for goods and is the destination for 1.8% of all goods exported to countries outside the EU. The EU's most important export sectors in its trade relations with Canada are the following:

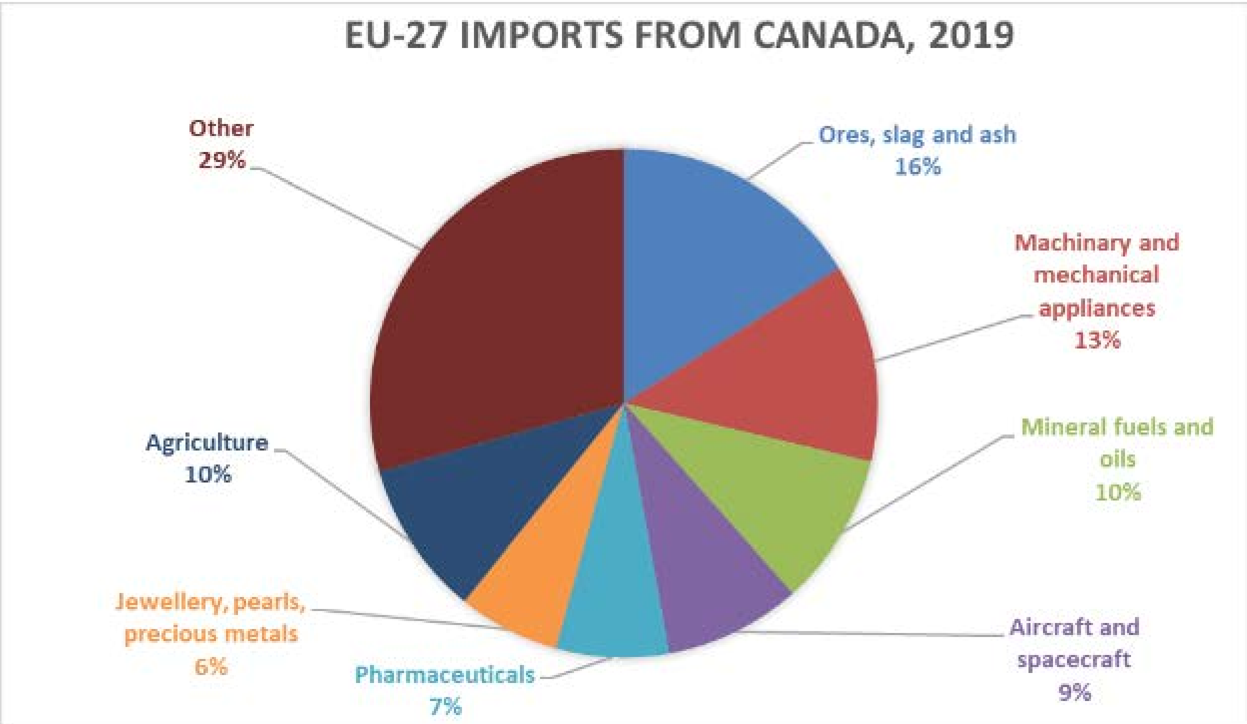


The most important export sectors in the EU's trade relation with Canada have all performed positively in 2019:

- Machinery and mechanical appliances: +**15**% (+952 million euros)
- Vehicles and parts: +**2**% (+92 million euros)
- Pharmaceuticals: +**18**% (+696 million euros)
- Agricultural goods: **+6%** (+202 million euros)
- Mineral fuels and oils: +**8**% (+186 million euros)
- Electrical machinery: **+3%** (+64 million euros)
- Organic chemicals: **+6%** (+100 million euros)

EU imports from Canada

EU imports from Canada increased during the same period by 6% or 1.2 billion euros, from 19.5 billion euros in 2018 to 20.7 billion euros in 2019. Imports from Canada grew at a faster pace than overall EU imports from third countries, which in the same period grew by 1.42%. Canada is the EU's 18th largest source of imported goods, and accounts for 1.1% of all goods imported from countries outside the EU. The EU's most important import sectors in its trade relations with Canada are the following:



Imports from Canada in some of these sectors increased significantly in 2019:

- Agriculture: **+ 25.8%** (+421 million euros)
- Ores, slag and ash: **+20%** (+764 million euros)
- Jewellery, pearls, precious metals: **+72%**, (+561 million euros)
- Aircraft and spacecraft: **+30%** (+421 million euros)

While other sectors have experienced import reductions in the same year:

- Mineral fuels and oils: **-12%** (-288 million euros)
- Machinery and mechanical appliances: **-5%**, (-126 million euros)
- Pharmaceuticals: **-2%** (-31 million euros)

5.3 Trade in agricultural products

Before CETA, Canada was the EU's 9th or 10th largest export market for agri-food products. In 2019, it became its **7th export market**. Canada ranked **14th** as the EU's source of imports in 2019.

Under CETA, Canada has eliminated its import duties on most of EU foods and beverages. That has allowed **EU food product exports** from many Member States to grow. The main category of agricultural goods that was exported to Canada in 2019 is beverages, spirits and vinegar (41.5%, €1.47 billion). EU bovine meat exports to Canada were worth €15.8 million, up from only €2.5 million per year on average in 2015-2017, and the EU has become a net exporter of bovine meat to Canada.

More than 60% of the EU's agricultural imports from Canada consist of two products: Cereals (increase by 2.7% or €12 million) and oil seeds (increase by 82.7% or €383 million) in 2019. The import of wheat increased by 60% from 2018, up to €292 million, while the import of other cereals decreased by 38%. Imports of oilseeds other than soybeans (essentially canola (rapeseed)) increased by 168%, from €150 million in 2018 to €402 million in 2019), the import of soybeans increased by 42% (from €286 million to €405 million.

CETA creates new market access through tariff elimination for the bulk of agricultural trade; however, for the most **sensitive agricultural products**, Parties have agreed on limited tariff rate quotas as an alternative to full liberalisation. This is the case notably for EU cheese exports to Canada, and for imports of beef, pork and sweet corn from Canada.

In line with high fill rates seen in 2018, the 2019 CETA quotas for EU cheese exports to Canada were almost entirely filled (96%). The utilisation rate of the quotas for imports from Canada remained low: 10% for sweet corn, 3% for bison and fresh beef, and less than 1% for all of the other duty-free quotas and origin quotas for agricultural products. For beef and pork, the utilised quantities even fall short of the quotas agreed under WTO rules and were already in place well before CETA.

TRQs granted by the EU to Canada

Utilisation rate of TRQs opened by the EU to Canada						
Sector	**TRQ description**	**TRQ Quantity**	**Unit**	**Utilisation in TRQ period ending in:**		
				2017	**2018**	**2019**
Beef	Beef & veal	19.580	t (carcass weight eq.)	2%	3%	3%
Beef	Bison meat	3.000	t (carcass weight eq.)	2%	5%	3%
Beef	Beef (Frozen)	7.500	t (carcass weight eq.)	0%	0%	0%
Pigmeat	Pigmeat	43.049	t (carcass weight eq.)	0%	2%	0%
F&V	Sweetcorn	4.000	t	9%	11%	10%
Cereals	Common wheat (low & medium quality)	100.000	t	30%	10%	0%
Sugar products	High sugar content products	30.000	t	0%	0%	0%
Sugar products	Sugar confectionery, chocolate & food preparations containing cocoa	10.000	t	0%	0%	0%
Preparations	Preparations of cereals; pastry; cranberry & blueberry juice	35.000	t	0%	0%	0%
Animal feed	Dog or cat food	60.000	t	1%	1%	1%

TRQs granted by Canada to the EU

In 2019, the CETA quotas for EU cheese were almost entirely filled (96%).

Utilisation of the CETA quota for EU cheese in 2019

Tariff Code	Product	Quota (tonnes)	Utilisation (tonnes)	Utilisation rate
0406	Cheese	8 850	8 472	95,7%
	of which:			
	cheese of all type	*8 000*	*7 812*	*97,6%*
	industrial cheese	*850*	*660*	*77,6%*

Source: Global Affairs Canada

Geographical indications

Under CETA, 143 EU food **geographical indications** (GIs) enjoy full protection from imitations in Canada, at a level comparable to that under EU law. The amendment of Canada's Trade-Mark Act to protect the geographical indications of food products, which was introduced as a result of CETA, established a procedure for the direct application for protection by EU right holders. In 2019, five EU food GIs (Piave, Pancetta piacentina, Salame piacentino, Coppa piacentina, Vinagre de Jerez) gained protection in Canada and joined Prosciutto di Carpegna, the first EU food GI which was successfully registered via that system, in 2018. Thus, the total number of EU food names protected in Canada as geographical indications reached 149 by 31 December 2019.

As explained above, the EU continues to raise in the relevant CETA Committees implementation issues relating to its agricultural exports. The EU is also engaging with Canada to ensure that the protection of GIs is fully enforced.

SPS measures

Currently 17 EU Member States are authorised to export meat to Canada. Work is ongoing to ensure that the remaining EU Member States will also have access to this market. At the end of 2018, a process was agreed for Canada to recognise the EU Meat inspection system, based on an additional set of audits of a selection of EU Member States, which took place in 2019. The report and the outcome of these audits is expected to be received from Canada in 2020. If the audit reports are satisfactory for all audited EU Member States, Canada would allow the exports of meat from all EU Member States for bovine, swine and poultry. This process will not affect ongoing trade for those EU Member States currently authorised to export meat to Canada.

Work on the harmonisation of EU export certificates continues, with priorities put forward by both sides aiming at some tangible initial results in 2019.

For some plant commodities, Canada imposes a lengthy procedure to recognise alternatives to the use of methyl bromide as a pest mitigating measure for trade. In 2018, an EU project on the Canadian procedure to recognise alternatives to the use of methyl bromide was launched in close cooperation with Canadian authorities with the objective to identify risk measures not based on the use of a pesticide which is known to be an ozone depleting compound. A workshop with experts on both sides took place in March 2019. The outcome of this cooperation resulted in a guidance document for EU exporters of plants and plant products for the Canadian market. This **guide**[41] together with a **webinar**[42] on the presentation of the guide were published in March 2020.

Several other SPS issues are still outstanding and are being further discussed with Canada with a view to finding a solution. For example, the export of EU bovine semen is limited only to Schmallenberg Virus serologically negative animals, while there is no scientific basis to justify this restriction. Exports from the EU to Canada are also not authorised for potatoes for planting (called also "potato mini tubers" by Canada) and fresh tomato with vines, stems, and calyces, due to restrictive plant health requirements for Canadian imports. Discussions are ongoing with the Canadian authorities to identify appropriate solutions.

Some positive results were achieved on EU market access issues. For example, Spain received market access for tomatoes without vines, stems, and calyces to the Canadian market; on 2 December 2019 Canada recognised country-freedom for 21 EU Member States of the following pests: Asian longhorn beetle and Citrus longhorn beetle. Further work is needed with Canada to additionally recognise the pest free areas in the other six EU Member States affected with these pests. This recognition opens opportunities to EU seedling and nursery producers as it allows for exports of certain plants for planting with a stem diameter larger than 1 cm.

5.4 Trade in services and Foreign Direct Investments

Global trade in services between the EU and Canada amounted to 33 billion euros in 2019, a 1.5% increase compared to 2018. EU services exports amounted to 20.5 billion euros (+8% compared to 2018), EU services imports to 12,5 billion euros (-7.4% compared to 2018) and the EU surplus in trade in services with Canada was 8 billion euros (+45% compared to 2019).

In 2018, Foreign Direct Investment stocks between the EU and Canda were almost perfectly balanced, with an inward stock of 397 billion euros and an outward stock of 392 billion euros

6. CONCLUSIONS

In the second year of provisional application of CETA, the **positive trends observed during the first year were confirmed**. Bilateral trade, EU exports to Canada and the positive trade balance of the EU all improved compared to 2018. The improvement compared to the situation prior to CETA entering into force is even more significant, as bilateral trade (goods and services taken together) has increased by almost 25% since CETA has been provisionally applied. This increase is particularly important in the agricultural and food sector, with

[41] Guide available at: https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158662.pdf
[42] Webinar material can be consulted at https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158690.pdf

Canada becoming in 2019 the 7th largest export market worldwide for EU agri-food products. Marked progess can also be observed in industrial sectors, particularly those sectors for which duties have been reduced or eliminated through CETA. Trade in services has also grown and constitutes an important part of the EU's exchanges with Canada.

Besides the positive results in terms of bilateral trade flows, the implementation of CETA has allowed the already **solid cooperation** existing between the EU and Canada to be further strengthened. Through the formal meetings of CETA committees and continued dialogue at all levels, progress has been made in addressing some trade irritants and in implementing the first agreement ever that allows for an exchange of information between EU and Canadian authorities on dangerous products with a view to increasing consumer protection in both parties' territories. Cooperation has also reinforced the parties' commitments to work together bilaterally and on a global level on a number of topical issues, such as trade and gender, trade and climate, and the involvement of SMEs in international trade. Importantly both EU and Canada have a shared objective in ensuring transparancy and inclusiveness in implementing CETA; all agendas and joint reports of CETA Committees are publicly available. The EU has regularly briefed and consulted civil society in its implementation endeavours in particular through the CETA Domestic Advisory Group.

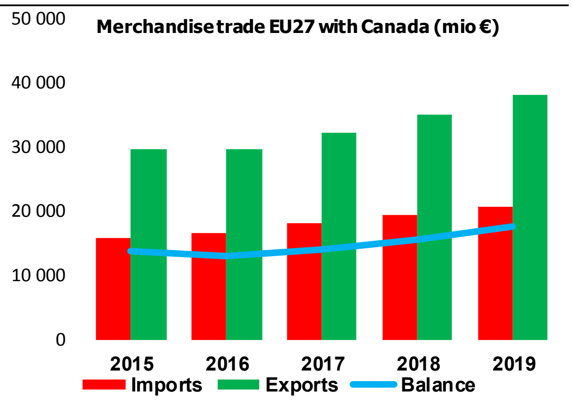
The Commission will continue its work to ensure a fruitful implementation of CETA in all areas and will collaborate with EU Member States and stakeholders in order to make sure that EU companies and citizens take full advantages of the benefits created by CETA. The Commission is also committed to leverage CETA's potential to build a strong partnership with Canada serving as a basis for action at multilateral level and to help the post-COVID economic and social recovery on both sides of the Atlantic.

7. Statistics

CANADA

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Canada (mio €)					
Imports	16 026	16 682	18 160	19 486	20 720
Exports	29 881	29 641	32 199	35 232	38 324
Balance	13 855	12 959	14 039	15 746	17 603
Share Canada in EU27 trade with Extra-EU27					
Imports	1.0%	1.0%	1.0%	1.0%	1.1%
Exports	1.6%	1.6%	1.6%	1.7%	1.8%
Total (I+E)	1.3%	1.3%	1.3%	1.4%	1.5%
Share EU27 in trade Canada with world					
Imports	9.7%	9.9%	10.2%	10.8%	11.3%
Exports	4.2%	4.4%	4.1%	4.6%	4.7%
Total (I+E)	7.1%	7.3%	7.3%	7.8%	8.1%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Canada: IMF Dots



Total merchandise trade EU27 with Canada (mio €)				
Canada	2018	2019	Growth mio €	Growth annual %
Imports	19 486	20 720	1 234	6.3%
Exports	35 232	38 324	3 092	8.8%
Balance	15 746	17 603	1 857	
Total trade	54 718	59 044	4 326	7.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Canada (mio €)				
Canada	2018	2019	Growth mio €	Growth annual %
Imports	1 628	2 044	416	25.6%
Exports	3 347	3 549	202	6.0%
Balance	1 719	1 505	-214	
Total trade	4 975	5 593	618	12.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Canada (mio €)				
Canada	2018	2019	Growth mio €	Growth annual %
EU27 imports	17 858	18 676	818	4.6%
EU27 exports	31 885	34 774	2 890	9.1%
Balance	14 027	16 098	2 072	
Total trade	49 743	53 451	3 708	7.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Canada (mio €)				
Canada	2017	2018	Growth mio €	Growth annual %
Imports	11 307	13 516	2 209	19.5%
Exports	16 926	19 008	2 083	12.3%
Balance	5 619	5 493	-126	
Total trade	28 232	32 524	4 292	15.2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Canada (mio €)					
	2014	2015	2016	2017	2018
Imports	9 032	10 602	10 163	11 307	13 516
Exports	12 544	14 631	15 570	16 926	19 008
Balance	3 513	4 030	5 407	5 619	5 493
Total trade	21 576	25 233	25 732	28 232	32 524

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)					
	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Canada (mio €)					
	2014	2015	2016	2017	2018
FDI Stocks					
Inward		224 630			397 252
Outward	249 937	263 225	291 584	273 307	392 214
FDI Flows					
Inward		21 663	49 752		83 145
Outward			22 463	3 508	96 925

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)					
	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-COLOMBIA/ECUADOR/PERU TRADE AGREEMENT

1. INTRODUCTION

The **Trade Agreement with Colombia and Peru** (hereinafter the 'Trade Agreement') has been provisionally applied with Peru since 1 March 2013 and with Colombia since 1 August 2013. Negotiations on a **Protocol of Accession of Ecuador** to the Agreement were concluded in July 2014 and the Protocol is provisionally applied since 1 January 2017. Ratifications by Member States of both the Trade Agreement and the Ecuador Protocol are ongoing.

The Trade Agreement was also amended through the **Protocol of Accession of Croatia** to the EU. The Protocol entered into force with Peru on 1 May 2017. Ratification by Colombia is ongoing.

The Trade Agreement contains a set of comprehensive disciplines covering trade in goods and services, intellectual property rights, including the protection of more than 100 EU geographical indications, competition, procurement, trade and sustainable development, among other. It fully liberalizes trade in industrial goods and also a large part of agriculture trade. The Parties meet on an annual basis to discuss implementation issues in the Trade Committee and eight specialised Sub-committees established by the Trade Agreement.

On 16 January 2019, the **European Parliament adopted a Resolution on the implementation of the Trade Agreement between the European Union and Colombia and Peru** (2018/2010(INI)). The resolution stressed the importance of the EU-Colombia and Peru Trade Agreement and noted its potential for having a strong positive impact on the socio-economic development of the Parties. It expressed concerns on some outstanding trade irritants, and stressed the need for effective implementation of the provisions of the Trade and Sustainable Development (TSD) Chapter of the Agreement. On 28 May 2019, the Commission communicated to the Parliament its follow up to the Resolution (SP(2019)355) outlining the number of actions and initiatives taken, or intended to be taken, to address the points raised in the Parliament's Resolution.[43]

In accordance with Article 13 of Regulation (EU) No 19/2013 of the European Parliament and of the Council of 15 January 2013 implementing the **bilateral safeguard clause** and **the stabilisation mechanism for bananas** of the Trade Agreement between the European Union and its Member States, of the one part, and Colombia, Ecuador and Peru, of the other part[44] ('Regulation'), the Commission committed to submit an annual report to the European Parliament and the Council on the application, implementation and fulfilment of obligations of the Agreement and the Regulation. The information under Chapter 4.1 below responds to this requirement.

[43] Link to EP Resolution and Commission follow up: https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2018/2010(INI)&l=en

[44] OJ L 17, 19.1.2013, p. 1.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

2019 marked the **sixth year of application** of the Trade Agreement with **Colombia and Peru** and the **third year with Ecuador**. The results continue to be positive**. EU exports to the three Andean partners increased.** Although EU imports from Colombia and Peru decreased by value compared to 2018 (in part due to the decrease in commodity prices), the Trade Agreement continues to further the **diversification** of Colombian and Peruvian exports to the EU, i.e. promoting a gradual shift away from reliance on mineral products towards a range of agricultural products; the latter today account for almost half of Colombian and Peruvian exports to the EU, compared to less than 25% in 2013, i.e. the year before the application of the Trade Agreement. Ecuadorian exports have stayed relatively stable and remain dominated by agricultural and fishery products.

The work on implementation progresses steadily and 2019 saw a number of **advances**. An important achievement was the **elimination by Ecuador of the discriminatory cost** of fiscal stamps applied to imported alcoholic beverages. The EU also initiated a **WTO dispute settlement procedure against Colombia's anti-dumping measures** on frozen potatoes from Belgium, Germany and the Netherlands. In respect to tariff liberalisation for bananas, adiscussion was initiated at the request of the Andean partners on the clause in the Agreement to examine in 2019 improvement in tariff liberalization for bananas. It was concluded in the **Trade Committee** of October 2019, resulting in no changes to the current situation, maintaining the €75/tonne customs duty established under the Trade Agreement.

Regarding **Technical Barriers to Trade**, through its Supreme Decree 021-2020-AS of 12 June 2020, Peru partially addressed EU request to allow indefinitely the use of stickers for **health warnings** on food products. The possibility to use stickers is now extended until June 2021. Though this is a positive development, the EU will continue to advocate for the indefinite use of stickers.

Yet, some **implementation challenges persist**, such as the insufficient progress on the Andean side in implementing some important provisions of the **Sanitary and Phytosanitary measures** (SPS) Chapter of the Agreement. For example, some of the Andean partners have yet to introduce protracted processes to approve harmonised certificates to allow prelisting for EU establishments; this is the case notably for EU trade in dairy and meat products with Colombia and for EU trade in processed meat products and deboned bovine meat with Peru. Furthermore, the lack of recognition by Colombia and Peru of the regionalisation principle enshrined in the Agreement is of strong concern. Colombia has in place a ban on exports of live pigs and pigmeat from Belgium and *de facto* restrictions on exports from Poland due to African Swine Fever. Since early 2020 Peru has in place a ban of all exports of live pigs and pigmeat from 12 Member States. On the positive side, Colombia approved applications for exports of apples from Poland and kiwis from Italy. It is now important to achieve progress on a number of Member State applications still pending with the three Andean countries.

With regard to **intellectual property rights (IPR)**, progress is needed for the resolution of cases of usurpation of EU Geographical Indications (GIs) in the three countries.

With regard to **public procurement**, the EU and Colombia continue discussions in order to find a solution to the question of national treatment at sub-central level. **On the positive side**, Colombia agreed to extend coverage to seven newly-created agencies, who were formerly under a central authority, and to work with the EU on its implementation. EU industry issued a Position Paper presenting the main challenges they face in public procurement procedures in Colombia and identifying practical solutions in line with the provisions of the government procurement chapter that was helpful in discussions with the authorities. As to Peru**,** some concerns persist with excessively restrictive technical specifications in some public tenders.

The EU and the Andean countries continued to build a **positive agenda** through the implementation of a number of **cooperation activities**, in the area of **intellectual property** through the **IP Key Latin America**[45] and in the area of **SPS**, with a number of seminars Since 2019, a project is in place (funded by the Partnership Instrument) in each Andean country to support the implementation of the Trade Agreement.

2.2 Progress in the implementation of trade and sustainable development provisions

In general, the Parties continued to make progress on the implementation of the Trade and Sustainable Development (TSD) Chapter in 2019. Regular contacts took place throughout the year and there was good engagement at the meeting of the TSD Sub-committee in October 2019. It is also important to highlight the increasing depth of the exchanges between the parties, including on environmental issues, notably linked to deforestation. There was also good progress on cooperation; several initiatives are ongoing and/or planned to support TSD implementation.

The identification by the EU of TSD priorities per partner, in line with the European Commission's 15-point action plan on trade and sustainable development[46], allowed a more focused approach to implementation. On **labour**, for the three Andean partners, priorities areas include freedom of association, the fight against high levels of informal employment and child labour and increasing labour inspection capacity. On **environment**, a common area in need of action for the three countries is the enforcement aspect of environmental policies. For Peru, priorities also include the upholding of environmental standards, and for Ecuador, the need to address the shortcomings related to illegal, unreported, and unregulated (IUU) fishing. For all three partners, the EU included as a horizontal issue promoting the uptake of **corporate social responsibility** (CSR) practices in line with the recognised international guidelines. For Peru, further improvement of the use of domestic mechanisms for consultation on TSD related issues is also of high importance.

The increasingly open and regular dialogue between the Parties offered a good basis to continue to address some key challenges, notably with Peru. In 2019, Peru continued to advance with the implementation of policies and initiatives to address EU concerns regarding freedom of association, labour informality, child labour, labour inspection, monitoring and enforcement of environmental standards and consultation of civil society, in line with the bilateral understanding achieved in December 2018[47].

On 30 October 2019, as a result of identified shortcomings about Ecuador's ability to comply with agreed standards under international law of the sea as flag, port and market state, the

45 https://ipkey.eu/en/latin-america

46 See https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf

47 Details are available in the minutes of the fifth meeting of the TSD Sub-committee: https://trade.ec.europa.eu/doclib/docs/2019/february/tradoc_157701.pdf

European Commission issued a **"yellow card" to Ecuador**, in line with the EU regulation on **Illegal, Unreported and Unregulated fishing** (IUU). With this first step, called **pre-identification,** the Commission warned Ecuador of the possibility of being identified as non-cooperating third country in fighting IUU fishing (second step or "red card"). The yellow card triggers a formal dialogue in which the Commission and the third country cooperate with the view of addressing issues of concern.

Sub-committee on Trade and Sustainable Development - 21-23 October 2019

While there were regular contacts during the year, the Trade and Sustainable Development (TSD) Sub-committee meeting was the main occasion for the Parties to take stock on progress and engage in substantial discussions. The minutes can be consulted on DG TRADE's website[48].

With Peru, the focus was on reviewing progress made on the understanding reached at the TSD Sub-committee of December 2018 in Quito. Peru listed a number of concrete policy developments. On labour, Peru highlighted the achievements in strengthening labour inspection capacity and reported on the implementation of the strategy for labour formalisation as well as on the advances in addressing child labour and ensuring freedom of association. On environment, Peru informed about advances on air quality and on environmental impact assessment, evaluation and monitoring. Peru also highlighted the efforts made to allow discussions on the implementation of the TSD Chapter with civil society, using its existing domestic consultation mechanisms. The EU urged Peru to continue to make further progress in all these areas.

Colombia and Ecuador presented progress made in **labour**-related priority areas. With both partners, freedom of association remains the main challenge. Colombia gave an account of the efforts to address violence against trade union and social leaders, which focused on ensuring protection and on fighting impunity. Vis-à-vis Ecuador, the EU reiterated its concerns notably in relation to the legal restrictions to the formation of trade unions and continued to insist on the need for Ecuador to follow up on the observations made by the supervisory bodies of the ILO. It was also noted that such concerns had been raised by the Trade Union Association of Banana Plantation, Agricultural and Rural Workers[49] and the Institute of Ecuadorian Studies[50] in a complaint addressed to the Ecuadorian Government. In addition, the EU noted that both Colombia and Ecuador need to continue to intensify efforts to reduce employment informality and to strengthen labour inspection. Both partners reported on advances in the implementation initiatives to address child labour.

On **environment**, the Parties gave updates on advances relevant to the implementation of the Paris Agreement, of the Convention on Biological Diversity (CBD) and of the Convention on International Trade in Endangered Species of Wold Fauna and Flora (CITES). There were also in-depth discussions on progress made in fighting deforestation. Colombia informed about its ratification of the Minamata Convention and on initiatives to promote circular economy. Ecuador reported on the adoption of a regulation to accompany the new environmental code.

Ecuador also gave an update on the state of play of the reform of the fisheries law to address shortcomings in the fight against **illegal, unreported, and unregulated (IUU) fishing**. To note that on 19 February 2020, the fisheries law was approved by Ecuador's National

48 https://trade.ec.europa.eu/doclib/docs/2019/november/tradoc_158481.pdf
49 Asociación Sindical de Trabajadores Agrícolas Bananeros y Campesinos (ASTAC)
50 Instituto de Estudios Ecuatorianos (IEE)

Assembly and and entered into force on 21 April, day of its publication in the Supplement of Ecuador's Official Register[51].

The TSD Sub-committee also discussed several **cooperation activities** ongoing and/or planned. In line with the TSD priorities and the 15-point action plan, the Parties paid particular attention to the roll out of the project (in place since January 2019) to support corporate social responsibility uptake in the Latin America region. One of the activities implemented was a roundtable organised by the OECD and FAO in Lima in September 2019 that brought together authorities and stakeholders from Colombia, Ecuador and Peru to discuss the sustainability of production chains in the banana sector.

In Colombia, the EU continued to fund and monitor the implementation of a technical assistance project led by ILO to support labour inspection in rural areas and agreed to fund a UNIDO project aimed to promote sustainable (notably mercury-free) artisanal gold mining and alternative sources of income in the Chocó department.

In Ecuador a handbook to support TSD implementation, drafted in partnership with Sweden, was published in August 2019[52]. The EU and Ecuador also agreed to work with ILO to develop a technical assistance project to support labour inspection capacity.

The EU and Peru agreed to set up cooperation activities to support implementation efforts on TSD priorities. Consequently, on 27 February 2020 the EU and Peru organised a workshop with ILO on the strategic strengthening of labour inspection. They also agreed to set up a training session financed by the EU instrument TAIEX on labour conflict resolution and social dialogue.

Engagement with civil society continued extensively throughout the year. The EU project to support civil society monitoring ensured participation of civil society representatives from all Parties at the Open Session organised on 23 October in Bogota, back to back with the meeting of the TSD Sub-committee. The same project also funded the organisation of a capacity-building workshop for the civil society consultation mechanisms of the four Parties on 21 October in Bogota. In 2019, the Commission also participated in two meetings (March and October) of the EU Domestic Advisory Group to discuss the implementation of the TSD Chapter. In the October meeting there was an exchange on the TSD priorities identified for Colombia, Ecuador and Peru.

At the meeting of the **Trade Committee** (see further below), the EU welcomed the increasing open dialogue between the Parties on TSD, noting that this process helps addressing the challenges. The Parties welcomed the public session with civil society, which allowed for a broad and constructive discussion of environmental and labour topics covered by the TSD Chapter. The EU expressed its concern over the murders of leaders of trade unions and social organisations in Colombia. The EU called upon Ecuador to follow up on the observations of the ILO and to respect and protect the right of association. In relation to Peru, the EU stressed the importance of continuing to provide civil society with the opportunity to discuss the Trade and Sustainable Development Title.

[51] Ley Orgánica para el Desarrollo de la Acuicultura y Pesca (Suplemento I del Registro Oficial Nº 187 – del 21 de abril de 2020)

[52] https://www.kommerskollegium.se/globalassets/publikationer/guider/2019/handbook-tsd-en.pdf

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The annual meetings of the implementation bodies under the Trade Agreement (Trade Committee and eight specialised Sub-committees) took place between 14 October and 25 October 2019 in Bogota (Colombia). The minutes of all meetings are publicly available.[53]

Trade Committee – 24-25 October 2019

The Trade Committee had a detailed discussion on bananas, notably the clause in the Agreement "to examine in 2019 improvement in tariff liberalization for bananas". The Andean countries had insisted that a working party should be set up to carry out the relevant analysis. Notwithstanding the request, the EU noted that the examination had been exhaustive, that it could not reduce the tariff to below €75 per tonne, and that the exercise was concluded.

Furthermore, the EU gave an update on the state of **ratification process in EU Member States** of both the Agreement and the Protocol of Accession of Ecuador. Colombia informed about the ratification process regarding the **Protocol to the Agreement** to take account of the accession of the Republic of **Croatia** to the European Union.

The Trade Committee was also able to take stock of progress achieved in the eight Sub-committees. This includes the elimination by Ecuador of the discriminatory cost of fiscal stamps levied on imported alcoholic beverages.

The EU reiterated some of its main remaining concerns, notably:

- With Colombia**:** the anti-dumping measures against frozen fries; the lack of national treatment in some government procurement contracts at sub-central level despite the signature of the Decision of the Trade Committee in 2017; the negative impact of any increase of the mix of biofuels in diesel on export of EU diesel vehicles.
- With Peru: the long-standing tax discrimination for alcoholic beverages favouring local Pisco; and the lack of indefinite use of stickers in food health labeling.
- With Ecuador**:** the need to process smoothly Member States applications for exports of EU agri-food products to allow for pre-listing of EU establishments; the cumbersome import licensing and tariff rate quota (TRQ) management; the need to adopt implementing regulations of the Intellectual Property Code to create legal certainty on matters relating to plant varieties, patents and public performance rights; preoccupations concerning the existence of a trademark with the EU GI "Feta".

The EU also expressed concerns on insufficient progress on **SPS matters** with the three countries**,** notably on the approval of harmonised procedures (certificates), prelisting of EU establishments or long delays or deviations from international standards attributed to Community of Andean Nations legislation and procedures. The EU called specifically upon Colombia to lift trade restrictions imposed on exports of live pigs and pig meat from Belgium due to outbreaks of African Swine Fever in wild boars.

[53] https://trade.ec.europa.eu/doclib/press/index.cfm?id=2100

Colombia and Ecuador raised concerns about the **Renewable Energy Directive** and the potential impact on their exports of **palm oil**. Colombia also expressed concerns about **palm oil-free labeling**. Ecuador reiterated its interest to negotiate a bilateral agreement on the recognition of **organic products**.

Sub-committee on Sanitary and Phytosanitary Measures (SPS) – 14-16 October 2019

The Sub-Committee completed a year of intense contacts and frequent exchanges. These led to some tangible progress, such as the approval by Colombia of applications for exports of apples from Poland and kiwis from Italy. Towards the end of 2019, there was some progress with Ecuador to pave the way towards the application of the prelisting principle, which has yet to materialise.

The EU continued to press for a swift approval of the **harmonised certificates to export animal product**s from the EU to Colombia and Peru under prelisting: namely for meat and dairy products with Colombia and for processed meat products and deboned bovine meat with Peru. The EU also pressed the Andean partners to recognize the EU regionalisation measures for animal diseases, in particular **African Swine Fever**. This lack of recognition still translates into a ban by Colombia on imports of live animals and pigmeat from Belgium and *de facto* restrictions on imports of pigmeat from Poland. Of concern, early 2020, Peru banned all imports of pigs and products thereof from 12 Member States (and from other trading partners) also for concerns related to African Swine Fever .

The EU also pushed for progress on several market access applications, for which Colombia, Ecuador and Peru refer to SPS legislation or procedures at Community of Andean Nations (CAN) level to justify long delays or deviations from international standards. While respecting the role of CAN, the EU noted that the CAN legislation would not supersede the Trade Agreement and invited its Andean partners to comply with their commitments under the Agreement.

On their side, the Andean countries raised concerns about the impact of **EU policy** on pesticides on their exports of tropical fruits, namely the **Maximum Residue Levels (MRLs)** on pesticides, together with the related issue of endocrine disrupters. They considered that EU measures, which resort to the precautionary principle do not follow a risk-based approach. The Andean partners also expressed preoccupations about the rules on cadmium level in chocolate and cocoa powder. The EU reiterated the scientific basis for these measures. With regard to cadmium the EU recalled the very comprehensive set of measures put in place to mitigate the impact on producers, including a 4-year transition period, authorisation of blending and the existence of multiple cooperation programmes.

The Andean partners also questioned the new EU rules on plant health aiming at limiting the entry on the EU territory of exotic plant pests, in force since September 2019. The Andean partners consider that the new measures can have negative impact on their exports of mangoes and citrus. The EU provided explanations as to the rational of the new measures.

The EU presented a summary of the numerous cooperation and capacity building activities carried out in 2019 in the region, including but not limited to events organised under the programme "Better Training for Safer Food" (BTSF).

Both sides agreed on an agenda and actions plans for the main points raised in the SPS committee meeting.

Sub-committee on Government Procurement – 17 October 2019

With Colombia, the EU reiterated its concerns that EU suppliers are not granted national treatment in some **government procurement contracts at sub-central level**. The EU and Colombia disagree as to the scope of coverage by Colombia of sub-central entities in the Agreement as modified by Decision 1/2017 of the Trade Committee. The two Parties agreed to continue technical discussions with a view to find a mutually agreeable solution.

The EU also discussed the lack of granting of national treatment in procurement by some **agencies** (such as for example Agencia de Desarrollo Rural). Colombia clarified that seven newly-created agencies have competences that were previously exercised by covered entities (such as line Ministries or other central authorities) and therefore that these agencies are not currently reflected in Colombia's coverage under the Agreement. Colombia agreed to extend its coverage to include these seven newly created agencies and to work with the EU to this effect.

With Peru, the EU raised concerns about technical specifications in some tenders and stressed the need to ensure equivalence of standards in line with Article 191 of the Agreement. Peru agreed to raise awareness on the need to set non-discriminatory technical specifications and to accept international standards in procurement procedures.

Ecuador reiterated its interest in exchanging information about the EU public procurement platform SIMAP-TED.

Sub-committee on Customs, Trade facilitation and Rules of Origin – 18 October 2019

The Parties confirmed that, in order to allow for regional cumulation between the Andean countries and Central America, an adequate customs cooperation agreement was reached between the blocks by way of a letter dated 19 June 2019 co-signed by the Community of Andean Nations (CAN) and the Secretariat for Central American Economic Integration (SIECA). This letter replaces the agreement that existed between the two regions under the Generalised Scheme of Preferences (GSP).

Work continued on updating the product specific rules of origin and origin quotas for the Harmonised System 2012 and 2017.

Sub-committee on Agriculture – 21 October 2019

The Parties exchanged information on their bilateral flows in agri-food trade (including on the use of preferences and tariff-rate quotas), as well as concerning the Banana Stabilisation Mechanism.

With Colombia, the EU raised the issue of the methodology for the calculation of retail prices on alcoholic beverages and received assurance from Colombia that the methodology will not be subject to further changes and will not include criteria, which the EU considered problematic. The EU reiterated the importance to avoid that any new certification of Good Manufacturing Practices places additional burden on EU exports.

With Ecuador, the EU reiterated concerns about the import licencing system and the administration of tariff-rate quotas, which the EU considers not fully in line with the provisions of the Agreement and invited Ecuador to provide EU agri-food exports with a more predictable and less cumbersome environment.

With Peru, the EU raised concerns on the long-standing tax discrimination against spirits.

From their side, Colombia and Ecuador expressed concerns in regard to the potential impact that EU initiatives aiming to counter deforestation could have on their exports of some of their main export products such as coffee, cocoa or palm oil.

Sub-committee on Market Access – 21 October 2019

Vis-à-vis Colombia, the EU reiterated its objections to the **anti-dumping measures** on frozen fries. The EU also asked Colombia to eliminate the discriminatory **fiscal stamps imposed on imported beers** in 14 departments. Colombia noted that it would continue to work with the departments towards a solution. The EU also asked Colombia to remove the discriminatory 2% exploitation charges levied on imported **alcoholic beverages**. Colombia argued that this charge was not discriminatory as it also applied to Colombian beverages produced in other departments of Colombia. On import policy for trucks, the EU raised the **discriminatory fee of 15% for imported trucks** of over 10.5 tonnes, reminding Colombia of its OECD pre-accession commitments to eliminate it.

Vis-à-vis Ecuador, the EU welcomed the adoption by Ecuador's National Customs Service of Resolution SENAE-SENAE-2019-0079-RE of 16 September 2019, whereby the USD 0.13 cost of the discriminatory **fiscal stamp** levied on imported alcoholic beverages was eliminated. The elimination became effective on 25 September 2019.

At the joint request of the all three Andean partners, the Parties discussed the clause in the Agreement to examine improvement in **tariff liberalisation for bananas**. The EU referred to the issue having thoroughly discussed and the mandate for examination in the Agreement having been fully respected (including in two discussions by videoconference). Although the Andeans insisted on continuing examining this matter in the future and asked the establishment of a Working Group, the EU stated that it was not possible to envisage any improvement of tariff liberalisation and considered the examination closed.

Colombia raised concerns about **palm oil-free labelling** in the EU**,** arguing that it undermines the reputation of palm oil. The EU reminded that this use of labelling is a voluntary practice decided by the manufacturers.

Sub-committee on Technical Barriers to Trade (TBT) - 22 October 2019

Vis-à-vis Peru, the EU raised concerns about the publication of a manual on labelling requirements for **health warnings** on food products, which would not allow the use of stickers beyond a period of 12 months (until June 2020). In practice, this would mean that foreign manufactures would have to print details on the product package itself before shipping the products, which the EU considers would be an unnecessary obstacle to trade. On a positive development, on 12 June 2020, Peru adopted Supreme Decree N°021-2020-SA extending the possibility to use stikers until June 2021. The EU will continue to push for the indefinite use of stickers.

With Colombia, the EU also raised concerns related to the possible future increase of the **mix of biofuels in diesel** above 10 %, which would have a negative impact on EU exports of diesel vehicles.

Colombia and Ecuador raised concerns about EU legislation on **renewable energy** and other related palm oil initiatives that, in their view, may have a negative impact on their exports of **palm oil** to the EU. Colombia also enquired about the recently adopted EU Directive 2019/904 on the reduction of the impact of certain plastic products on the environment.

Sub-Committee on Intellectual Property – 22-23 October 2019

With regard to **Geographical Indications** (GIs), the EU pressed Colombia to finalize the investigation of cases of usurpation of some EU GIs (cheese). With Peru, discussions continued towards a solution in relation to the finalisation of the protection of a number of EU GIs under the initial list as well as the correction of some registered EU GIs and regarding some cases of usurpation for which a request for action was addressed to Peru. Concerns were raised with Ecuador concerning the existence of a trademark with in relation to the EU GI "Feta". Colombia and Peru expressed concerns on the possibility under the EU legislation to register **trademarks** that in their view would affect their GIs.

Colombia and Peru expressed concerns on the possibility in EU legislation to register **trademarks** in the EU that in their view would affect their GIs.

Other issues discussed with the three Andean partners included the **overall enforcement of intellectual property rights** (IPR), including on-line and at the border. With Ecuador, the issues raised related to the protection of copyright and related rights, the exploitation of patents and the effective protection of plant variety rights, notably in the context of pending implementing regulations of its Intellectual Property Code ("Codigo de Ingenios"). Ecuador noted that this remained a priority of the competent authority and that the delay was due to its stakeholder consultation process.

There were exchanges on possible **cooperation** projects, following successful activities financed by the EU in Peru, Colombia and Ecuador in the context of IP Key Latin America Programme[54], in particular with a view to continue supporting the implementation of IPR commitments in the Trade Agreement.

4. ACTIVITIES SUBJECT TO SPECIFIC MONITORING AND SPECIFIC AREAS OF IMPORTANCE

4.1 Banana Stabilisation Mechanism

The Trade Agreement provides for a preferential customs duty on bananas under heading 0803.00.19 (fresh bananas), progressively reduced since the date of provisional application of the Agreement until the year 2020 (following a schedule indicated in a tariff reduction table). This special treatment is linked to a 'stabilisation clause' that sets out an annual trigger volume for imports from each Andean country during the transition period.

Article 15 of Regulation (EU) No 19/2013[55] provides for the stabilisation mechanism. When the annual trigger volume of imports per country as set in the Agreement is met, the Commission examines the impact of these imports on the situation of the Union market for bananas and take a decision to either temporarily suspend the preferential customs duty or

[54] https://ipkey.eu/en/latin-america

[55] Regulation (EU) No 19/2013 of the European Parliament and of the Council of 15 January 2013 implementing the bilateral safeguard clause and the stabilisation mechanism for bananas of the Trade Agreement between the European Union and its Member States, of the one part, and Colombia and Peru, of the other part as amended by Regulation (EU) 2017/540 of the European Parliament and of the Council of 15 March 2017.

determine that such suspension is not appropriate. The stabilisation mechanism applies until 31 December 2019.

In this context and in accordance with Articles 3 and 13 of Regulation 19/2013, the Commission has been monitoring the evolution of imports of fresh bananas from Colombia, Ecuador and Peru.

2019 imports of fresh bananas[56]			
Country	**Total imports (tonnes)**	**Trigger level (tonnes)**	**%**
Colombia	1 336 611	1 957 500	*68.3%*
Ecuador	1 408 207	1 957 500	*71.9%*
Peru	104 073	101 250	*102.8%*
Total	**2 848 891**	**4 016 250**	***70.9%***

In 2019, EU imports of fresh bananas from Colombia amounted to 1 336 611 metric tons, i.e. 32% below the trigger volume of 1 957 500 metric tonnes established by the Agreement.

Ecuador exported 1 408 207 metric tons of fresh bananas to the EU, i.e. 28% below the trigger level of 1 957 500 metric tonnes, established for Ecuador in the Agreement.

On 18 December 2019, Peru exceeded by 2.8% its trigger volume established in the Agreement (101 250 metric tonnes). In this context, it is recalled that, by Regulation (EU) No 19/2013, any suspension of preferential customs duties cannot go beyond the end of the calendar year, and that the mechanism in itself expired on 31 December 2019.

The Commission examined the impact on the EU market taking into account, inter alia, the effects on the price level, developments of imports from other sources and the overall stability of the EU market and came to the following conclusions:

1. The share of imports from Peru (2.3%) in the *overall* imports of fresh bananas over the period 1 January 2019 – 31 December 2019 was very small and the price development of imports from Peru remained higher than the average of other import prices;
2. At the same time, imports from large exporting countries with whom the Union also has trade agreements, notably Colombia, Ecuador and Costa Rica remained largely below their defined trigger volume (they reached respectively 68.3 %, 71.9 % and 75.2 % of their defined volumes). Actually the total annual imports of fresh bananas from countries subject to the banana stabilisation mechanism accounted for 72.9% of the cumulated trigger level.

[56] Statistics are based on EU28.

3. Peruvian imports did not show any negative effect on the EU wholesale price for bananas, which has remained fairly stable during the period, and has even showed an increasing trend.

Therefore, there was no indication that the stability of the EU market or the situation of the EU producers was affected by the level of Peruvian exports.

In line with the commitment undertaken in the Joint declaration to Regulation (EU) 2017/540[57], the Commission will continue to carry out regular analysis of the state of the market and the Union banana producers and, if need be, examine the situation together with Member States and the stakeholders.

4.2 Colombian anti-dumping duties on frozen fries

In November 2018, Colombia imposed definitive anti-dumping (AD) measures on imports of frozen fries from Belgium, Germany and the Netherlands, with duties ranging from ~3% to ~8%, imposed for 2 years and affecting 75% of EU exports to the country. The investigation showed serious shortcomings, notably with regard to dumping, injury and causality links. In March 2019, the Commission requested the revocation of the measures through an administrative procedure in Colombia ('revocatoria directa') in an attempt to reach a quick settlement of the case. Colombia rejected the revocation of the measures on 13 May 2019. On 15 November 2019, the EU initiated a WTO dispute settlement procedure and requested consultations[58]. Consultations failed to settle the dispute. The EU requested the Dispute Settlement Body (DSB) to establish a panel at its meeting of 28 February 2020 to rule on the legality of Colombia's anti-dumping measures. The Panel was established by the DSB on 29 June 2020.[59]

4.3 Ex post evaluation of the implementation of the Trade Agreement

In 2 April 2020, the Commission hired a contractor to carry out an ex post evaluation of the implementation of the Trade Agreement between the EU and Colombia, Peru and Ecuador[60]. The project will analyse the impact of the implementation of the Agreement on sustainable development in its economic, social and environmental dimensions, as well as on human rights including labour rights. Stakeholder consultations are an important element of this evaluation and will include a number of activities, such as civil society dialogue in Brussels, online public consultation, targeted surveys/interviews/roundtables and workshops in the three Andean countries and in the EU. The project will last 15 months.

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[57] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0540&qid=1579189798344&from=EN

[58] https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6221

[59] https://trade.ec.europa.eu/wtodispute/show.cfm?id=792&code=1

[60] https://ec.europa.eu/trade/policy/policy-making/analysis/policy-evaluation/ex-post-evaluations/

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Colombia

Colombia's economy withstood the regional downward trend in 2019 and grew by 3.3%, the highest rate since 2014. On the supply side, services, mining, and to a lesser extent agriculture contributed to the expansion, while higher real wages contributed to sustained domestic demand. However, the quarter-on-quarter trend in 2019 was slightly negative, which announced a more challenging macroeconomic environment for 2020.

Consumer price inflation stayed within the 2-4% target range of the central bank, but has neared the upper bound at 3.8% at the end of 2019.

The fiscal deficit in 2019 stood at an estimated 2.5% of GDP, and meeting the medium term fiscal deficit target of 1.4% by 2022 will be challenging, and would require further reform to boost revenue. In line with prudent macro-economic policies – and provided the government sticks to the fiscal rule - the debt/GDP ratio has risen rise slightly in recent years, peaking at 52.7% in 2019.

The unemployment rate has increased to 10.5% during 2019, and labour informality stands at almost 50%, which shows that positive GDP trends have not yet benefitted the most vulnerable parts of the population. While immigration from Venezuela (ith many immigrants working in the informal sector) is one of the reasons of the high unemployment rate, the overall impact of immigration is positive, not least for the agricultural sector.

Lower oil prices negatively affect Colombia's external sector and will further increase the already substantial current account deficit, which stood at 4.3% in 2019.[61] Positively, capital inflow, mainly foreign direct investment, continue to cover the deficit.

Ecuador

In 2019, Ecuador's **economic growth** slowed down to 0.1% of GDP (2018: +1.4% of GDP). It exhibited negative annual inflation (-0.07%) reflecting a weak demand and a domestic economy which is decelerating and leading to a rise in unemployment rates to 46%.[62]

Despite minor efforts to lower public spending, the **fiscal gap** increased from 3% of GDP in 2018 to 4% in 2019. Revenues were lower than expected (VAT collection and import tariffs) and expenditures could not be contained at the expected level (social spending and debt service). Government debt jumped to 53% of GDP in 2019 (2018: 46%); debt service increased to 3.2% of GDP in 2019 up from 2.9% in 2018. Financial needs for 2020 are estimated at USD 10 billion (a 25% increase over last year), an almost impossible goal with a country risk index bordering 1000 points at the end of 2019.

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[61] Source: Banco de la República (2020). Balanza de pagos. Subgerencia de Estudios Económicos; Available at: https://www.banrep.gov.co/es/estadisticas/balanza-pagos

[62] Source: Instituto Nacional Nacional de Estadísticas y Censos https://www.ecuadorencifras.gob.ec/institucional/home/; This rate includes unemployment rate (4.9%), underemployment (17%) and other non-full employment (24.3%);

2019 was a crucial year as the **International Monetary Fund** (IMF) approved a 36-month Extended Fund Facility (EFF) amounting US$ 4.2 billion for Ecuador to implement a much-needed fiscal consolidation program. The program entails fundamental structural reforms to reduce the fiscal deficit, among them cuts in public spending and fuel subsidies, and addressing changes in labor legislation (cuts to the public wage bill and labor flexibility) to increase productivity and competitiveness.

Some of these reforms have faced considerable resistance, such as the failed attempt to scrap fuel subsidies in October 2019 that ended up in a violent social outbreak. In view of the legislative and Presidential elections in February 2021, it is likely that labour reforms will be postponed. On the positive side, a revised version of the tax code to raise revenues[63] was approved on 31 December 2019.

In light of the difficulties in adhering to the goals established in the EFF program, the IMF agreed to lower fiscal consolidation requirements. The economic situation in the country remains very difficult.

Peru

GDP growth reached 2.16% in 2019, Peru's lowest annual growth rate since 2009 and below estimates by most forecasters. Private consumption was the major driver of growth (+2.8% YOY). Government consumption grew by +3.2%. Public investment continued to suffer amid budget underexecution by local governments. Private mining investment grew by +27%, whereas nonmining investment contracted by nearly -4%.

As a share of GDP, the **fiscal deficit** narrowed from 2.3% in 2018 to 1.6% in 2019 and public revenue rose by 6.5%. Inflation remained at 1.9% at the end of 2019. The Central Bank's policy rate currently stands at 2.25%, the lowest in the region.

Peru's basic consensuses across the political spectrum are openness to trade, macroeconomic stability and fiscal responsibility. The country aspires to OECD membership and already works with the Organisation in many policy areas.

Global trade tensions and the political crisis that resulted in early Congressional elections held on 20 January 2020 had a negative impact on the economic performance. The expected rebound in economic activity is though likely to be dampened by the global outbreak of COVID 19.

5.2 Trade in goods

Colombia

The EU as EU27 remains Colombia´s third trading partner, after the US and China, as **bilateral trade amounted to € 10.4 billion**, compared to € 10.1 billion in 2018, a **2.7% increase**. In 2019, the EU accounted for 12.8% of total merchandise trade of Colombia, up from 12.6% in 2018.

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[63] Ley de Simplicidad y Progresividad Tributaria.

Since 2015, the **EU has been running a trade surplus** with Colombia, a tendency that has since then amplified reaching € 1.9 billion in 2019. However, the growing deficit can be almost exclusively explained by the drop in exports of coal and oil, which decreased from €5.5 billion in 2013 (the year the Agreement entered into force) to € 0.9 billion in 2019.

EU exports to Colombia **increased by 10.7%** in 2019 to **€ 6.1 billion**, representing EU's peak export in the last five years. The headings that recorded the largest increases were motor vehicles, pharmaceutical products, aircrafts and articles of iron and steel, while exports of electrical machinery and organic chemicals suffered the greatest declines.

EU imports from Colombia amounted **to € 4.3 billion** in 2019, down from € 4.6 billion in 2018, representing a **7% decrease**, and the lowest export value since 2015. It is noteworthy that the share of mineral products on total Colombian exports to the EU continues a strong downward trend, and that EU-Colombia trade is much less dominated by coal and petroleum products than Colombia's trade with China and the US.

EU-Colombia trade in non-agricultural products (NAMA)

EU exports to Colombia of NAMA products amounted to € 5.7 billion in 2019, **increasing by 10.2%**. The most important categories in 2019 were:

- Machinery and mechanical appliances, representing the largest share of EU exports at 16.8%, amounting to € 1 billion, an increase of 14% compared to 2018.
- Pharmaceutical products, totalling € 872 million, or 14.2% of EU exports, increasing by 13.5%;
- Motor vehicles, registered a 24.5% increase up to € 628 million, now representing 10.2% of EU exports

EU imports from Colombia of NAMA products amounted to € 2.3 billion in 2019, **decreasing by 14.3%** compared to the previous year. The main categories in 2019 were:

- Minerals, € 807 million, representing 18.9% of EU imports from Colombia, versus 43.5% in 2018;
- Precious stones and minerals (mainly emeralds and gold); increased by 152.8%, now representing € 621 million, a 14.6% of imports,
- Iron and steel, amounted to € 55 million, decreasing by 29,7% and now representing 1.3% of EU imports.

Ecuador

In 2019, the **EU remains Ecuador's second trade partner** with 16% of the country's market share, after the US (27%) and before China (15%). Ecuador´s exports to the EU contracted by 7% while exports to China almost doubled (+92%)[64] and exports to the US grew by just 2%.

[64] This is the result of the deepening of the Comprehensive Strategic Partnership between Ecuador and China (December 2018) and the vast increase of direct exports of shrimps to China.

On the import side, the US continued to be Ecuador´s main supplier although imports fell by 5% followed by China (4%) and the EU (-3%).

In 2019, bilateral trade amounted to € 5.2 billion, compared to € 5.1 billion in 2018, a **1.3% increase**.

Bilateral trade between the EU and Ecuador has grown steadily for the **last five years** despite a temporary slump in 2016 (-4% of GDP). Trade growth reached a peak in 2017 (+18%), following the application of the Agreement. Since 2018 trade exchanges have been growing but at a slower pace (2018: +3.4%; 2019: +1.3%). Three factors explain this slow-down: i) a strong dollar, which reduces Ecuadorian products´ competitiveness in international markets; ii) a sluggish domestic growth, which puts a break on domestic consumption; and iii) trade diversion towards other trade partners, namely, Central America and China. Nonetheless, Ecuador enjoys a positive, although shrinking trade balance with the EU amounting to EUR 549 million in 2019 (2018: EUR 619 million).

EU exports to Ecuador in 2019 grew by **+3% year-on-year** amounting to **EUR 2.3 billion,** reaching its peak export value of the fie past years. The most demanded EU products were machinery and mechanical appliances, mineral fuels and pharmaceutical products.

EU imports from Ecuador remained **steady** (-0.1%) year-on-year representing **EUR 2.9 billio**n and concentrated in agricultural and fishery products.

EU-Ecuador trade in non-agricultural products (NAMA)

EU27 exports to Ecuador of NAMA products increased by 2.2% amounting to **EUR 2.1 billion** in 2019 compared to 2018. The most important categories in 2019 were:

- Machinery and mechanical appliances (HS 84), worth EUR 429 million, or 19% of total EU27 exports to Ecuador, increased by 4%;

- Mineral fuels (HS 27), amounting to EUR 218 million, or 10% of total EU27 exports, contracted by 38%;

- Pharmaceutical products (HS 30), totalling EUR 63 million, or 7% of EU27 exports, grew by 10%;

  Vehicles and parts (HS87) and Electrical machinery (HS85), totalling EUR 141 million ad 133 million respectively , and each 6% of EU27 exports;
  Railways and trams (HS86), amounting to EUR 111 million, or 5% of EU27 exports, increased by 629% as a result of public purchases for the public transportation system (the metro in Quito, the tramway in Cuenca, and the cableway in Guayaquil).

EU27 imports from Ecuador of NAMA products increased by 5% amounting to **EUR 1.4 billion** in 2019. The main categories in 2019 were:

- Preparation of fish (tuna) (HS 16) worth EUR 652 million, or 23% of total EU imports, increased by 10%.

- Fish and crustaceans (HS 03), amounting to EUR 641 million, or 22% of total EU imports from Ecuador .

- Wood and articles of wood (HS 44) reached EUR 43 million, or 2% of total EU imports from Ecuador, increased by13%.

Peru

The **EU is Peru's third largest trading partner** (11% of total Peruvian trade), after China (28%) and the US (12%). In 2019, **bilateral tra**de with the EU27 amounted **€9 billion**, **decreasing by -1.7%** compared to 2018, while Peru's overall trade with the rest of the world decreased by -0.5% over the same period.

While EU exports increase, Peru exports decrease. This negative trend is mainly due to a 25% reduction of mineral products exports, 52% of which were copper affected by lower international prices (lower demand from China) decreasing by 17% as well as zinc decreasing by 37%. Exports of natural gas also strongly contributed to this negative result with a decrease of 54% compared to 2018. Instead exports of vegetable products increased by 11%, fishing products by 5% and prepared foodstuffs products by 28%.

Since 2015, the **EU has been running a trade deficit** with Peru. Although since 2015 the deficit had been increasing peaking at EUR 2.1 billion in 2018, this trend has slowed down in 2019 with a deficit of EUR 1.5 billion.

EU27 exports to Peru amounted to **€3.8 billion, an 6.4% increase** when compared to 2018. 94% of EU exports are industrial products, mostly machinery and appliances, chemical products and transport equipment.

EU27 imports from Peru amounted to **€5.3 billion decreasing -6.7%** compared to 2018. Peru decreased its exports to the rest of the world by -0.4%. Key import items from Peru are ores, slag and ashes, minerals, fruits, coffee and fishery products. The share of agri-food products in imports from Peru into the EU continued to increase and now represents 43% of total imports from Peru.

EU-Peru trade in non-agricultural products (NAMA)

EU27 exports to Peru of non-agricultural products amounted to **€3.53 billion** in 2019, a **+6.3% increase** (from €3.32 billion in 2018). The most important categories in 2019 were:

- Machinery, mechanical appliances (HS 84), amounting to €1.04 billion representing 28% of total EU27 exports to Peru, with a 21.4% increase compared to 2018;

- Electrical machinery and equipment (HS 85), or €336 million, accounting for 9% of total EU27 exports to Peru, and with an increase of 5.8% compared to 2018;

- Motor vehicles (HS 87), worth €255 million or 7% of EU exports, decreasing by 6.1% compared to 2018;

- Medical devices (HS90) and Pharmaceutical products (HS30), amounting to respectively €206 million (+10.4%) and €203 million (+17.7%), and accounting each for 5% of EU27 exports.

EU imports from Peru of non-agricultural products on the contrary **decreased by -18%** amounting to **€3 billion** in 2019 (from €3.7 billion the previous year). The main categories in 2019 were:

- Ores (HS 26), amounting to €1.3 billion representing **25% of total EU27 imports** from Peru, versus 29% in 2018, with a -17.2% decrease;

- Mineral fuels (HS27) mainly natural gas, worth €207 million, representing 4% of EU imports, a -54% decrease compared to 2018;

- Fish and crustaceans (HS 03), amounting to €322 million or 6% of EU imports, with a 5.3% increase compared to 2018.

5.3 Trade in agricultural products

In all three Andean partners, the existence of SPS issues, associated with slow and cumbersome administrative procedures for the approval of agri-food imports from the EU, constitutes a main concern. In addition, a ban is still in place on imports of cattle and beef from the EU on grounds of BSE. Moreover, there is no *de facto* recognition of the regionalisation principle for African Swine Fever, which has a negative impacts on potential exports from a number of Member States.

The Agreement provides for the protection of 116 EU GIs (115 in the case of Peru) related to wine, cheeses, beer, meat products and spirits. A number of GIs from Colombia, Ecuador and Peru related to coffee, flowers, cacao and spirits are protected in the EU. The EU works closely with the relevant authorities in Colombia, Ecuador and Peru to ensure that the EU GIs are adequately protected.

Colombia

EU exports to Colombia of agricultural products **increased by 18.6%** amounting to **€442 million** in 2019, and were dominated by:

- Beverages and spirits (HS22) at € 67 million, or 15.1% of EU exports of agricultural products to Colombia;

- Miscellaneous edible preparations (HS21) at € 62 million accounted for 1% of total exports.

- Preparations of vegetables, fruits and nuts (HS20) increased 37.2%, representing 0.9% of EU exports;

EU imports of agricultural products from Colombia amounted to **€ 1.9 billion**, **increasing by 3.6%** from 2018 to 2019. The most important categories in 2019 were:

- Fruits (HS08), accounted for 20.6% of total imports, up by 6.6% compared to 2018. Bananas represented 77.5% of all fruits exported, followed by avocados with 4.3%.

- Coffee (HS09), increased by 6.3%, represented 11% of EU imports;

- Animal or vegetable fats and oil (HS15), almost all consisting of palm oil, decreased by 13.9% but still accounted for 6.8% of imports.

In 2019, Colombia's exports of agrifood products to the EU27 accounted for **45% of total Colombian exports to the EU**, compared to 19% for 2013 the year before the Trade Agreement.

For certain sensitive products, the Trade Agreement provides tariff rate quotas for EU exports to Colombia and vice-versa. The tables below provide the utilisation rate of these quotas by EU exports and by exports from Colombia, respectively.

TRQs granted by Colombia to the EU

Utilization of TRQs by the EU28 in 2019

List	Product	2018	2019
AZ	Raw sugar	0%	0%
DB	Bovine meat	0%	0%
HE	Ice cream	86,8%	**99,3%**
TX	Textured protein substances	0%	0,6%
LC	Condensed milk	0%	Illimited
LP1	Milk and cream in powder	**100%**	**100%**
LP2	Milk and cream in powder	0%	Illimited
LM	Infant formula	99%	**100%**
PA	Sugar confectionery	4,7%	2,5%
Q	Cheese	13%	16,8%
YG	Yoghourt	17,4%	0%
MA	Sweetcorn	**100%**	**100%**
HO	Mushrooms	**100%**	**99,9%**

Source: DIAN (Colombia's customs)

TRQs granted by the EU to Colombia

Utilization of TRQs by Colombia in 2019

Utilisation rate of TRQs opened by the EU to Colombia						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in: 2017	2018	2019
Beef	Beef, boneless	8.960	t (product weight)	0%	0%	0%
Dairy	Milk, concentrated	130	t	0%	0%	0%
Dairy	Yogurt	130	t	0%	0%	0%
F&V	Sweetcorn	260	t	0%	0%	0%
Mushrooms	Mushrooms (Agaricus), prepared or preserved	130	t	0%	0%	0%
Sugar	Sugar	73.160	t (in raw sugar eq.)	95%	65%	97%
Sugar products	High sugar content products	23.600	t	1%	1%	2%
Alcohols	Rum	2.100	hl (pure alcohol eq.)	0%	59%	0%

Ecuador

Bilateral trade of agricultural products between the EU and Ecuador decreased by 3% year-on-year reaching a total of EUR 1,663 million compared to EUR1,617 million in 2018. The analysis of the figures shows that:

EU27 exports of agricultural products to Ecuador **increased by 17%** year-on-year and reached **EUR 155 million** in 2019, although the implementation of the SPS chapter has yet to deliver its potential. Agricultural products represented 7% of total EU exports to Ecuador. The most dominant categories in 2019 were:

- Miscellaneous edible preparations (HS21), worth EUR 22 million, or 14% of total EU27 agricultural exports;

- Beverages and spirits (HS22) amounting to EUR 19 million, or 12% of total EU agricultural exports (and just 1% of total EU27 exports) increased by 24%;

- Residues and waste from food industry (HS23) amounting to EUR 17 million, or 11% of total EU27 agricultural exports, increased by 5%;

EU27 imports of agricultural products from Ecuador **decreased by 4.5%** year-on-year and reached **EUR 1.46 billion** in 2019. The most important categories in 2019 were:

- Fruits (HS08), amounting to EUR 897 million, decreased by 7%. However, fruits are 61% of total EU27 imports of AMA and 31% of total EU27 imports from Ecuador. Bananas remain at the top of the fruit imports (94% of the total) although imports contracted year-on-year (-9%). Other fruits increased their presence in the EU: fresh plantains (+17%), pineapples (+19%), fresh tamarinds (+10%), and frozen fruits (+36%). Only papayas and apricots/apples and peaches decreased by 10% and 28%, respectively.

- Live trees and other plants, mainly fresh cut flowers (HS06) worth EUR 211 million or 14% of total EU27 AMA imports, increased year-on-year by 4%.

- Cocoa and cocoa preparations (HS18) amounting to EUR186 million or 13% of total EU27 AMA imports, increased by 17% (and rate at the 7th position of total Ecuador's exports to the EU27).

Agricultural products account for **more than half of total EU27 imports from Ecuador (51%),** turning the EU into Ecuador´s prime market for non-oil exports.

For certain sensitive products, the Trade Agreement provides tariff rate quotas for EU exports to Ecuador and vice-versa. The tables below provide the utilisation rate of these quotas by EU exports and by exports from Ecuador, respectively.

TRQs granted by Ecuador to the EU

With regard to **Ecuador's tariff quotas granted to the EU**, despite slight changes to the TRQ management system in 2019, EU exporters continue deploring the complexity of the system. Adding to this, the lengthy approval process on the homologation of sanitary and phytosanitary conditions of Member States and EU establishments increases the frustration of exporters.

Nevertheless, in 2019 the EU28 increased significantly the use of TRQs for preparations of animal feeding, some dairy products and processed sweet corn. Other products such as other dairy products, frozen potatoes and confectionary products slightly fell compared to 2018.

Utilization of TRQs by the EU28 in 2019

Use of TRQ by the EU	2018	2019
B. Preparations for animal feeding	8.1%	**18.4%**
B1. Preparations for animal feeding	2.7%	**93.2%**
D. Bovine guts	0%	0%
L1. Dairy products: Powder milk, butter milk serum, whey	35.7%	**49.3%**
L2. Dairy products: Evaporated milk, condensed milk	3%	3%
L3. Diary products: Yoghourt, cheeses: grated or powdered, melted, others	19%	15.3%
L4. Dairy products: Blue-veined cheese, mature cheese	7%	**12.7%**
M. Fresh sweet corn: Sweet corn, fresh, refrigerated	0%	0%
MC. Processed sweet corn: Sweet corn: frozen, canned	32.8%	**62.7%**
P. Pork products: cured ham, bellies (streaky) sausages and similar meat products	18.9%	18.6%
PA. Frozen potatoes	1.9%	0%
SP. Confectionary product (high sugar content): Juices, chocolate, coffee, tea and others	0.1%	0.59%

Source: Ministry of Agriculture and Livestock of Ecuador

TRQs granted by the EU to Ecuador

In the third year of application of the Agreement, Ecuador has yet to take full advantage of **tariff quotas granted by the EU**.

Utilization of TRQs by Ecuador in 2019

Product	2018	2019
Sweet corn, uncooked, or cooked (09.7526)	9.5%	6.7%
Mushrooms (09.7527)	0%	0%
Sweet corn provisionally preserved (09.7528)	0.7%	1%
Maize (09.7529)	0%	0,008%
Rice (09.7530)	0.3%	0.08%
Manioc (09.7531)	0%	0%
Raw cane sugar not containing added flavouring or colouring (09.7532)	8.3%	9.5%
Sugar and sugar products (09.7533)	0.6%	0.06%
Rum (09.7534)	0%	0%

Source: TAXUD, Surveillance Database

Peru

EU exports to Peru of agrifood products in 2019 **increased by 7.3**% compared to 2018 totaling **€230 million**. The most important categories were:

- Miscellaneous edible preparations (HS21), representing 16.5% of EU agrifood exports to Peru (€38 million) increased by 9.5% compared to 2018;

- Preparations of vegetables (HS20), representing 14.3% of total EU exports of agrifood products to Peru (€33 million) increased by 20.8% compared to 2018;

- Dairy products (HS04), posting a small decrease -0.6% compared to 2018. Dairy exports represent 11% of total EU exports of agrifood products to Peru (€26 million);

- Beverages and spirits (HS22), accounting for 11% of total EU exports of agrifood products to Peru (€26 million) have increased by 14% compared to 2018.

EU imports of agrifood products from Peru **increased by 15.2%** from 2018 to 2019, totaling **€2.25 billion**. The most important categories were:

- Fruits (HS08), accounted for **49% of total EU imports of Peruvian agrifood products** (€1.1 billion), up 14.4% compared to 2018; 35% were avocados (+18% compared to 2018), 16% table grapes (-2%), 15% blueberries (+61%), 15% mangoes frescos (+8%), 7% bananas (-14%), and 3% were citrus fruits (+9%). Export diversification continues with new products especially so-called "power fruits" such as pomegranates +11%).

- Coffee (HS09) represents 15.4% of total EU27 imports of agriculture products from Peru (€348 million) increasing by 3.2% from 2018. The EU remains the first destination of Peruvian coffee (50% of total exports).

- Preparations of vegetables (HS20), which account for 10% of total of agriculture products from Peru (€224 million) raised by 4.7%.

- Edible vegetables (HS 07) which account for 7% of total of agriculture products from Peru (€164 million) raised by 8.6%. The key export product remains fresh asparagus (66% of total vegetable exports) with an increase of 8%, followed by onions (11% of total vegetables and increasing by 32%), artichokes (8% of total vegetables) and peas (almost 4% of total vegetables with a 24% increase). New products are now exported to the EU, such as dried mushrooms and sweet potatoes increasing respectively +128% and 1+91% compared to 2018.

- Cocoa (HS 18) which represents 5,5% of total exports to the EU (€124 million) have increased by 16.9% compared to 2018 and revert the negative trend of previous years. Cocoa beans constitutes the bulk of cocoa exported (increasing by 7% and 62% of total cacao exports), followed by cocoa fat (increasing by 29% and 35% of total cocoa), while cocoa powder registerd a 31% decrease.

In 2019, Peru exports of agrifood products to the EU accounted for **43% of total exports** compared to 27% in 2013, the year before the Trade Agreement.

For certain sensitive products, the Trade Agreement provides tariff rate quotas for EU exports to Ecuador and vice-versa. The tables below provide the utilisation rate of these quotas by exports the EU and from Peru, respectively.

TRQs granted by Peru to the EU

Utilization of TRQs by the EU28 in 2019

	2018	2019
Butter	100%	0%
Cheese	5%	0.06%
Ice cream	100%	86%
Milk powder	100%	52%
Milk for babies	0%	0%
Sugar confectionery	2%	0%
Coffee	0%	0%
Sugar	0%	0%
Rum	27%	100%

Source: SUNAT (Peruvian customs)

TRQs granted by the EU to Peru

Utilization of TRQs by Peru in 2019

Utilisation rate of TRQs opened by the EU to Peru						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in: 2017	2018	2019
Beef	Beef	3.440	t (carcass weight eq.)	0%	0%	0%
Pigmeat	Pigmeat	6.400	t	0%	0%	0%
Poultry	Poultry	12.000	t	0%	0%	0%
Dairy	Milk powders & concentrated	4.800	t	0%	0%	0%
Dairy	Milk, concentrated	9.600	t	0%	0%	0%
Dairy	Yogurt	48	t	0%	0%	0%
Dairy	Buttermilk	3.040	t	0%	0%	0%
Dairy	Butter	800	t	0%	0%	0%
Dairy	Cheese	4.000	t	0%	0%	0%
F&V	Garlic	1.200	t	54%	0%	6%
F&V	Sweetcorn	1.120	t	96%	98%	95%
Mushrooms	Mushrooms (Agaricus), prepared or preserved	160	t	0%	0%	0%
Cereals	Maize	16.000	t	13%	15%	10%
Cereals	Rice	54.400	t	0%	0%	0%
Sugar	Sugar	25.960	t (in raw sugar eq.)	100%	9%	17%
Sugar products	High sugar content products	11.800	t	0%	0%	0%
Preparations	Ice cream	240	t	0%	0%	0%
Alcohols	Rum	1.600	hl (pure alcohol eq.)	0%	6%	0%

5.4 Trade in services and Foreign Direct Investments

Trade in Services

Colombia

Bilateral trade in services between the EU and Colombia increased by 3.1% in 2018 compared to 2017, totaling **€ 4.9 billion**. Both EU exports and Colombian exports increased during this period of time by 1.3% and 7.3% respectively.

Ecuador

In 2018, bilateral trade in services between the EU and Ecuador increased by 1.6% amounting to **EUR 1.6 billion**, a much slower rate than in the previous period (+8.5% in 2017/2016). EU exports of services amounted to EUR 1 billion, a 5% increase year-on-year while Ecuadorian exports (EUR 588 million) fell by 4.4%, in contrast with the growing trend of the previous five years. These results have increased the EU trade in services surplus by 20%.

Peru

In 2018, EU-Peru **bilateral trade in services** amounted to **€ 3.05 billion**. While EU exports (€1.9 billion) increased 5%, Peruvian exports (€1.16 billion) decreased by -8.7%. Balance remains positive for the EU.

Foreign Direct Investment (FDI)

Colombia

The EU - as **EU27 - remains the first foreign investor in Colombia**, totaling € 16.7 billion of FDI stocks in 2018. Colombian FDI stocks in the EU increased by 20.4% since 2017 totaling € 5.6 billion in 2018.

Ecuador

EU27 FDI stocks in Ecuador amounted to EUR5.7 billion, an increase of 14% compared to the previous year. Ecuadorian FDI stocks in the EU barely increased by 0.7% reaching EUR 151 million, at the same level as in 2017, but 38% less than in 2016.

According to the Central Bank of Ecuador, **the EU remained, for the fourth year in a row, the largest foreign investor in Ecuad**or (USD 337 million) representing 35% of the total FDI inflows to Ecuador in 2018 (USD 996 million).

Peru

In 2018, total EU27 FDI outward stocks to Peru remain almost the same as in 2017, namely €16.2 bio. Instead inwards FDI stocks from Peru decreased by 14%.**The EU27 remains the first investor in Peru.**

On the contrary, FDI flows registered significative changes on this period. For EU27 investments in Peru flows decreased -38% while flows of Peruvian investments in the EU increased +57%.

6. CONCLUSIONS

The Trade Agreement offers a **sound institutional framework for bilateral trade and investment between the EU and the three Andean partners**. The implementation works well overall with progress on many areas, although some challenges persist as outlined in section 2. Regular meetings of the institutional bodies are valuable channels of communication that allow advancing on implementation issues and exchanging information. Since 2019, the joint minutes of all committee meetings are publicly available on the Europa website[65].

The Trade Agreement supports economic development by providing new outlets for exports, diversifications and opportunities for SMEs. Work has also intensified on the implementation of the Trade and Sustainable Development (TSD) chapter of the Agreement. In line with the 15- points action plan on trade and sustainable development[66], the Commission sharpened its monitoring and analysis of compliance with TSD commitments, with Peru a concrete example of the increased assertiveness by the Commission in this regard.

The **ex post evaluation of the Trade Agreement started in 2020** will analyse the economic, social, human rights (including labour rights) and environmental impacts of the

[65] They can be found here: https://trade.ec.europa.eu/doclib/press/index.cfm?id=2100

[66] The plan can be consulted here: https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf

implementation of the Agreement and will provide useful analysis and insight for the implementation work.[67]

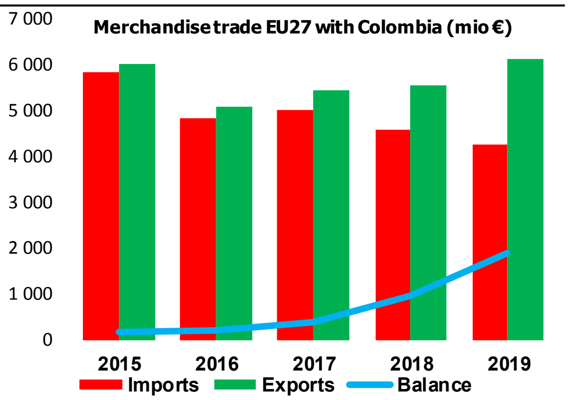
[67] More information on the ongoing ex post evaluation can be found here: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/2085-Ex-post-evaluation-of-the-EU-Colombia-Ecuador-Peru-Trade-Agreement

7. STATISTICS

COLOMBIA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Colombia (mio €)					
Imports	5 851	4 855	5 044	4 581	4 260
Exports	6 037	5 084	5 455	5 554	6 151
Balance	185	229	410	973	1 891
Share Colombia in EU27 trade with Extra-EU27					
Imports	0.4%	0.3%	0.3%	0.2%	0.2%
Exports	0.3%	0.3%	0.3%	0.3%	0.3%
Total (I+E)	0.3%	0.3%	0.3%	0.3%	0.3%
Share EU27 in trade Colombia with world					
Imports	14.3%	12.6%	13.7%	13.9%	14.0%
Exports	14.9%	11.3%	12.3%	11.0%	11.1%
Total (I+E)	14.5%	12.0%	13.1%	12.6%	12.8%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Colombia: IMF Dots



Total merchandise trade EU27 with Colombia (mio €)

Colombia	2018	2019	Growth mio €	Growth annual %
Imports	4 581	4 260	-321	-7.0%
Exports	5 554	6 151	596	10.7%
Balance	973	1 891	918	
Total trade	10 136	10 411	275	2.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Colombia (mio €)

Colombia	2018	2019	Growth mio €	Growth annual %
Imports	1 867	1 934	67	3.6%
Exports	373	442	69	18.6%
Balance	-1 494	-1 492	3	
Total trade	2 241	2 377	136	6.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Colombia (mio €)

Colombia	2018	2019	Growth mio €	Growth annual %
EU27 imports	2 714	2 326	-388	-14.3%
EU27 exports	5 181	5 708	527	10.2%
Balance	2 468	3 383	915	
Total trade	7 895	8 034	139	1.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Colombia (mio €)

Colombia	2017	2018	Growth mio €	Growth annual %
Imports	1 424	1 528	103	7.3%
Exports	3 331	3 376	45	1.3%
Balance	1 907	1 848	-59	
Total trade	4 755	4 904	148	3.1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Colombia (mio €)

	2014	2015	2016	2017	2018
Imports	1 475	1 337	1 331	1 424	1 528
Exports	2 203	2 520	2 643	3 331	3 376
Balance	728	1 183	1 312	1 907	1 848
Total trade	3 677	3 857	3 974	4 755	4 904

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Colombia (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward			3 401	4 642	5 588
Outward	15 445	21 325	15 090	15 835	16 776
FDI Flows					
Inward			-665	815	882
Outward	-108	1 940	-343		67

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

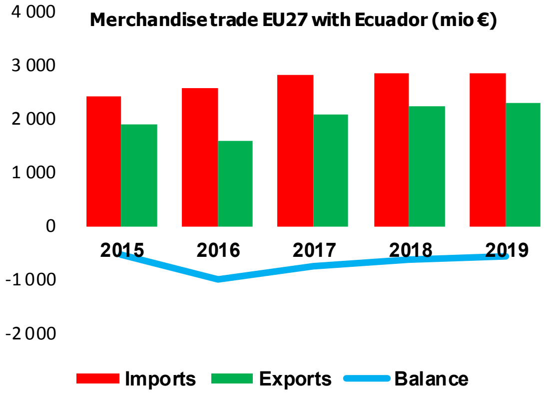
FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ECUADOR

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Ecuador (mio €)					
Imports	2 439	2 585	2 831	2 862	2 860
Exports	1 912	1 590	2 103	2 242	2 311
Balance	-527	-995	-728	-619	-549
Share Ecuador in EU27 trade with Extra-EU27					
Imports	0.1%	0.2%	0.2%	0.2%	0.1%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Ecuador with world					
Imports	11.2%	11.2%	12.5%	12.5%	12.4%
Exports	14.2%	16.0%	15.6%	14.3%	11.0%
Total (I+E)	12.6%	13.6%	14.0%	13.3%	11.7%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Ecuador: IMF Dots



Total merchandise trade EU27 with Ecuador (mio €)				
Ecuador	2018	2019	Growth mio €	Growth annual %
Imports	2 862	2 860	-2	-0.1%
Exports	2 242	2 311	68	3.0%
Balance	-619	-549	70	
Total trade	5 104	5 170	67	1.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Ecuador (mio €)				
Ecuador	2018	2019	Growth mio €	Growth annual %
Imports	1 531	1 462	-69	-4.5%
Exports	132	155	23	17.3%
Balance	-1 399	-1 308	91	
Total trade	1 663	1 617	-46	-2.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Ecuador (mio €)				
Ecuador	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 331	1 397	67	5.0%
EU27 exports	2 110	2 156	46	2.2%
Balance	780	758	-21	
Total trade	3 441	3 553	113	3.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Ecuador (mio €)				
Ecuador	2017	2018	Growth mio €	Growth annual %
Imports	615	588	-27	-4.4%
Exports	1 013	1 065	52	5.2%
Balance	398	477	79	
Total trade	1 627	1 653	25	1.6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Ecuador (mio €)					
	2014	2015	2016	2017	2018
Imports	394	420	526	615	588
Exports	964	1 020	974	1 013	1 065
Balance	570	600	447	398	477
Total trade	1 358	1 440	1 500	1 627	1 653

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)					
	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Ecuador (mio €)					
	2014	2015	2016	2017	2018
FDI Stocks					
Inward			245	150	151
Outward	5 133	8 531	5 945	4 963	5 663
FDI Flows					
Inward			-93	-110	0
Outward		1 027		251	375

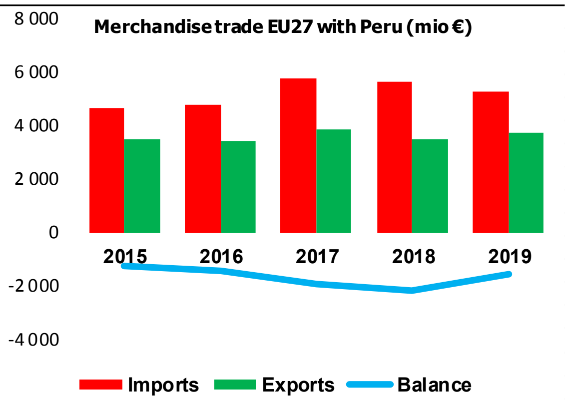
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)					
	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PERU

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Peru (mio €)					
Imports	4 686	4 809	5 771	5 663	5 284
Exports	3 480	3 424	3 851	3 534	3 759
Balance	-1 206	-1 385	-1 920	-2 129	-1 526
Share Peru in EU27 trade with Extra-EU27					
Imports	0.3%	0.3%	0.3%	0.3%	0.3%
Exports	0.2%	0.2%	0.2%	0.2%	0.2%
Total (I+E)	0.2%	0.2%	0.3%	0.2%	0.2%
Share EU27 in trade Peru with world					
Imports	10.9%	11.3%	11.6%	11.4%	11.4%
Exports	14.6%	13.3%	13.1%	13.7%	13.5%
Total (I+E)	12.6%	12.3%	12.4%	12.6%	12.5%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Peru: IMF Dots



Total merchandise trade EU27 with Peru (mio €)

Peru	2018	2019	Growth mio €	Growth annual %
Imports	5 663	5 284	-378	-6.7%
Exports	3 534	3 759	225	6.4%
Balance	-2 129	-1 526	603	
Total trade	9 197	9 043	-154	-1.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Peru (mio €)

Peru	2018	2019	Growth mio €	Growth annual %
Imports	1 956	2 254	298	15.2%
Exports	215	230	16	7.3%
Balance	-1 741	-2 023	-282	
Total trade	2 170	2 484	314	14.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Peru (mio €)

Peru	2018	2019	Growth mio €	Growth annual %
EU27 imports	3 707	3 031	-676	-18.2%
EU27 exports	3 319	3 528	209	6.3%
Balance	-388	497	885	
Total trade	7 026	6 559	-467	-6.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Peru (mio €)

Peru	2017	2018	Growth mio €	Growth annual %
Imports	1 272	1 161	-111	-8.7%
Exports	1 798	1 888	90	5.0%
Balance	527	727	200	
Total trade	3 070	3 049	-21	-0.7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Peru (mio €)

	2014	2015	2016	2017	2018
Imports	752	933	1 023	1 272	1 161
Exports	1 217	1 550	1 496	1 798	1 888
Balance	465	618	473	527	727
Total trade	1 970	2 483	2 519	3 070	3 049

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Peru (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		2 704	3 127	3 829	3 298
Outward	9 449	12 910	16 610	16 235	16 171
FDI Flows					
Inward		1 626	735	132	208
Outward	-1 409	2 380	4 016	682	420

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF PART IV OF THE ASSOCIATION AGREEMENT BETWEEN THE EU AND ITS MEMBER STATES AND CENTRAL AMERICA

1. INTRODUCTION

The Association Agreement between the EU and its Member States, on the one hand, and Central America, on the other (hereinafter referred to as the "**Association Agreement**") was signed on 29 June 2012. The trade pillar (Part IV) of the Association Agreement has been provisionally applied for six years, i.e. since 1 August 2013 with Honduras, Nicaragua and Panama, since 1 October 2013 with Costa Rica and El Salvador, and since 1 December 2013 with Guatemala.

Under Article 13 of Regulation (EU) No 20/2013 implementing the bilateral safeguard clause and the stabilisation mechanism for bananas of the Association Agreement[68], the Commission committed to submit an annual report to the European Parliament and the Council on the application, implementation and fulfilment of obligations of the Agreement and the Regulation. This information sheet also responds to this requirement.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

In 2019, the EU continued to monitor compliance with the commitments under the Association Agreement to ensure its effective implementation. Last year, the EU and Central America continued their regular meeings to discuss implementation issues. The EU pursued a number of **market access issues** with Central America that have a particular impact on **EU exports of agricultural products** to these countries. This includes discriminatory tax treatment of imported beer to Costa Rica, the slow approval process in certain cases of export applications of EU Member States in the area of sanitary and phytosanitary (SPS) measures as well as occasional measures or irritants that may impede the full utilisation of trade preferences (e.g. measures on the administration of tariff rate quotas, transparency issues and non tariff barriers).

To address problems in claiming preferential tariffs through the EUR.1 movement certifcates, both parties have worked out a **compromise** on the interpretation of the provisions **pertaining to the rules of origin**, in such a way so as to expedite the process without unnecessary administrative hurdles. The EU and Central America finalised the last details of these explanatory notes for Customs that will be used as common interpretative rules to facilitate documentary proofs for preferential origin. In addition, as a trade facilitating measure at import, Central America as a block, introduced a **single administrative document** for customs declarations, which allows them to meet their commitment under the Association Agreement in this area.

[68] OJ L 17, 19.1.2013, p. 13.

2.2 Progress in the implementation of trade and sustainable development provisions

The implementation of the Trade and Sustainable Development (TSD) chapter of Association Agreement gained traction in 2019. The meeting of the Board on Trade and Sustainable Development took place in June 2019 (*see details below)*.

As per the approach developed for other trade agreements, the EU worked on a basis of **priority issues** established for each partner country, in line with the European Commission's 15-Point Action Plan on Trade and Sustainable Development[69] released in February 2018. In Central America, the emphasis is on the **labour** dimension where particular challenges exist. Priorities focused on El Salvador, Guatemala, Honduras and Nicaragua, where labour issues (as identified by the International Labour Organisation) are more prominent. Priority issues discussed with all six countries related mostly to freedom of association, social dialogue, child labour and forced labour.

On **environment**, engagement between the Parties focused on the implementation of provisions under the seven Multilateral Environmental Agreements (MEAs) covered under the TSD chapter, with a particular focus on the Parties' efforts in the domain of climate change, in line with their commitments under the United Nation Framework Convention Climate Change (UNFCCC).

A number of **cooperation activities** accompanied the regular TSD implementation work. Among others, activities continued on the implementation of a project funded by the EU and carried out by the ILO, with the objective of promoting compliance with **international labour standards** in El Salvador and Guatemala. The project included a number of activities in both countries, focussing in particular on supporting tripartite consultation mechanisms. In El Salvador, the project provided key support to the reactivation of the High Labour Council. Meanwhile, Costa Rica and Panama were two of nine Latin American countries to benefit from activities under a new project on **responsible business conduct**, set to last from 2019 – 2022. The project, implemented in partnership with the OHCHR, OECD and ILO, initiated a number of activities aimed at supporting national action plans on responsible business conduct, and capacity building on themes related to due diligence and decent work.

TSD Board Meeting

The main occasion for the Parties to take stock on the progress achieved was at the annual **meeting of the Board on Trade and Sustainable Development**, which took place on 24 and 25 June 2019 in Antigua (Guatemala), alongside the Association Committee meeting. The detailed minutes of the TSD Board meeting are available on the Commission's website[70].

With Nicaragua, the EU focused on the alignment of some of the country's labour provisions with ILO standards, including in relation to Convention 117 on social policy, as well as aligning the age of compulsory education (12 years) with the minimum age of employment (14 years). Nicaragua also highlighted policy actions taken to ensure labour rights, with a focus on gender, child labour, health and safety and work, and freedom of association.

[69] Available at https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf
[70]https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_158201.%20201906%20TSD%20joint%20minutes%20EN.pdf

Costa Rica highlighted progress in the areas of collective rights, eradication of forced labour and child labour, and non-discrimination. The EU welcomed progress made in particular on gender equality, whilst also focusing, as an issue of ongoing work, on actions taken to boost transition from the informal to the formal economy.

With Guatemala, the focus was on freedom of association and collective bargaining rights. Guatemala referred to the decision reached by the ILO governing body to close a complaint concerning a breach of ILO Convention No. 87. Guatemala highlighted a number of actions taken to address concerns in these areas, including the establishment of a Tripartite National Commission on Labour Relations and Freedom of Association, and a roadmap on freedom of association and collective bargaining. The EU welcomed the progress made, noting the importance of full implementation of the roadmap and advancing on full implementation of fundamental ILO conventions.

With Honduras, the focus was on ILO Convention No. 29 (forced labour) and No. 182 (worst forms of child labour). Honduras highlighted a number of policy initiatives taken under a Strategic Plan against Sexual Exploitation and Trafficking of Persons, as well as the implementation of the Second National Plan of Action on child labour. The country also highlighted initiatives taken with a view of improving labour inspections, notably the implementation of the Labour Inspection Law. The EU welcomed progress in these areas, and highlighted the need to address the ILO case on Honduras regarding Convention No. 87 (freedom of association).

With El Salvador, the discussion centred on ILO Convention No. 144 (tripartite consultation). El Salvador explained that, although the new government lacked time to implement the envisaged actions, it was committed to the reactivation of the High Labour Council on Tripartite Labour Consultation, which had been inactive since 2012. Following the meeting of the TSD Board, the High Labour Council was reactivated in September 2019. The EU welcomed this step, while noting the need to ensure the proper functioning of the reactivated tripartite body, as well as the need for further measures to address child and forced labour, gender discrimination and violence against trade unionists.

Panama reported on progress made in implementing ILO Conventions No. 29 and 105 (forced labour), No. 87 and 98 (Freedom of Association), and No. 81 (labour inspections). The EU welcomed progress in particular within the area of child labour, and requested further information on actions within the realm of collective labour relations and tripartite consultation.

On **environment**, the discussion focused on efforts taken by all parties on climate change, in line with the UNFCCC. Costa Rica highlighted its Decarbonisation Plan, which focuses on five sectors, aiming at carbon neutrality by 2050. Guatemala noted work on changing the energy matrix and development of renewable energy, highlighting alignment with the UN's Sustainable Development Goals. Panama also highlighted national strategies on climate change, biodiversity, and forests. All parties provided updates on the implementation of the CITES and Basel Conventions; El Salvador and Honduras noted efforts on the implementation of the Stockholm Convention.

Civil Society Dialogue

Engagement with civil society also continued throughout the year, most notably with the Civil Society Dialogue held back-to-back with the meeting of the TSD Board. For the first time ever, members from all six Central American Domestic Advisory Groups were present at the event, with financial assistance from the EU project supporting civil society monitoring and participation in FTA implementation.

The TSD implementation work carried out in 2019 centred around the EU's more assertive and focused efforts, in line with its 15-point action plan. In 2020, implementation efforts will continue based on this approach, further addressing key labour concerns, which remain outstanding in several partner countries.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The body implementing the agreement is the Association Committee. The fifth meeting of the Association Committee and of its sub-committees (Market access, Customs and rules of origin, Technical Barriers to Trade (TBT), SPS, Intellectual Property Rights (Geographical Indications), Board on Trade and Sustainable Development, Government Procurement) took place between 18 and 27 June, 2019, in Guatemala. An important outcome of that meeting was the final technical approval of the text of a Protocol on the incorporation of Croatia to the Association Agreement. EU internal administrative procedures for the adoption of the Protocol began soon thereafter and are still ongoing.

Central American parties have successfully engaged with the EU in the collection of relevant and reliable statistical data to assess the use of tariff preferences by EU exporters. In 2019, Central America made a substantial effort in this regard and provided with data for each country in the region.

The Sub-committee on customs, trade facilitation and rules of origin focused on the preparation of several pending decisions for approval by the Association Council, which in particular adopted explanatory notes that would set out the procedure for the wording used on EUR1 movement certificates where it differs slightly from the specimen in the Association Agreement. Work on this issue continued in the second half 2019. A technical agreement was reached on updates for the product specific rules of origin for the Harmonised System 2012 and 2017 and the process of adoption of the decision wawas launched and it is still ongoing. The use of tariff rate quota for products such as tuna and textiles imported into the EU was also discussed.

Central America informed the EU about the conclusion of an administrative cooperation agreement with countries of the Andean Community (Bolivia, Colombia, Ecuador and Peru), which would provide an up-to-date legal base for cumulation of origin with these countries, pursuant to the Agreement. In addition, as a trade facilitating measure at import, Central America, as a block, introduced a single administrative document for customs declarations, which allows them to meet their commitment under the Association Agreement in this area.

In the sub-committee on market access the Parties exchanged information on agri-food trade flows, including the use of preferences and the Banana Stabilisation Mechanism state of play. The parties also agreed to exchange information on the use of tariff rate quotas -on a monthly basis- to improve controls and agreed on the need to enhance their utilization.
The EU reiterated its longstanding call to discontinue the discriminatory nature of the taxation scheme applicable on alcoholic beverages and beers in line with Costa Rica's commitment under the Joint Declaration to the Association Agreement to revise the scheme by 2014. The EU also continued to insist on cooperation by Costa Rica in respect of commitments regarding the spirits sector in order to assess its domestic taxation scheme. This sector was also subject to a review commitment by Costa Rica by 2017. For spirit drinks Costa Rica considers that there is no discrimination between nationally produced and imported products, concerning the regime applicable to beer. However, a case was brought before Costa Rica's Constitutional Chamber and the conclusion of the proceedings is still pending.

In the case of Panama, the EU raised concerns over an initiation of an investigation on safeguard measures concerning the importation of pig meat. Concerns were also raised by the EU with Honduras, El Salvador, Nicaragua and Panama on their procedures for the import of EU agri-food products (onions, wine and cheeses).

Following from commitments in the Agreement[71], and pursuant to a request by the Central American countries, the preferential treatment for bananas in the Central American region was examined. The examination concluded without the possiblity to improve the existing preferential treatment. The preferential customs duty for fresh banana remains fixed at €75 per tonne (*see also Section 4 below reporting on the stabilisation mechanism)*.

The **sub-committee on Sanitary and Phytosanitary Measures (SPS)** delivered positive outcomes and consolidated progress was made to date. El Salvador started to implement the prelisting principle for EU establishments exporting products of animal origin. El Salvador indicated that all the establishments that are approved by the EU are automatically approved by the sanitary authority of El Salvador. Thus all EU listed establishments of animal products are eligible to export products covered by the prelisting procedure to El Salvador.

Both parties raised a number of trade irritants.

- The EU flagged significant concerns with the lack of progress on a number of Member States' applications approvals for exporting to Panama. In addition, Panama has imposed restrictions on exports from certain Member States due to the presence of African Swine Fever for products from certain Member States, and has not applied the regionalisation provisions in the Association Agreement and did not take into account the strict control measures applied EU-wide.
- The prelisting mechanism is not yet applied consistently and in a transparent manner by Honduras, Guatemala and Nicaragua.
- Central America, on its part, expressed concerns over the EU policy on the Maximum Residue Levels (MRLs) for certain pesticides in agriculture products, which are lower than those established by Codex Alimentarius. Central America claims that the new requirements risk having a major impact on their exports of bananas, a major

[71] Cf. paragraph 3, Appendix 3, Annex 1 of the Agreement

agricultural export product. The six countries (Costa Rica, El Salvador, Panama, Honduras, Nicaragua, Guatemala) tabled a joint declaration on pesticides' MRLs to express their concerns. The new EU plant health rules were also the subject of lenghty discussions.

More generally, the EU highlighted the following core issues:

i) The importance for Central America to fulfill procedures established in the Association Agreement to ensure that market access requests are handled in a timely and transparent manner, including the approval of lists of establishments and their publication, among others.
ii) The importance of complying with standards, guidelines and recommendations of the international standard setting organisations.
iii) The need to eliminate from health certficates any requirement imposing that the animals from which the products orginate are born and raised in the exporting EU Member State.

Central America made several requests of technical assistance, including to provide support to fulfill the requirements to export beef to the EU.

At the **sub-committee on Technical Barriers to Trade**, Central America claimed that the sustainability requirements set out by the new EU Renewable Energy Directive (REDII) applicable to biofuels would affect their exports of palm oil (an issue of concern in particular for Guatemala). The EU, on its part, expressed concerns in regard of the incomplete implementation of the regional technical regulations as set out in Annex XX of the Agreement (Central America has 18 regulations in force out of 20 and Panama only 12).

As regards Intellectual Property Rights/Geographical Indications (GIs), Parmigiano Reggiano is the only EU GI out of 114 GIs for which the recognition process is not finalised in Guatemala. The EU expressed its opposition to Guatemala's initial administrative decision to declare the individual terms 'Parmigiano' (and its translation 'Parmesano') and 'Reggiano' as generic. The case is now pending before Guatemala's Constitutional Court and no timeline with regard to an expected decision could be provided. The EU also reiteraited its concerns about the decision taken by Honduras in 2016 to declare several names relating to EU GIs (such as 'Grana Padano') as generic. The matter was raised at the IPR sub-committee meetings in 2018 and 2019 and the lists of " generic terms" were withdrawn later in the year.

Furthermore, the parties continued their work in a text that clarifies the internal procedures for future incorporation of Geographical Indications in the respective Central American countries and in the EU.

At the meeting of the ad hoc sub-committee on government procurement the EU reminded the Central American partners of the importance of transparency obligations in the procurement process. EU companies had been facing a number of issues in this regard in the past, in particular in Panama the vast majority of which were successfully resolved following intervention from the EU. The Association Agreement provides for a single contact point of access at the regional level for all six partners, in the form of a webpage that would allow companies to access all necessary information on the procurement processes and tenders.

Central American partners still have not established this contact point. Central America requested technical assistance to establish the single contact point and EU is favourably considering it.

4. ACTIVITIES SUBJECT TO SPECIFIC MONITORING

Article 15 of Regulation (EU) No 20/2013[72] (the 'Regulation') provides for the **stabilisation mechanism for fresh bananas** (HS code 08 03 90 10). When the annual trigger volume of imports per country in the agreement is met, the Commission examines the impact of these imports on EU's market for bananas and takes a decision to either temporarily suspend the preferential customs duty or determines that such suspension is not appropriate. The stabilisation mechanism applied until 31 December 2019.

The Association Agreement provides a preferential customs duty on bananas under heading 0803.00.19 (fresh bananas), progressively reduced since the date of application of the Agreement until the year 2020 (following the schedule indicated in a tariff reduction table). This special treatment is linked to a stabilisation clause that sets out an annual trigger volume for imports from each Central American country during the transition period. If, as a result of the reduction of customs duties, the level of imports of bananas is such as to cause or threaten to cause injury to the EU banana sector, the Regulation establishes the appropriate procedures to be adopted to avoid serious harm to this sector.

In this context, and in accordance with Articles 3 and 13 of the Regulation, the Commission has been monitoring the evolution of imports of fresh bananas from the Central American countries party to the free trade agreement (Guatemala, Honduras, Nicaragua, Panama, Costa Rica and El Salvador).

2019 Imports of fresh bananas (Central American Countries)	**Total imports (tonnes)**	**Trigger level (tonnes)**	**%**
Guatemala	195 277.556	72 500	269.3%
Honduras	20 088.362	72 500	27.7%
Nicaragua	71 512.201	14 500	493.2%
Panama	274 452.272	543 750	50.5%
Costa Rica	1 117 081.976	1 486 250	75.2%
Salvador	0	2 900	0%
Total	1 753 920.000	2 192 400	80%

Banana imports from both Guatemala and Nicaragua exceeded their individual trigger level for 2019, as they did in previous years. In line with Article 15(3) of the Regulation, at the moment when the trigger level was reached, the Commission examined the impact on the EU

[72] Regulation (EU) No 20/2013 of the European Parliament and of the Council of 15 January 2013 implementing the bilateral safeguard clause and the stabilisation mechanism for bananas of the Agreement establishing an Association between the European Union and its Member States, on the one hand, and Central America on the other, of the other part as amended by Regulation (EU) 2017/540 of the European Parliament and of the Council of 15 March 2017.

market taking into account, inter alia, the effects on the price level, developments of imports from other sources and the overall stability of the EU market.

Based on this examination, the Commission concluded that **the suspension of the preferential duty on imports of fresh bananas originating in Guatemala and Nicaragua was not appropriate** as the share of imports from these two countries in the overall imports of bananas was very small at the moment the respective thresholds were exceeded. Imports from the other countries remained far below the thresholds defined for them; and these imports did not show any negative effect on the EU wholesale price for bananas, which remained fairly stable in 2019. The overall volume of imports of the region was slightly above 1.75 million tonnes which represent only 80% of the cumulated trigger level (2.19 million tonnes).

The Commission continued to closely monitor the situation until year-end. Despite the fact that imports from Guatemala and Nicaragua continued to increase, the situation did not change in substance (e.g. the share of imports from Guatemala and Nicaragua in the overall imports of bananas remained very low: 1.6% for Nicaragua and 4.3% for Guatemala) and there was no indication of any negative impact on the EU market for bananas.

At the end of 2019, the overall total import volume that had benefitted from preferential treatment in Central America reached 80% of the total trigger level. These import volumes were at the same level of the previous year, and did not threaten the EU banana sector. The stabilisation mechanism has now expired. In line with the commitment undertaken in the Joint declaration to Regulation (EU) 2017/540[73] the Commission will continue to carry out regular analysis of the state of the market and the Union banana producers and, if need be, examine the situation together with Member States and the stakeholders.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Even though Central America as a whole exhibited a slowdown in growth, manifested in the deceleration in Costa Rica, Honduras and Panama, and the continued recession in Nicaragua, the economic performance was superior to that of the South American countries. This is primarily due to favourable conditions in the United States, their main export market, and the relative stability of the macro prices, inflation and exchange rates. Inflation targeting in Costa Rica, Guatemala and Honduras has contributed to price stability over the past year, while the dollarized economies of El Salvador and Panama have continued importing low inflation. Finally, exchange rates have remained stable in most countries because of the regular inflow of foreign currency into the economies, combined with favourable prices for oil and other raw materials that have eased the pressure on foreign currency reserves.

The evolution of macroeconomic variables for the Central American countries was somewhat asymmetric. In the case of Costa Rica, economic growth remained moderate with a downward trend, falling from 2.6% in 2018 to 2.1% in 2019, partly due to a slowdown in aggregate

[73] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0540&qid=1579189798344&from=EN

demand stemming from the fiscal reform in place since December 2018. Meanwhile, unemployment reached a relatively high 12.4% by the end of 2019. In El Salvador, GDP growth rose from 2.5% in 2018 to 2.9% in 2019, with unemployment reaching 4.1% at the end of 2019. Guatemala experienced higher growth in 2019 (3.5%) as compared to 2018 (3.1%), with unemployment at a low 2.5% in the third quarter of 2019.

In the case of Honduras, economic growth reached 4.7% in 2018, dropping to 2.7% in 2019 – a result of worsening terms of trade. During the third quarter of that year, unemployment reached 5.7%. Nicaragua is the only country in the area that experienced a recession, due to the continued civil unrest prevalent in the nation: economic growth went from -3.8% to -3.9% between 2018 and 2019. Finally, Panama exhibited a growth rate of 3.7% in 2018 compared to 3.0% in 2019 (partly explained by a slowdown in the construction sector), with unemployment reaching 7.1% at the end of 2019.

With respect to the nominal variables, there have been more similarities across countries: the two economies that have adopted inflation targeting, Costa Rica and Guatemala, have achieved levels of inflation consistent with their policy goals (2.2% and 2.1% for Costa Rica in 2018 and 2019 respectively; and 3.7% for both years in the case of Guatemala). Meanwhile, the dollarized economies – El Salvador and Panama – have had low and even negative rates of inflation (1.1% and 0.1% for El Salvador in 2018 and 2019, respectively; and 0.8% and -0.4% of Panama in 2018 and 2019 respectively). Finally, Honduras and Nicaragua have had inflation rates hovering 4 – 5.4%: For Honduras, inflation in 2018 was 4.4%, and in 2019 it went down to 4.0%, whereas Nicaragua had an inflation rate of 4.9% in 2018, which went up to 5.4% in 2019.

During 2019, all countries bar Nicaragua experienced an appreciation of their currency with respect to the Euro. For both El Salvador and Panama, the gain in value of 2.6% mirrored that of the US dollar/Euro exchange rate. The appreciation of the Guatemalan currency was similar at 2.7%, while for Honduras the gain in value was 1.0%. Costa Rica experienced the largest appreciation: the local currency gained 7.8% of its value, while for Nicaragua, as noted above, the depreciation was -2.6% with respect to the Euro.

It is noteworthy that **all countries have substantial deficits in their trade for goods**. These have been countered by the inflow of foreign currency resulting from surpluses in the trade for services (in particular, tourism for all countries, and the income derived from the operation of the Canal for Panama); net remittances and foreign direct investment. For all countries and years the main export destination is the United States (except for Panama in 2018, when the main destination was the Netherlands); while the United States is the principal place of origin for all imports from the six countries.

5.2 Trade in goods

Overview

During the last years, the Central American parties have successfully engaged with the EU in the collection of relevant and reliable statistical data to assess the use of tariff preferences by EU exporters. In 2019, Central America made a substantial effort in this regard and provided data for each country of the region.

Total exports of merchandise from the EU to the Central American countries **continued to enjoy robust growth**, reaching EUR 6,219 million in 2019, an 8.8% increase with respect to

2018. Imports also showed a positive trend, amounting to EUR 5,864 million in 2019, a growth of 5.2% over 2018.

As shown in Table 1, imports have been steadily increasing over the past five years, while exports have had positive growth for all years excluding 2016. Also, for all years bar 2017, the EU has registered a modest trade surplus with Central American countries.

Table 1: Merchandise trade EU27 - Central America 2015-2019 (million EUR)

		2015	2016	2017	2018	2019
Central America	Imports	4,493	4,874	5,458	5,575	5,864
	Exports	5,283	4,980	5,133	5,714	6,219
	Balance	**790**	**106**	**-325**	**139**	**355**
Costa Rica	Imports	1,840	2,121	2,350	2,422	2,576
	Exports	872	973	1,019	974	1,088
	Balance	**-967**	**-1,147**	**-1,331**	**-1,449**	**-1,488**
El Salvador	Imports	180	194	233	201	186
	Exports	522	449	457	732	802
	Balance	**342**	**255**	**224**	**532**	**616**
Guatemala	Imports	755	806	932	899	980
	Exports	909	871	954	948	1,000
	Balance	**154**	**66**	**22**	**48**	**20**
Honduras	Imports	904	933	1,135	1,026	976
	Exports	479	438	425	469	464
	Balance	**-425**	**-495**	**-710**	**-557**	**-512**
Nicaragua	Imports	277	263	310	334	343
	Exports	213	227	236	184	186
	Balance	**-64**	**-36**	**-73**	**-150**	**-157**
Panama	Imports	537	557	499	692	803
	Exports	2,287	2,021	2,042	2,407	2,678
	Balance	**1,750**	**1,464**	**1,543**	**1,715**	**1,875**

* Source: EUROSTAT

It should be pointed out that if the trade statistics were to include the U.K., there would be a change in some of the main observations. The U.K. has had a persistent trade deficit with the CA countries throughout the period 2015-2019, averaging almost EUR 300 million each year. The U.K.'s primary source of imports within the area is Costa Rica (between EUR 269 million and EUR 411 million during the last five years), and its main export destination is Panama (between EUR 154 million and EUR 233 million over that same span).

Trade flows between EU-27 and CA and annual growth in 2019 (million EUR)

Country	EU Exports(*)		EU Imports(*)		Balance	Total flow	
Costa Rica	1,088	11.8%	2,576	6.3%	-1,488	3,664	30.3%
El Salvador	802	9.5%	186	-7.5%	616	988	8.2%
Guatemala	1,000	5.5%	980	9.0%	20	1,980	16.4%
Honduras	464	-1.1%	976	-4.9%	-512	1,439	11.9%
Nicaragua	186	1.0%	343	2.7%	-157	530	4.4%
Panama	2,678	11.3%	803	16.1%	1,875	3,482	28.8%
TOTAL	**6,219**	**8.8%**	**5,864**	**5.2%**	**355**	**12,083**	**100.0%**

* Source: EUROSTAT

As shown in Table 2, **the main destination of EU exports in CA in 2019 continues to be Panama** (EUR 2,678 million, up 11.8% from 2018), while the main country of origin of Central America in imports by the EU in 2019 was Costa Rica (EUR 2,576 million; a 6.3% increase from 2018). Between 2018 and 2019, EU exports to Central America rose for all countries except Nicaragua and Honduras, as did imports from all countries, except El Salvador and Honduras, when compared to figures for 2018.

Country-by-Country analysis

Costa Rica's primary exports to the EU fall under the category of edible fruits and nuts (mainly bananas and pineapples). This category saw a slight decrease in the value of exports, from EUR 1,253 million in 2018 to EUR 1,202 million in 2019 [46.7% of total exports] – a loss of 4%. Meanwhile, Costa Rican exports of prepared vegetables and fruits to the EU remained unchanged at EUR 137 million in both 2018 and 2019. Finally, exports of optical, surgical and medical equipment have continued their surge reaching EUR 866 million in 2019 [33.6% of total], representing a 22.5% increase from their level of EUR 706 million in 2008. If these trends continue in future years, this product category may become the most important of Costa Rica's exports to the EU showing its lead in diversifying and increasing the added value to its export range.

Mechanical machinery remained the main category of **EU exports** to Costa Rica – EUR 160 million – but fell EUR 10 million with respect to 2018, a decrease of 5.8%; while exports of electrical machinery decreased by EUR 20 million to EUR 61 million in 2019. Traditionally, the second most important export item, motor vehicles, fell by 11.9% from EUR 84 million in 2018 to EUR 74 million in 2019. Finally, there was a substantial increase in EU exports of mineral fuels and mineral oils to Costa Rica: from EUR 6 million in 2018 to EUR 131 million in 2019.

In the case of **El Salvador**, **all three main export** categories to the EU suffered a decrease in 2019. Electrical machinery and equipment fell from EUR 53 million in 2018 to EUR 38 million in 2019. Meat preparations went from EUR 53 million to EUR 47 million between 2018 and 2019, while fish and crustaceans decreased from EUR 29 million to EUR 25 million over the same period. Finally, exports of coffee remained essentially unchanged at EUR 27 million.

EU Exports to El Salvador took a substantial boost from the purchases of aircraft by a national airline in 2019: jumping from EUR 281 million to EUR 352 over the course of a year [44% of all EU exports]. Exports of machinery and mechanical appliances, the second main category, increased by 9.6%: from EUR 101 million in 2018 to EUR 111 million in 2019 [14% of total].

Guatemala's exports of palm oil to the EU went from EUR 254 million in 2018 to EUR 240 million in 2019 [24% of total exports], representing a 5.6% decline. Exports of coffee also experienced a slight decrease, going from EUR 134 million in 2018 to EUR 128 million in 2019 – linked to the fall in international prices for the commodity in that year. In contrast, exports of edible fruits and nuts (mainly bananas) had a substantial increase of 41.8%: from EUR 94 million to EUR 134 million. Exports of beverages also rose from EUR 59 million to EUR 97 million.

In 2019, there was an increase of 5.8% in the **EU exports** of mechanical equipment to Guatemala. The total amount went from EUR 189 million in 2018 to EUR 199 million in 2019 [20% of all exports]. Pharmaceutical products also experienced a considerable gain (19.1%), going from EUR 79 million to EUR 94 million.

Honduras was the only Central American country that experienced a decrease of both exports and imports to and from the EU during 2019. Coffee exports to the EU went from EUR 529 million in 2018 to EUR 513 million in 2019 [52.6% of all exports] – a fall of 2.9%. Similarly, exports of palm oil fell by 16.8%, going from EUR 262 million in 2018 to EUR 218 million in 2019 [22.3% of total]. An important category showed a marked improvement: exports of apparel and knitted clothing went from EUR 29 million in 2018 to EUR 43 million in 2019; while edible fruits and nuts (mainly bananas) remained basically unchanged at EUR 48 million in 2019.

Machinery and mechanical equipment continued to be the main category of **EU exports** to Honduras, with a value of EUR 164 million experiencing almost no change between 2018 and 2019. However, exports of electrical machinery and equipment did suffer a 17.3% drop, as sales went from EUR 51 million in 2018 to EUR 42 million in 2019 [9% of all exports]. Finally, pharmaceutical products received an 18.5% boost, with exports going from EUR 22 million in 2018 to EUR 27 million in 2019.

In the case of **Nicaragua,** the total flow of trade had a relatively small growth in 2019. The behaviour of the three main exports to the EU was mixed. On the one hand, exports of coffee experienced a tenuous gain, going from EUR 103 million in 2018 to EUR 105 million in 2019 [30.6% of all exports]. Meanwhile, fish and crustaceans had a 13.1% growth – an increase from EUR 80 million in 2018 to EUR 90 million in 2019 [26% of exports]. As for edible fruits and nuts (mainly bananas), the volume shrank from EUR 38 million in 2018 to EUR 31 million in 2019.

The **EU's main export** to Nicaragua, machinery and mechanical appliances, registered an increase of 13.1% rising from EUR 35 million in 2018 to EUR 40 million in 2019. As for electrical machinery and equipment, EU exports remained unchanged at EUR 30 million over the period.

Panama's main exports to the EU in 2018 – ships, boats and floating structures – suffered an important reduction of 46.2%, declining from EUR 225 million in 2018 to EUR 121 million in 2019. In contrast, edible fruits and nuts experienced a 5.4% growth, rising from EUR 241 million in 2018 to EUR 254 million in 2019 [31.6% of total exports]. It is also worthwhile to note that exports of ores, slag and ash, while non-existent in 2018, amounted to EUR 143 million in 2019. The opening of a large copper mine in Panama in 2019 is expected to result in increasing levels of EU imports under this category from the country.

Exports from the EU to Panama continued to be well diversified. The sales of aircraft observed an important 86.3% growth: from EUR 242 million in 2018 to EUR 451 million in 2019 [16.8 of total exports]. Pharmaceutical products went from EUR 326 million in 2018 to EUR 395 million in 2019 – an increase of 21.3% [14.7% of EU exports]. As for machinery and mechanical appliances, 2019 registered a fall to EUR 209 million, compared to EUR 244 million in 2018. Overall, the EU continued to register a sizeable trade surplus with Panama.

5.3 Trade in agricultural products

Agriculture products continue to largely dominate **Central American exports to the EU**. They amounted to € 3,7 billion in 2019 that is 64% of total exports to the EU. The figure remained stable compared to 2018. In 2019, The main Central American agriculture exports were bananas (€ 1 billion), coffee (€ 799 million), pineapple (€ 511), palm oil (€455 million), melon and water melons (€ 111 million) and vegetables (€ 71 million). Fish products amounted to € 351 million in 2019 that is 6% of total exports to the EU. Fishery products exports increased by 7% compared to 2018. Central American fishery exports to the EU in 2019, were dominated by frozen shrimps (€132 million) and tuna (€ 75 million),

EU agriculture exports to Central America amounted to € 630 million in 2019 that is 10% of total exports to Central America. EU Agriculture exports to Central America increased by 5% compared to 2018. In 2019 EU agriculture exports to Central America were dominated by wine and spirits (€ 124 million), food preparations (€ 84 million), preparation of cereals (€59 million), malt starches, inulin (€ 54 million), preparation of vegetable (€ 53 million) and dairy products (€ 43 million). Fishery products exports of the EU amounted to (€ 9,5 million) and are mainly processed food products.

The Agreement provides for tariff rate quotas (TRQs) which grant the other party a preferential tariff treatment up to the quota's quantitative threshold. Above this threshold, imports are subject to the applicable Most-Favoured Nation (MFN) tariff.

TRQ granted by the EU to Central American Countries

The Association Agreement grants eight TRQs to Central America on products that did not have any preferential access to the EU market prior to the entry into force of the Agreement. In 2019, Central America used the available TRQs for products originating in Central America for as outlined in the table below.

Origin	Products	Unit	TRQ volume	EU Import	Utilisation rate
Central America	Garlic	ton	550	0	0%
	Rice		26,000	0	0%
	Bovine meat*		12,350	0	0%
	Mushroom		275	0	0%
	Manioc starch		5,000	98	2%
	Sweetcorn		2,160	0	0%
Central America except Panama	Sugar		177,000	178,616	100%
	Rum in container > 2 l	Litre Pure Alcohol	8,800	8,800	100%

TRQ statistics based on TAXUD surveillance database.
*except Nicaragua which has its own beef quota

TRQ granted by Central America to the EU[74]

Central America granted **the EU TRQs on four specific products**. EU exporters made use of the opportunities offered by these TRQs in 2019, although there continues to be a margin of growth given that current utilisation rates remain under 50% in the best of cases:

Products	Total quota CA in Tons	Costa Rica			El Salvador			Guatemala			Panama			Honduras			Nicaragua		
		EU imports in tons	TRQ applied in tons	utilisation rate	EU imports in tons	TRQ applied	utilisation rate	EU imports in tons	TRQ applied	utilisation rate	EU imports in tons	TRQ applied	utilisation rate	EU imports in tons	TRQ applied	utilisation rate	EU imports in tons	TRQ applied	utilisation rate
Cured hams	1.170	85,2	1170	**7%**	12,79	1170	**1,1%**	34,31	1170	**3%**	NA	1170	NA	NA	NA	NA	NA	NA	NA
Prepared swine meat	1.170	17,3	1170	**1%**	0,07	1170	**0,01%**	50,2	1170	**4,3%**	NA	1170	NA	NA	NA	NA	NA	NA	NA
Powdered milk	2470	50	260	**19%**	154,3	260	**59,3%**	520	520	**100%**	598,7	650	**92%**	NA	NA	NA	NA	NA	NA
Cheese	3900	372,8	413	**90%**	108	757	**14,3%**	482,4	780	**62%**	578,4	780	**74%**	NA	NA	NA	NA	NA	NA

TRQ statistics submitted by Central America countries. To be noted TRQ granted by Central America for EU imports on cured hams and Prepared swine meat are regional while Powdered Milk and Cheese is set country by country.

[74] Information is missing from Nicaragua, Honduras and Panama.

Geographical indications

The Agreement provides for the protection of 114 EU GIs relating to wine, cheeses, beer, meat products and spirits. With the exception of Parmigiano Reggiano, on which a case is ongoing before Guatemala's Constitutional Court, the process for the protection of EU GIs has been completed. On the other hand, all nine Central American GIs that were requested, were effectively recognised by the EU and relate to coffee, bananas and spirits. The EU monitors the situation on the ground and works closely with the relevant authorities of Central America to ensure that the EU GIs are adequately protected.

5.4 Trade in services and Foreign Direct Investments

Trade in Services

Trade in services between the two regions continued its upward trend, and in 2018 it represented over 40% of the value of total trade in goods and services. As depicted in Table 4, **total trade in services** in that year amounted to EUR 8,225 million, an **increase of 3.7%** with respect to 2017. As in previous years, it is concentrated on the **two main markets** – **Panama and Costa Rica** – the former with nearly 60% of the share, and the latter situated above 20% of the total of the six countries.

Trade in services between the EU and CA in 2017 and 2018 (million EUR)

Country	2017			2018			
	EU Exports	EU Imports	Total	EU Exports	EU Imports	Total	Share
Costa Rica	760	907	1,667	830	908	1,738	21.1%
El Salvador	250	86	336	241	102	343	4.2%
Guatemala	307	335	642	369	307	676	8.2%
Honduras	195	160	355	231	128	359	4.4%
Nicaragua	172	142	314	135	107	242	2.9%
Panama	2,104	2,516	4,620	2,150	2,717	4,867	59.2%
Total	**3,788**	**4,146**	**7,934**	**3,956**	**4,269**	**8,225**	**100%**

Source: Eurostat

Noticeably, exports of services from the EU between 2017 and 2018 have grown in all countries except for El Salvador and – quite substantially –falling for Nicaragua as well; in the case of this last country, this most probably reflects the economic recession and political uneasiness prevalent since 2017. In the case of imports of services, only Panama, and to some extent El Salvador, registered a significant increase between 2017 and 2018. Costa Rica's exports of services to the EU in 2018 remained largely unchanged, while Guatemala, Honduras and Nicaragua all suffered a fall in their exports of services to the EU.

Development of FDI

In 2018, three countries (Panama, Guatemala and Costa Rica) concentrated 94% of all EU FDI in the region. Table 5 portrays the stocks and flows for the region in 2018. In the case of FDI stocks of the EU in the six Central American countries, these represented during 2018 totalled EUR 22,497 million.

Regarding the flows, there was more of a mixed performance. There was a sizeable outward flow of FDI for the case of Costa Rica (EUR 1,254 million), while Panama experienced a negative outward flow in 2018 (negative EUR 1,370) – partly due to the publication of the Panama papers and the subsequent changes of European investors' portfolios. Guatemala registered an increase in FDI stemming from EU countries of the order of EUR 135 million, while El Salvador, Honduras and Nicaragua all suffered FDI outflows; in the latter case it was quite important, and a likely outcome from the economic and political situation in Nicaragua.

FDI flows and stocks in 2018: inward and outward (million EUR)

Country	**Flows**			**Stocks**			
	FDI inward	**FDI outward**	**Tot. Flow**	**FDI inward**	**FDI outward**	**Tot. Stock**	**Share**
Costa Rica	110	1,254	1,364	1,245	4,617	5,862	16.4 %
El Salvador	144	-38	182	387	784	1,171	3.3%
Guatemala	42	135	177	213	2,149	2,362	6.6%
Honduras	2	-46	48	26	272	298	0.8%
Nicaragua	6	-82	88	82	332	414	1.2%
Panama	173	-1,370	1,543	11,310	14,343	25,653	71.7 %
Total	477	-147	3,402	13,263	22,497	35,760	100 %

Source: Eurostat

6. CONCLUSIONS

As to trade flows between the two regions governed by the Association Agreement between the EU and the six Central America countries, overall there have been a **significantly upward trend the trade of both goods and services over 2019**. This trend was experienced despite the ongoing recession in Nicaragua since 2017, and the slowdown of economic growth experienced by both Costa Rica and Honduras.

EU exports to Central America crossed the EUR 6,000 million milestone in 2019 and a large part of it as a result of increased exports of machinery and mechanical appliances, electric machinery and large aircraft purchases made in both El Salvador and Panama. The pharmaceutical sector also thrived, and there was a sizeable increase in EU exports of mineral fuels and mineral oils to Costa Rica.

Central America continues to enjoy large trade surplus with the EU in terms of agriculture goods. Central America agriculture exports remained stable with a value of EUR 3,7 billion in 2019. Central America agriculture exports remain dominated by bananas, coffee, pineapple, palm oil, and melon. EU agriculture exports to Central America amounted to € 630 million in 2019 and increased by 5% compared to 2018. In 2019 EU agriculture exports to Central America were driven by wine and spirits, food preparations, preparation of cereals, malt starches, inulin, preparation of vegetable and dairy products.

Trade in services also saw growth between 2017 and 2018. Panama and Costa Rica continue to be the most important trade partners in services. The picture for FDI flows yields some mixed results. Most of the inflows of capital went to Costa Rica, with Panama exhibiting a comparable outflow in FDI coming from the EU.

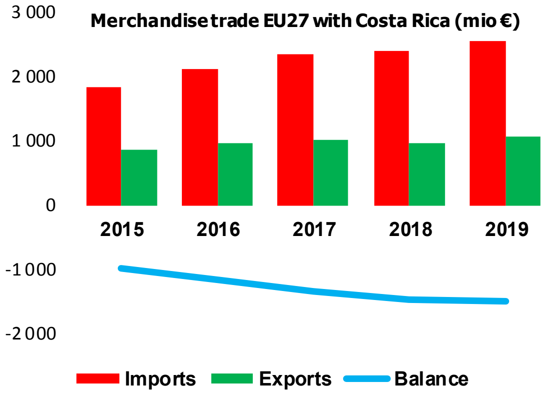
An **ex post evaluation** will be launched in the second semester of 2020 to analyse the economic, social, human rights (including labour rights) and environmental impacts of the implementation of the Agreement and should provide useful analysis and insight for the implementation work.

7. Statistics

COSTA RICA

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Costa Rica (mio €)					
Imports	1 840	2 121	2 350	2 422	2 576
Exports	872	973	1 019	974	1 088
Balance	-967	-1 147	-1 331	-1 449	-1 488
Share Costa Rica in EU27 trade with Extra-EU27					
Imports	0.1%	0.1%	0.1%	0.1%	0.1%
Exports	0.0%	0.1%	0.1%	0.0%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Costa Rica with world					
Imports	8.4%	8.8%	9.2%	8.8%	10.7%
Exports	16.9%	19.1%	18.9%	19.2%	19.1%
Total (I+E)	11.6%	12.8%	13.1%	13.0%	14.1%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Costa Rica: IMF Dots



Total merchandise trade EU27 with Costa Rica (mio €)				
Costa Rica	2018	2019	Growth mio €	Growth annual %
Imports	2 422	2 576	154	6.3%
Exports	974	1 088	115	11.8%
Balance	-1 449	-1 488	-39	
Total trade	3 396	3 664	268	7.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Costa Rica (mio €)				
Costa Rica	2018	2019	Growth mio €	Growth annual %
Imports	1 554	1 559	5	0.3%
Exports	113	121	7	6.6%
Balance	-1 441	-1 438	3	
Total trade	1 667	1 679	12	0.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Costa Rica (mio €)				
Costa Rica	2018	2019	Growth mio €	Growth annual %
EU27 imports	868	1 017	149	17.2%
EU27 exports	860	968	107	12.5%
Balance	-8	-50	-42	
Total trade	1 729	1 985	256	14.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Costa Rica (mio €)				
Costa Rica	2017	2018	Growth mio €	Growth annual %
Imports	907	908	1	0.1%
Exports	760	830	71	9.3%
Balance	-147	-78	70	
Total trade	1 667	1 739	72	4.3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Costa Rica (mio €)					
	2014	2015	2016	2017	2018
Imports	432	547	606	907	908
Exports	573	598	770	760	830
Balance	141	51	164	-147	-78
Total trade	1 005	1 145	1 376	1 667	1 739

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)					
	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Costa Rica (mio €)					
	2014	2015	2016	2017	2018
FDI Stocks					
Inward	850	850	1 122	1 255	1 245
Outward	2 090	2 503	3 526	3 338	4 617
FDI Flows					
Inward	20	123	345	47	110
Outward		518			1 254

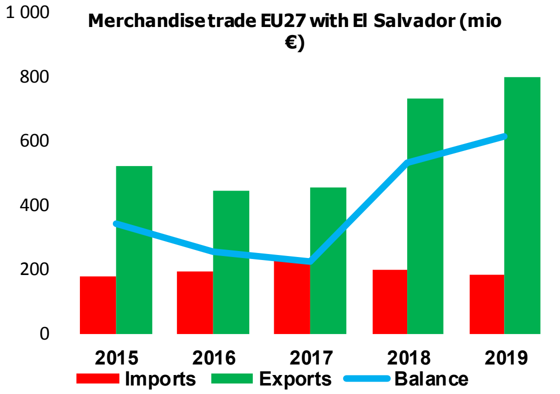
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)					
	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

EL SALVADOR

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with El Salvador (mio €)					
Imports	180	194	233	201	186
Exports	522	449	457	732	802
Balance	342	255	224	532	616
Share El Salvador in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.0%	0.0%	0.0%	0.0%	0.0%
Total (I+E)	0.0%	0.0%	0.0%	0.0%	0.0%
Share EU27 in trade El Salvador with world					
Imports	6.0%	4.3%	6.0%	7.4%	6.1%
Exports	2.7%	2.6%	2.8%	2.4%	2.7%
Total (I+E)	4.9%	3.7%	4.9%	5.7%	5.0%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade El Salvador: IMF Dots



Total merchandise trade EU27 with El Salvador (mio €)

El Salvador	2018	2019	Growth mio €	Growth annual %
Imports	201	186	-15	-7.5%
Exports	732	802	70	9.5%
Balance	532	616	85	
Total trade	933	988	54	5.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with El Salvador (mio €)

El Salvador	2018	2019	Growth mio €	Growth annual %
Imports	42	54	12	27.6%
Exports	51	57	6	12.6%
Balance	9	3	-5	
Total trade	93	111	18	19.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with El Salvador (mio €)

El Salvador	2018	2019	Growth mio €	Growth annual %
EU27 imports	159	132	-27	-16.8%
EU27 exports	682	745	63	9.3%
Balance	523	613	90	
Total trade	840	877	36	4.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with El Salvador (mio €)

El Salvador	2017	2018	Growth mio €	Growth annual %
Imports	86	102	17	19.6%
Exports	250	241	-9	-3.7%
Balance	164	138	-26	
Total trade	336	343	8	2.3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with El Salvador (mio €)

	2014	2015	2016	2017	2018
Imports	84	82	91	86	102
Exports	239	248	252	250	241
Balance	154	166	160	164	138
Total trade	323	330	343	336	343

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with El Salvador (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	41	12	106	341	387
Outward	942	1 093	1 070	811	784
FDI Flows					
Inward	7	-14	77	307	144
Outward		142			-38

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

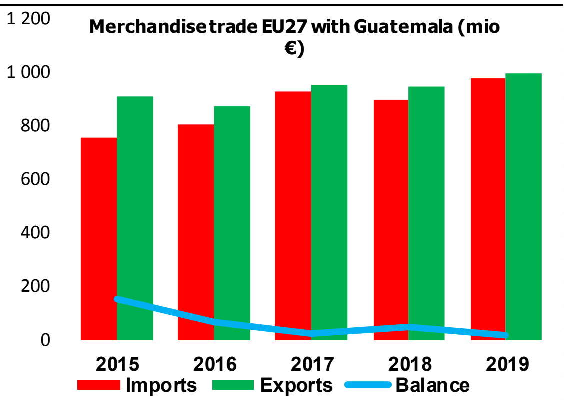
FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

GUATEMALA

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Guatemala (mio €)					
Imports	755	806	932	899	980
Exports	909	871	954	948	1 000
Balance	154	66	22	48	20
Share Guatemala in EU27 trade with Extra-EU27					
Imports	0.0%	0.1%	0.1%	0.0%	0.1%
Exports	0.0%	0.0%	0.0%	0.0%	0.0%
Total (I+E)	0.0%	0.0%	0.1%	0.0%	0.0%
Share EU27 in trade Guatemala with world					
Imports	7.3%	7.0%	7.2%	7.2%	6.8%
Exports	7.0%	8.0%	8.2%	8.5%	8.4%
Total (I+E)	7.2%	7.4%	7.6%	7.6%	7.4%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Guatemala: IMF Dots



Total merchandise trade EU27 with Guatemala (mio €)

Guatemala	2018	2019	Growth mio €	Growth annual %
Imports	899	980	81	9.0%
Exports	948	1 000	53	5.5%
Balance	48	20	-29	
Total trade	1 847	1 980	134	7.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Guatemala (mio €)

Guatemala	2018	2019	Growth mio €	Growth annual %
Imports	708	764	57	8.0%
Exports	125	144	19	14.8%
Balance	-582	-621	-38	
Total trade	833	908	75	9.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Guatemala (mio €)

Guatemala	2018	2019	Growth mio €	Growth annual %
EU27 imports	192	216	24	12.6%
EU27 exports	822	856	34	4.1%
Balance	631	641	10	
Total trade	1 014	1 072	58	5.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Guatemala (mio €)

Guatemala	2017	2018	Growth mio €	Growth annual %
Imports	335	307	-28	-8.3%
Exports	307	369	62	20.2%
Balance	-29	61	90	
Total trade	642	676	34	5.3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Guatemala (mio €)

	2014	2015	2016	2017	2018
Imports	207	228	258	335	307
Exports	529	307	283	307	369
Balance	322	79	25	-29	61
Total trade	736	535	541	642	676

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Guatemala (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	118	220	185	183	213
Outward	1 659	2 999	2 519	2 233	2 149
FDI Flows					
Inward	38	186	-18	-2	42
Outward		614	362	-279	135

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

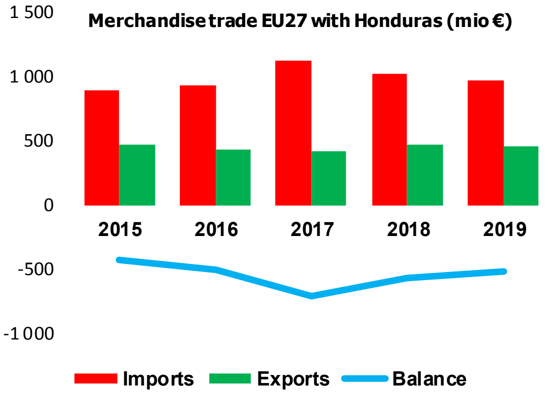
FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

HONDURAS

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Honduras (mio €)					
Imports	904	933	1 135	1 026	976
Exports	479	438	425	469	464
Balance	-425	-495	-710	-557	-512
Share Honduras in EU27 trade with Extra-EU27					
Imports	0.1%	0.1%	0.1%	0.1%	0.1%
Exports	0.0%	0.0%	0.0%	0.0%	0.0%
Total (I+E)	0.0%	0.0%	0.0%	0.0%	0.0%
Share EU27 in trade Honduras with world					
Imports	6.8%	6.6%	5.8%	6.1%	6.5%
Exports	21.9%	22.9%	31.3%	26.7%	24.4%
Total (I+E)	11.2%	11.5%	13.9%	12.1%	11.9%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Honduras: IMF Dots



Total merchandise trade EU27 with Honduras (mio €)

Honduras	2018	2019	Growth mio €	Growth annual %
Imports	1 026	976	-51	-4.9%
Exports	469	464	-5	-1.1%
Balance	-557	-512	46	
Total trade	1 495	1 439	-56	-3.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Honduras (mio €)

Honduras	2018	2019	Growth mio €	Growth annual %
Imports	885	835	-50	-5.6%
Exports	54	56	2	3.3%
Balance	-831	-779	51	
Total trade	939	891	-48	-5.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Honduras (mio €)

Honduras	2018	2019	Growth mio €	Growth annual %
EU27 imports	142	141	-1	-0.7%
EU27 exports	415	408	-7	-1.6%
Balance	273	268	-6	
Total trade	557	549	-8	-1.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Honduras (mio €)

Honduras	2017	2018	Growth mio €	Growth annual %
Imports	160	128	-32	-19.9%
Exports	195	231	36	18.3%
Balance	35	102	67	
Total trade	355	359	4	1.1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Honduras (mio €)

	2014	2015	2016	2017	2018
Imports	80	117	108	160	128
Exports	156	174	162	195	231
Balance	76	57	54	35	102
Total trade	236	291	270	355	359

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Honduras (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	92	20	13	58	26
Outward					272
FDI Flows					
Inward	-8	-97	5	3	2
Outward		19	-16		-46

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

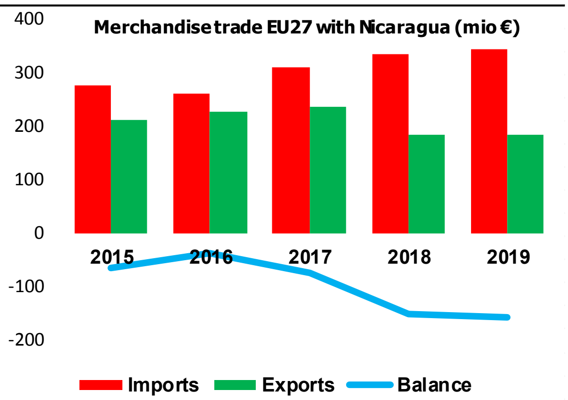
FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

NICARAGUA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Nicaragua (mio €)					
Imports	277	263	310	334	343
Exports	213	227	236	184	186
Balance	-64	-36	-73	-150	-157
Share Nicaragua in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.0%	0.0%	0.0%	0.0%	0.0%
Total (I+E)	0.0%	0.0%	0.0%	0.0%	0.0%
Share EU27 in trade Nicaragua with world					
Imports	7.2%	5.1%	5.2%	4.9%	4.4%
Exports	5.2%	6.9%	8.7%	6.3%	5.5%
Total (I+E)	6.3%	5.6%	6.2%	5.5%	4.9%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Nicaragua: IMF Dots



Total merchandise trade EU27 with Nicaragua (mio €)

Nicaragua	2018	2019	Growth mio €	Growth annual %
Imports	334	343	9	2.7%
Exports	184	186	2	1.0%
Balance	-150	-157	-7	
Total trade	519	530	11	2.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Nicaragua (mio €)

Nicaragua	2018	2019	Growth mio €	Growth annual %
Imports	224	222	-2	-1.0%
Exports	24	28	4	14.6%
Balance	-200	-194	6	
Total trade	249	250	1	0.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Nicaragua (mio €)

Nicaragua	2018	2019	Growth mio €	Growth annual %
EU27 imports	110	121	11	10.2%
EU27 exports	160	158	-2	-1.1%
Balance	50	37	-13	
Total trade	270	280	10	3.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Nicaragua (mio €)

Nicaragua	2017	2018	Growth mio €	Growth annual %
Imports	142	107	-35	-24.7%
Exports	172	135	-37	-21.6%
Balance	30	28	-2	
Total trade	314	242	-72	-23.0%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Nicaragua (mio €)

	2014	2015	2016	2017	2018
Imports	89	93	78	142	107
Exports	116	147	153	172	135
Balance	28	55	75	30	28
Total trade	205	240	231	314	242

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Nicaragua (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	13	60	55	98	82
Outward			332		332
FDI Flows					
Inward	-15	113	-18	53	6
Outward			38	126	-82

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

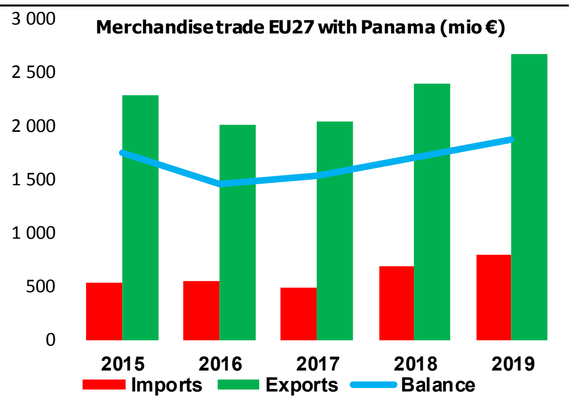
FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PANAMA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Panama (mio €)					
Imports	537	557	499	692	803
Exports	2 287	2 021	2 042	2 407	2 678
Balance	1 750	1 464	1 543	1 715	1 875
Share Panama in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Panama with world					
Imports	11.0%	10.4%	10.1%	9.5%	13.5%
Exports	26.2%	27.4%	26.3%	27.6%	23.6%
Total (I+E)	11.8%	11.3%	10.9%	10.3%	14.2%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Panama: IMF Dots



Total merchandise trade EU27 with Panama (mio €)

Panama	2018	2019	Growth mio €	Growth annual %
Imports	692	803	112	16.1%
Exports	2 407	2 678	271	11.3%
Balance	1 715	1 875	160	
Total trade	3 099	3 482	383	12.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Panama (mio €)

Panama	2018	2019	Growth mio €	Growth annual %
Imports	275	291	16	5.8%
Exports	235	225	-10	-4.2%
Balance	-40	-66	-26	
Total trade	510	516	6	1.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Panama (mio €)

Panama	2018	2019	Growth mio €	Growth annual %
EU27 imports	417	512	95	22.9%
EU27 exports	2 172	2 453	281	13.0%
Balance	1 755	1 941	186	
Total trade	2 589	2 965	377	14.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Panama (mio €)

Panama	2017	2018	Growth mio €	Growth annual %
Imports	2 516	2 717	200	8.0%
Exports	2 104	2 150	46	2.2%
Balance	-412	-566	-154	
Total trade	4 621	4 867	246	5.3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Panama (mio €)

	2014	2015	2016	2017	2018
Imports	1 673	2 549	2 377	2 516	2 717
Exports	1 405	1 948	2 057	2 104	2 150
Balance	-268	-601	-321	-412	-566
Total trade	3 079	4 497	4 434	4 621	4 867

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Panama (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	3 112	4 226	24 678	11 692	11 310
Outward					14 343
FDI Flows					
Inward	26	1 993	5 080	-622	173
Outward			1 877		-1 370

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-CHILE ASSOCIATION AGREEMENT

1. INTRODUCTION

The trade pillar of the **EU-Chile Association Agreement** (hereinafter 'the Agreement') entered into force on 1 February 2003 and all ratifications were completed on 1 March 2005. During the following 16 years the Agreement has worked well and provided the basis for a good cooperation between both sides, which have continously worked to implement it so that its benefits can be reaped to the maximum extent possible. The Agreement with Chile was considered highly ambitious at the time of its conclusion. It was the first trade agreement subject to an ex-post evaluation, that was completed in 2016.[75] Another study, in 2017, showed the need for modernising the agreement, to adapt its provisions to make them fit for the new challenges of trade and investment and to avoid the EU losing ground to other partners, such as the US and China.

In 2013, the EU and Chile agreed to explore options for a **comprehensive modernisation** of the Agreement to bring it up to date to recent trade policy developments and to avoid the risk of trade erosion after both Parties had conclude more modern FTAs with othe partners. A scoping exercise was successfully concluded with Chile in January 2017. Negotiations for modernising the Agreement were launched on 16 November 2017 in Brussels, following the adoption of the negotiating directives by the Council. The EU and Chile are now negotiating an ambitious, comprehensive and progressive modernised agreement. The most important areas include (1) further liberalisation in agriculture and food products, (2) rules of origin, customs and trade facilitation provisions, (3) non-tariff barriers for industrial and agri-food products, (4) market access for services sectors of key EU and Chilean interest, (5) comprehensive investment liberalisation and protection disciplines, (6) improved public procurement rules and coverage in terms of entities, (7) improved rules on intellectual property rights, including the protection of geographical indications (GIs) on foodstuffs, (8) Trade and Sustainable Development, (9) competition and subsidies disciplines and (10) for the first time, trade and gender equality, which is a pilot case for the EU with the aim of identifying and addressing those barriers faced by women to benefit from trade opportunities, building on sustainable development goals and reaffirming commitments of international conventions .

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

Economic and trade relations with Chile continued to develop in a positive manner during 2019. The Commission continued to address the six registered market access barriers (copyright legislation, IPR enforcement, non-recognition of EU certification, registration of cosmetics and hygiene products and procurement and rejection of products containing starch) through the appropriate joint meetings, demarches of the EU Delegation in Chile and the modernisation negotiations. The process for adopting new Chilean legislation on medicines, the "Farmacos II" bill, currently under consideration in the Chilean Congress, was also closely monitored.

[75] https://trade.ec.europa.eu/doclib/docs/2012/august/tradoc_149881.pdf

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

Both sides have invested substantial resources in the implementation and institutional work under the Agreement. Consequently, the meetings under the Agreement have been very regular since it came into force, the **16th EU-Chile Association Committee** was held in Santiago on 12 July 2019 with a focus on the overall bilateral political relations. The **Trade Coordinators** meeting and **Subcommittees on trade related matters** were so far organised practically every year until 2017. The Trade Coordinators did not meet in 2019 as the focus of discussions revolved around the negotiations on the modernisation of the current Agreement. Work on the implementation of the current Agreement continues and the dialogue with Chile remains fluid. The modernisation negotiations offer also a good opportunity to address issues of concern on both sides.

The **Joint Management Committee on Sanitary and Phytosanitary Meassures** met in 2019 and progress was achieved in terms of market access for EU agri-food products. For example, in 2019, Chile opened its dairy market for four additional Member States (20 Member States authorised now), four additional Member States for beef (total authorised 14), two for pork (total 14 Member States), three for meat products (total 15 Member States), one for bovine semen (total 14 Member States), eleven Member States for processed poultry meat and one more for casing (total 10 Member States). Chile also authorised the imports of fresh poultry meat (eight Member States), honey, eggs and horse meat and harmonised the certificate for hatching eggs and egg products and reviewed the certificate for permanent import of live horses.

However, similar progress has not yet been achieved for the export of EU fruits and vegetables to Chile in 2019, but work continues to allow the export of EU apples and pears to Chile.

The **Special Committee on Standards, Technical Regulations and Conformity Assessment Procedures** met in 2019 and discussed market access issues related to three Chilean regulatory initiatives in the area of pharmeaceuticals (Farmacos II bill), and labelling for dairy products and alcoholic drinks. Chile and the EU also discussed the Chilean regulation on the use of potato starch in cold meats and, at the request of Chile, the developments on the French Grenelle II law.

The **Joint Committee on Trade in Wine and Spirits/Aromatised drinks** met last time in 2018 and in 2019 it continued to follow up on the textual modifications to the wine and spirits agreement and the update of the list of EU GIs. This work has been on-going since 2015 to update the wines and spirits GIs lists covered by the current agreement, which still does not include iconic names such as "*Prosecco*", and wine and spirits from the Member States that joined the EU in 2007 and 2013 (Bulgaria, Romania and Croatia).

4. SPECIFIC AREAS OF IMPORTANCE

During 2019 the negotiations for the modernisation of the Trade part of the EU – Chile Association Agreement continued. The EU and Chile continued making progress towards the ambitious, progressive and comprehensive agreement that they are committed to achieve. There was very good progress on a significant number of chapters (e.g. Rules of Origin, Services, Digital Trade, Technical Barriers to Trade, Good Regulatory Practices, Anticorruption, Trade and Gender, Public Procurement, Trade Defence, Trade and Sustainable Development and some Investment provisions) with important progress on text. On other issues, such as market access offers, Intellectual Property Rights, Energy and Raw Materials, parts of the Investment chapter (notably the Investment Court System) or Subsidies there remains work to be done.

5. EVOLUTION OF BILATERAL TRADE

Bilateral merchandise trade between 2015 and 2019 increased 10%. Overall, the rise is substantially sharper for EU exports, which increased 31% over the period, compared to a 12% decrease in EU imports from Chile, mostly linked to the decrease of copper prices. Chile's share in total EU trade has remained stable since 2015, at around 0.4% of total EU trade. In 2019, the EU had a positive trade balance of €3.6 billion. This is the most important trade surplus for the EU with Chile since the signing of the Agreement.

5.1 Economic environment

Since the beginning of 2019, the combination of less dynamic economic activity, low copper prices, a decline in FDI and a worsening external environment led the economy to grow at more moderate rates. Indication of an economic slowdown led the Central Bank of Chile to revise downward its growth expectation for 2019 from 3.25-4.25% to 2.75-3.5% and to decrease interest rates in June 2019 from 3% to 2.5%, the largest interest-rate drop in a decade, and further to 2% in September 2019.

The economic situation has worsened since October 2019 when a wave of protests, violence and worker strikes hit the country. The current crisis brought huge economic losses for both domestic and foreign enterprises. Chile's currency dropped by over 5% on 12 November (one of the days that registered most violent incidents) to a record low of 800 CLP to the USD (and close to 1,000 CLP for the euro, which used to be at around 700 CLP). Yet, the arrival of Covid-19 has depreciated the chilean peso even further reaching 842 CLP to USD on 9 March 2020. Between October 2019 and February 2020 18% more companies have filed for bankrupcy in comparison to 2018. By the end of November 2019 over 6,800 small and medium enterprises (SMEs) in Chile faced losses that are estimated at 1.4 billion USD. According to Chile's confederation of micro, small and medium enterprises (Conapyme), as of 22 November nearly 20,000 businesses were at risk of bankruptcy, owing to a drop in production and retail sales. However, this number is projected to rise in the next few months.

GDP grew by 1.1% in 2019, half of what was projected before the social outbreak (2.5%) and in line with its updated projections (1.2%). The year 2019 is therefore the worst performance of the Chilean economy since 2009.
The current political and social crisis led to a questioning of the country's entire neo-liberal economic model, including Chile's free trade orientation. Due to social protests and violence in the country, the government suspended CPTPP ratification and was obliged to cancel the COP and APEC Summit and to shift its agenda towards the burning domestic problems. In the coming year and beyond, Chile is likely to be more focused on domestic issues.

5.2 Trade in goods

In 2019, EU-Chile bilateral trade amounted to **€16.6 billion** decreasing by 0,3% in value compared to 2018. The EU experienced a trade surplus worth €3.6 billion. While EU exports increased 8.6% year-on-year, EU imports decreased by 11,5% following substantial decreases in two major Chilean exports, mineral products and base metals. The largest trade surpluses of the EU are in machinery and transport equipment.

EU exports concentrate in three HS sections:

- EU exports in machinery and appliances increased by 8% compared to 2018, reaching €3 billion;
- EU exports in transport equipment increased by 28% when compared to 2018, reaching 2.6 billion;
- EU exports in chemical products amounted to €1 billion, increasing by 2.5% when compared to 2018.

Chilean exports concentrate in two HS sections:

- Chilean exports in mineral products decreased by 12% in value between 2018 and 2019 (€1.5 billion in 2019);
- Chilean exports in base metals and articles thereof decreased by almost 14% in value beteen 2018 and 2019 (€1 billion in 2019).

5.3 Trade in agricultural products

In 2019, EU-Chile bilateral trade in agricultural products reached **€2.6 billion**, with an **EU trade deficit of €1.2 billion**. While agri-food products only accounted for less than 10% of the total EU exports to Chile, they represented around one third of total EU imports from Chile.

Chile is not an important export market for EU agri-food products given its size and geographic location. However, as the seasons are inversed, there is a complementary of supply between Chile and the EU, notably as regards fruits and vegetables. For Chile, the EU is an important agri-food export market, as much as the US.

Compared to 2018, both EU exports and EU imports decreased, respectively by 1.6% and 2.2%. Both import and exports have seen a steady increase over the past decade. Imports are dominated by fruit (58%) and wine, vermouth cider and vinegar (19%). The most relevant categories of EU agri-food exports are preparation of vegetables, fruits or nuts (13.6%), food preparations (9%) and pasta, pastry, biscuits and bread (7.5%).

Tariff rate quotas granted by the EU to Chile

Chile is not using most of the TRQs granted under the Agreement. However, the poultry TRQ has been completely filled in 2018 and 2019, given the fast growing poultry sector in Chile (+17% in last 10 years). Chile has become the fourth EU supplier for poultry meat. As regards pigmeat, the TRQ is currently not fully used (unlike a decade ago) due to other export opportunities for Chile despite the fact that the sector witnesses a dynamic production growth. As regards beef imports from Chile, a major part of the TRQ remains unused, which can also be explained by the fact that the cattle herd fell by 2.4% per annum during the last decade in Chile.

Utilisation rate of TRQs opened by the EU to Chile						
		TRQ		**Utilisation in TRQ period ending in:**		
Sector	**TRQ description**	**Quantity**	**Unit**	**2017**	**2018**	**2019**
Beef	Beef	2.650	t	14%	13%	13%
Pigmeat	Pigmeat & preparations	9.100	t	24%	24%	28%
Pigmeat	Pigmeat & preparations	1.000	t	0%	0%	2%
Poultry	Poultrymeat & edible offal	18.850	t	77%	100%	100%
Dairy	Cheese & curd	2.700	t	0%	0%	0%
F&V	Garlic	953	t	2%	0%	10%
Cereals	Cereal grains, otherwise worked	1.800	t	0%	0%	0%
Sugar products	Sugar confectionery, not containing cocoa	400	t	0%	0%	0%
Sugar products	Chocolate & other preparations containing cocoa	400	t	0%	0%	0%
Preparations	Sweet biscuits, waffles & wafers	500	t	0%	0%	0%
F&V	Mushrooms (Agaricus), prepared or preserved	900	t	0%	0%	0%
F&V	Cherries, containing added spirit & sugar	1.800	t	0%	0%	0%

Tariff rate quotas granted by Chile to the EU

The EU has fully used the cheese TRQ granted under the FTA and 82% of fish preparations TRQ (canned tuna). The TRQ for fresh hake and salmon have not been used.

Utilisation rate of TRQs opened by Chile to the EU						
		TRQ		**Utilisation in TRQ period ending in:**		
Sector	**TRQ description**	**Quantity**	**Unit**	**2017**	**2018**	**2019**
Dairy	Cheese	2,700	t	100%	100%	100%
Fish	Hake	5,000	t	0%	0%	0%
Fish	Salmon	40	t	0%	0%	0%
Fish preparations	Tuna	150	t	97%	93%	82%

5.4 Trade in services and Foreign Direct Investments

Bilateral trade in services in 2018 stood at €5.7 billion (€3.7 billion in exports and €2 billion in imports), compared to €5.6 billion in 2017. Between 2014 and 2018, EU exports of services increased 23%, while EU imports increased 32%.

The EU remains Chile's first FDI provider, with outward FDI stocks worth €52 billion in 2018. Outward EU FDI flows in 2018 (€2 billion) were 10 times higher the outward flows registered in 2017, but only half of those registered in 2016. The decrease in outflows is largely due to the evolution in the mining industry, which has historically represented over 45% of total FDI in Chile. In quantities, mining production increased in 2018 after having decreased for two consecutive years.

With 2017 data, in 2018 Chile was the **fourth recipient of FDI** in Latin America overall, after Mexico, Brazil and Argentina, according to UNTACD, and is one of the top 5 host regional economies[76] .

Since 1998, **Chile has been the World Economic Forum's most competitive nation in the Latin American region** (in 2019 it ranked 33 of 141 globally)[77] . Chile regained its position as regional leader on the World Bank Doing Business Report (DB), leaving Mexico one place below. In 2020, Chile ranks 59 of 190 on DB and 72.6 on the distance to frontier (DTF) measure (Mexico ranks 60 and 72.4 respectively)[78].

6. CONCLUSIONS

EU-Chile relations are currently governed by the 2002 EU-Chile Association Agreement which covers political dialogue, cooperation and a comprehensive free trade agreement. The trade pillar led to a significant increase in bilateral trade in goods until 2011. However, despite the Agreement's successful operation, total bilateral trade in goods has declined since

[76] UNCTAD, World Investment Report 2019 https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf pag 48 Top 5 economies in hosting FDI flows in 2017 in Latin America were Brasil, México, Colombia, Argentina and Peru. However, Chile was top economy on FDI outflows in 2017.

[77] https://www.weforum.org/reports/the-global-competitveness-report-2018

[78] http://www.doingbusiness.org/en/data/exploreeconomies/chile#

then and has slowly recovered to reach €16.6 billion billion in 2019. Over the years, the EU has lost ground to both China, which ranked first, and the USA, which ranked second in 2019.

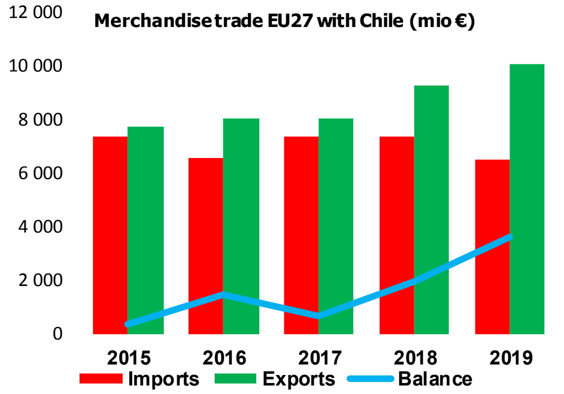
When it was concluded in 2002, the Association Agreement was a path-breaking agreement, providing for deep liberalisation and WTO-plus rules across many areas. Evaluations of the impact suggest that it worked to support bilateral trade at a time when Chile was highly active in entering into free trade agreements with other parties, and thus avoided putting EU suppliers at a competitive disadvantage. Since 2002 considerable trade and investment policy developments have taken place and these are not reflected in the trade pillar. Therefore, the EU and Chile decided to upgrade the existing trade and investment framework and began negotiations on a new and ambitious agreement in November 2017. This process is under way and four rounds of negotiations took place in 2019.

7. Statistics

CHILE

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Chile (mio €)					
Imports	7 400	6 575	7 390	7 361	6 514
Exports	7 743	8 044	8 094	9 319	10 118
Balance	343	1 468	704	1 957	3 604
Share Chile in EU27 trade with Extra-EU27					
Imports	0.4%	0.4%	0.4%	0.4%	0.3%
Exports	0.4%	0.4%	0.4%	0.5%	0.5%
Total (I+E)	0.4%	0.4%	0.4%	0.4%	0.4%
Share EU27 in trade Chile with world					
Imports	14.7%	16.2%	14.2%	13.9%	14.7%
Exports	12.1%	11.8%	11.9%	10.7%	9.7%
Total (I+E)	13.4%	14.0%	13.0%	12.3%	12.2%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Chile: IMF Dots



Total merchandise trade EU27 with Chile (mio €)

Chile	2018	2019	Growth mio €	Growth annual %
Imports	7 361	6 514	-848	-11.5%
Exports	9 319	10 118	799	8.6%
Balance	1 957	3 604	1 647	
Total trade	16 680	16 632	-48	-0.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Chile (mio €)

Chile	2018	2019	Growth mio €	Growth annual %
Imports	1 972	1 928	-45	-2.3%
Exports	707	696	-11	-1.5%
Balance	-1 265	-1 232	34	
Total trade	2 680	2 624	-55	-2.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Chile (mio €)

Chile	2018	2019	Growth mio €	Growth annual %
EU27 imports	5 389	4 586	-803	-14.9%
EU27 exports	8 612	9 422	810	9.4%
Balance	3 223	4 836	1 613	
Total trade	14 001	14 008	7	0.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Chile (mio €)

Chile	2017	2018	Growth mio €	Growth annual %
Imports	1 700	2 000	300	17.6%
Exports	3 937	3 728	-209	-5.3%
Balance	2 237	1 728	-509	
Total trade	5 637	5 728	91	1.6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Chile (mio €)

	2014	2015	2016	2017	2018
Imports	1 511	1 829	1 718	1 700	2 000
Exports	3 038	3 272	3 378	3 937	3 728
Balance	1 527	1 444	1 660	2 237	1 728
Total trade	4 548	5 101	5 096	5 637	5 728

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Chile (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward			2 570	1 509	-7 620
Outward	41 035	46 655	54 455	52 889	52 470
FDI Flows					
Inward		-772	170	-275	-443
Outward		3 061	3 981	187	2 046

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-MEXICO ASSOCIATION AGREEMENT

1. INTRODUCTION

Mexico is the biggest trading partner of the EU in Latin America, followed closely by Brazil. Mexico was the first country in Latin America to sign an Economic Partnership, Political Coordination and Cooperation Agreement with the EU ('Global Agreement'). The Global Agreement was signed in 1997 and its trade provisions were later developed into a comprehensive Free Trade Agreement that entered into force in March 2000 for goods and in February 2001 for services (hereinafter called 'the FTA')[79]. Croatia acceded to the Agreement through a Protocol of Accession signed on 27 November 2018.

Over the close to twenty years of its operation, this ambitious agreement has yielded **very positive results for both parties.** Bilateral goods trade between the EU and Mexico has more than tripled with exports from the EU to Mexico growing slightly faster than exports from Mexico to the EU. Bilateral trade in services has also significantly expanded and the EU remains the main investor in Mexico, after the US.

In order to adapt the **Global Agreement** to the new realities of global trade and investment, negotiations on its modernisation were launched in 2016. On 21 April 2018, after nine rounds of negotiations, an 'agreement in principle' was reached on the trade part outlining the numerous improvements to the legal framework of EU-Mexico bilateral trade relations. This modernisation will bring the trade and investment framework into the 21st century on a basis of reciprocity and promote new opportunities for business, while including strong and clear commitments on human rights, sustainable development and the fight against corruption (see section 6).

2. MAIN OPEN IMPLEMENTATION ISSUES , PROGRESS AND FOLLOW-UP ACTIONS

Year 2019 marked the **19th year of application** of the Trade Agreement with Mexico. While the Global Agreement is a well-functioning agreement that has yielded very positive results for both parties, a number of implementation challenges still persist.

In 2019, progress was noted in the area of **sanitary and phytosanitary measures (SPS)**, with the opening of trade of kiwis from Italy, pears from Belgium, pig meat from the Netherlands and live horses from Mexico. However, there are still a number of outstanding issues for EU exports. In particular, these include:

- securing application of prelisting for EU exports,
- recognition of the EU regionalization policy on animal health
- faster progress with market access applications for fruits and vegetables

[79] The trade pillar was expanded by two decisions of the Joint Council: Decision No 2/2000 of the EC-Mexico Joint Council of 23 March 2000 related to trade in goods and Decision No 2/2001 of the EU-Mexico Joint Council of 27 February 2001 on trade in services .

- increased market access for pigmeat and poultrymeat.

The implementation of the modernised Trade Agreement will contribute to tackle a number of the current implementation issues.

The EU and Mexico also continue to build a **positive agenda** through the implementation of a number of cooperation activities **in the area of intellectual property** (IP) through the IP Key Latin America[80] a project which support international businesses, especially EU firms, in obtaining, managing and enforcing their intellectual property (IP) protection in Latin American countries. IP Key organised a seminar on IP and and Green Technologies in the margin of the Mexico Green Expo 2019 and a seminar on enforcement of Geographical Indications.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

In 2019 the EU and Mexico held the annual meetings of the implementation bodies under the Trade Agreement (the Joint Committee on Trade issues, the four special committees and the Joint Committee on Spirits).

The **13th EU-Mexico Joint Committee** on trade issues took place on 21 May 2019. The meeting provided an opportunity to cement the strong strategic relations between the EU and Mexico, as well as the long history of collaboration at the multilateral level. The Parties reviewed the strong bilateral trade and investment relationship and hailed the important achievement reached in April 2018 with the political agreement on the trade part of the modernised Global Agreement. On the multilateral issues, the Parties exchanged views on WTO reform issues and ongoing WTO negotiations, including on UNICITRAL discussions with respect to the Multilateral Investment Court.

The Joint Committee on Trade issues took stock of progress achieved in the special committees and in the Joint Committee on Spirits. Agenda and minutes of the Joint Committee meeting and of the special committee are all available on DG TRADE's website[81].

The following special committees met ahead of the Joint Committee:

Standards and Technical Regulations

The discussion of the Special Committee on Standards and Technical Regulations focused both on issues of interest to the EU (such as honey, alcoholic beverages and labelling requirements for textiles and ceramics) and on issues of Mexico's interest (such as Titanium Dioxide Regulation, Public Health Bill on Alcohol notified by Ireland, the Draft Law on Alcoholic Control of the Republic of Lithuania, the EU Proposal on Market Surveillance and Compliance of Products and the joint work between the EU and China for low risk products developed under the *Codex Alimentarius*).

The EU reiterated its concerns on the long standing issue of Mexican textile labelling requirements, which in EU's view are excessive and not in line with international practices.

[80] https://ipkey.eu/en/latin-america
[81] https://ec.europa.eu/trade/policy/countries-and-regions/countries/mexico

Mexico took note and also provided an update on the adoption of its technical regulation for honey.

Mexico and the EU agreed to maintain an open dialogue on the issues raised in the Special Committee and to provide each other answers and clarifications on their respective issues of concern.

Sanitary and Phytosanitary Measures (SPS)

The **Special Committee on SPS Measures** met on 7 May 2019. Discussions focused on progress in market access issues, such as pre-listing of EU and Mexican establishments and certificates with a view to transitioning to the new bilateral SPS regime under the modernised Agreement. Several informal meetings and teleconferences followed throughout the year. The modernised Agreement, once in place, will bring substantial facilitations and improved SPS procedures, without undermining the level of protection.

Government Procurement

During the Special Committee on Government Procurement held on 6 May 2019, experts exchanged information on recent developments in the EU and Mexico in the field of public procurement policies. Mexico explained that the Decree of November 2018 reforming the "Organic Law of the Federal Public Administration" would result in changes of attributions of the authorities in charge of public procurement policies at federal level. In addition, Mexico pointed out that the Ministry of Economy will maintain its responsibility for international negotiations on this topic.

The EU presented the 2017 EU public procurement package focusing on professionalisation of public procurement staff to ensure they have the needed skills, knowledge and integrity on digitalisation of procurement processes, so that EU Member States can make use of new digital technologies in procurement such as E-invoicing as well as other rules to enhance transparency and integrity.

Both sides recognized the importance to ensure a better use of public resources and to fight against corruption in public procurement procedures, and that an open and transparent procurement system can contribute to reaching these objectives.

Intellectual Property Matters

The Special Committee on Intellectual Property Matters met on 16 May 2019 and addressed various Intellectual Property Rights (IPR) matters. The EU underlined in particular two concerns raised by EU stakeholders: the difficulties for innovative medicines to reach the Mexican market and IPR enforcement issues, including border enforcement. The EU also enquired about the current organisation of marketing approvals for pharmaceuticals, and received explanations by Mexico.

Mexico agreed on the importance of progressing on IPR border enforcement and that the new commitments taken in the Modernised agreement will be key for this. Mexico also provided information regarding the modernisation of its electronic database currently used for trademarks.

Mexico and the EU agreed to continue working on these issues in the Special Committee.

Joint Committee on Spirits

The Spirits Committee was established under the 1997 Agreement on mutual recognition and protection of designations for spirit drinks (also referred as "Spirits Agreement"). The 4th Spirits Committee held on 8 May 2019 focused on progress on the update of Annexes I and II to the Agreement in relation to spirit drinks. In concrete terms, the parties mainly discussed the amendments, including the update of the current protection status of the Mexican geographic indications (GIs) and the related technical specifications. The amendment was finalised at the end of 2019 and entered into force on 31 January 2020. It grants protection to two additional Mexican GIs and almost 100 additional EU GIs. This brings the total number of EU spirits geographical indications protected in Mexico to 232 and the number of Mexican spirits geographical indications protected in the EU to six.

4. SPECIFIC AREAS OF IMPORTANCE

The Global Agreement from 1997 does not contain provisions on sustainable development, which in the meantime have become an integral part of the new generation of FTAs. However, a solid Trade and Sustainable Development Chapter is integrated in the modernised Agreement. Soon after the conclusion of the negotiations, Mexico ratified the International Labour Organization (ILO) Convention No. 98 in November 2018, which guarantees the right to organize and collective bargaining. With this ratification, Mexico has now ratified all 8 fundamental ILO Conventions.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

The Mexican economy stagnated in 2019. Growth was driven by sustained private demand, increase of exports and a strong services sector, which contrasted the drop in public investments and in the construction sector. The current account deficit, at 0.3% of GDP in 2019, was substantially lower than in previous years. While oil exports volume remained low, leading to a negative hydrocarbon trade balance, trade deficit turned positive after 5 years of recording negative values. Both, foreign direct investment (FDI, see further below) and remittances remained high, but the former fell substantially in 2019 (to 2.4% of GDP, from 3.1% of GDP in 2018). Unemployment was low but the rate of workers earning the minimum wage remained high at 43% while as much as 58% of workers are in the informal sector.

The year 2019 has seen a slight decrease in FDI inflows, according to Mexican data when comparing to the previous year. WB data reflects a stronger (27%) drop of FDI in 2019 compared to 2018. FDI in Mexico is concentrated both in reinvestment and new investments, which show that the country continues to be a rather attractive for foreign investors, considering its geopolitical and economic situation. EU 27 FDI in Mexico accounts for 38% of total foreign investments, which puts the EU at the first place, followed by the US (37.5%).

5.2 Trade in goods

In 2019, bilateral trade in goods between the EU and Mexico totalled €61.8 billion, increasing by 1% compared to 2018 and tripling trade if compared to 2000 (€21.7 billion). Differently from the trend in 2018, Mexican exports to the EU (€24.3 billion) grew faster than EU exports to Mexico (€37.6 billion), that is, 3% and -0.2%, respectively, due partly to a decrease in economic activity and decreased Mexican imports of capital goods and inputs.

The EU continues to register a trade surplus with Mexico, decreasing from €14.1 in 2018 to €13.3 in 2019. In 2019, the EU remains Mexico's second largest export market, with a share of 10.7% of total exports and totalling €24.3 billion.

The structure of Mexico's trade with the EU maintains a coherent pattern with the respective share of the bilateral trade increasing at similar rates over the years resulting in a rather stable trade balance. Moreover, as explained below, bilateral trade is concentrated in a number of sectors.

EU Imports from Mexico: Mexican goods imported into the EU totalled €24.3 billion and import increases were observed across most sectors, following the same trend as in 2018. The largest export categories of products imported from Mexico to the EU were:

- machinery and appliances (€6.2 billion – 25.6% of EU imports from Mexico);
- transport equipment (€6.1 billion – 25.1% of EU imports from Mexico);
- mineral products (€3.9 billion – 15.9% of EU imports from Mexico);
- optical/photographic instruments (€3.3billion – 13.7% of EU imports from Mexico 11.9%).

EU Exports to Mexico: European exports to Mexico totalled €39.4 billion, with increase in exports widespread throughout the different sectors. The main export categories remain the same in comparison to previous years, namely:

- machinery and appliances (€12.7 billion – 33.9% of EU exports to Mexico);
- transport equipment (€6.5 billion – 17.3% of EU exports to Mexico);
- products of the chemical or allied industries (€5.2 billion – 14% of EU exports to Mexico);
- base metals (€3.1 billion – 8.2% of EU exports to Mexico).

5.3 Trade in agricultural products

Trade in agricultural and fisheries products totalled €2.7 billion in 2019, consisting of €1.2 billion EU imports from Mexico and €1.5 billion EU exports to Mexico.

EU imports of agricultural and fisheries products from Mexico were stable and were dominated by:

- Fruits and nuts at €332 million, or 25,7% of EU imports of agricultural and fisheries products from Mexico;
- Beverages and spirits at €244 million increased by 21.2% compared to 2018, now representing 18.9% of EU imports of agricultural and fisheries products from Mexico;
- Fish and crustaceans at €104 million, or 8.1% of EU imports of agricultural and fisheries products from Mexico.

EU exports to Mexico of agricultural products increased by 12.4% in 2019, and were dominated by:

- Beverages and spirits at €299 million increased by 9.7% compared to 2018, now representing 20% of EU exports of agricultural and fisheries products to Mexico;
- Oil seeds & oleaginous fruits at €157 million increased by 14.3% compared to 2018, or 10.5% of EU exports of agricultural and fisheries products to Mexico;
- Dairy produce at €135 million, or 9% of EU exports of agricultural and fisheries products to Mexico.

TRQs granted by the EU to Mexico

Three of the TRQs opened under the agreement by the EU for imports from Mexico were filled completely, namely those for bananas, asparagus and orange juice. For both frozen orange juice and for natural honey, the fill rate was around two thirds. Precise numbers are not given for these quotas, since the quota years do not coincide with the calendar year. For egg albumin, the fill rate was 11% for the quota year 2018-2019. For other quotas, the fill rate was below 3%.

At the time of drafting the staff working document, data establishing the utilisation rate of TRQs granted by Mexico to the EU was not readily available.

Geographical indications

To prepare for the implementation of the GI provisions in the modernised Global Agreement, the EU organised in December 2019 a seminar in Mexico City directed at the Mexican Institute for Intellectual Property, Customs Officials and Judiciary departments.

In March 2019, the EU participated as a ‘guest of honour’ to ANTAD Alimentaria agri-food retail fair, with a full pavilion, cooking and mixology shows as well as with the organisation of a Round table on Geographical Indications.

In July 2019, the EU also carried out an Export Seminar in Mexico City to promote the safety, quality and traditional aspects of EU agri-food products, including a GI exhibition and a cooking show including GI products.

5.4 Trade in services and Foreign Direct Investments

In terms of services, EU imports from Mexico are dominated by travel services, and transport services. EU services exports to Mexico consist mainly of business services, transport services, travel services and telecommunications, computer and information services. Latest statistics in trade in services show that Trade in services increased from €15.6 billion in 2017 to €17.1 billion in 2018 (+9.9%), in fact growing faster than trade in goods in the same period (+5.8%). The EU has a trade surplus with Mexico that has increased in 2018 (latest data available) as the EU registered a €6.1 billion surplus with Mexico in 2018 compared to €4.9 billion in 2017.

As for **foreign direct investments,** according to Eurostat statistics, the Mexican investment stock to the EU accounts for €40.6 billion and EU investment stock to Mexico accounts for €158.6 billion in 2018. This positions the EU as the second largest investor in Mexico behind the US.

According to report on investment of the Mexican Ministry of Economy[82], in 2019 the EU contributed with approximately 40% of the total FDI flows in 2019 making the EU as a whole the largest contributor even above the United States (36.8%). Over 50% of the EU's contribution came from two Member States (Spain and Germany).

6. CONCLUSIONS

In 2019, EU trade relations with Mexico confirmed their positive trends with both goods and services showing an upward trend.

During the course of 2019, the EU and Mexico worked towards finalising all outstanding aspects of the modernisation process and advanced on the legal revision of the trade part of the modernised Global Agreement.

The outcome of negotiations is highly satisfactory given that the level of ambition of the modernised Global Agreement is very high and in line with the most ambitious trade agreements signed by the EU. As a result, the modernised Global Agreement will bring improvements across the board in the EU-Mexico trade and investment relations, notably as regards:

- **Goods:** the EU has obtained significant market access on key EU exports (e.g. pork, poultry, PAPs and dairy), resulting in the eventual liberalisation of 99% of tariff lines.
- **Services**: Mexico committed to open up its services market with comprehensive and ambitious concessions, including on Maritime Transport, Financial Services and Telecommunication, thereby making it easier for EU companies to make business in Mexico.

[82] "Inversion Extranjera Directa en Mexico y en el Mundo" Secretaria de Economia

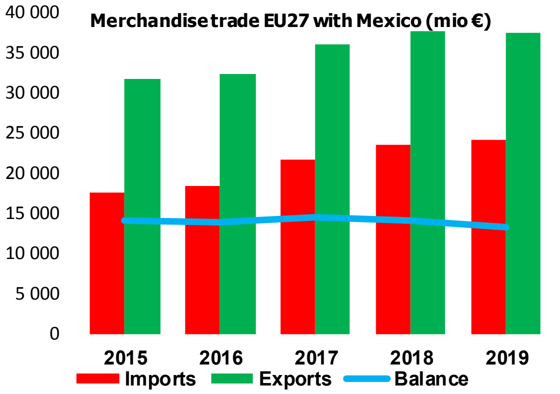
- **Investment protection**: Mexico has agreed to that investor-State disputes are adjudicated under an Investment Court System and to the substantive rules for protection and to replace the existing 14 BITs with EU Member States by the agreement with the EU.
- **Energy:** Mexico has accepted commitments in several chapters (Energy and Raw Material, Services, Investment, State owned enterprise) which will give the EU important market access.
- **SPS:** the agreed texts established a high level of cooperation between the Mexican and EU administrations, in particular regarding pre-listing, pre-clearance and regionalisation.
- **Public Procurement:** the outcome is also very ambitious and includes commitments at sub-central level, the details of which were finalised in 2020.
- **Geographical Indications**: Mexico has agreed to protect the shortlist of 340 EU GIs with a high level of protection, and to incorporate the Spirits Agreement under the modernised Global Agreement with the same level of protection for EU spirits GIS therein recognised.
- **Trade and Sustainable Development (TSD):** the modernised Agreement will contain a fully-fledged TSD Chapter in which Mexico committed to effectively implement labour and environmental standards and agreements, including binding provisions on the implementation of the Paris Agreement.
- **Anti-corruption**: for the first time ever in an EU agreement there will be an protocol on anti-corruption to fight against bribery and money laundering in trade and investment, including a mechanism for the resolution of disputes.
- **Civil society mechanism:** the civil society consultation mechanism which previously was limited to the TSD chapter will be extended to the whole agreement.

7. STATISTICS

MEXICO

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Mexico (mio €)					
Imports	17 665	18 482	21 689	23 562	24 258
Exports	31 886	32 352	36 160	37 669	37 584
Balance	14 221	13 870	14 471	14 106	13 327
Share Mexico in EU27 trade with Extra-EU27					
Imports	1.1%	1.2%	1.2%	1.2%	1.3%
Exports	1.7%	1.7%	1.8%	1.8%	1.8%
Total (I+E)	1.4%	1.5%	1.5%	1.5%	1.5%
Share EU27 in trade Mexico with world					
Imports	10.5%	10.4%	11.1%	10.9%	10.7%
Exports	4.3%	4.3%	5.1%	5.1%	4.6%
Total (I+E)	7.5%	7.5%	8.2%	8.1%	7.8%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Mexico: IMF Dots



Total merchandise trade EU27 with Mexico (mio €)

Mexico	2018	2019	Growth mio €	Growth annual %
Imports	23 562	24 258	695	3.0%
Exports	37 669	37 584	-84	-0.2%
Balance	14 106	13 327	-780	
Total trade	61 231	61 842	611	1.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Mexico (mio €)

Mexico	2018	2019	Growth mio €	Growth annual %
Imports	1 023	1 185	163	15.9%
Exports	1 318	1 482	164	12.4%
Balance	295	296	1	
Total trade	2 341	2 667	326	13.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Mexico (mio €)

Mexico	2018	2019	Growth mio €	Growth annual %
EU27 imports	22 539	23 072	533	2.4%
EU27 exports	36 351	36 103	-248	-0.7%
Balance	13 811	13 030	-781	
Total trade	58 890	59 175	285	0.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Mexico (mio €)

Mexico	2017	2018	Growth mio €	Growth annual %
Imports	5 297	5 511	214	4.0%
Exports	10 289	11 619	1 330	12.9%
Balance	4 992	6 108	1 116	
Total trade	15 587	17 131	1 544	9.9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Mexico (mio €)

	2014	2015	2016	2017	2018
Imports	3 346	4 145	4 514	5 297	5 511
Exports	7 604	8 722	9 377	10 289	11 619
Balance	4 258	4 577	4 863	4 992	6 108
Total trade	10 950	12 867	13 891	15 587	17 131

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Mexico (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		35 082	44 104		40 578
Outward	127 415	151 564	138 956	144 049	158 637
FDI Flows					
Inward		7 435	8 612		-1 781
Outward	23 812	15 703	-9 356	10 965	10 068

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PART III: EU NEIGHBOURING COUNTRIES

PART III.I

SWITZERLAND, NORWAY AND TURKEY

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-SWITZERLAND TRADE AGREEMENT

1. INTRODUCTION

The EU-Swiss trade relations are among the deepest worldwide outside the context of a customs union/internal market. For Switzerland, the EU is by far the most important trading partner. For the EU, Switzerland is the fourth overall trading partner, number three for services.

The cornerstone of EU-Swiss trade relations is the EU-Switzerland **Free Trade Agreement of 1972**[83] **(hereinafter, the "FTA"), one of the oldest agreements signed by the EU**. It concerns goods only. It does not contain provisions on services, investment, intellectual property rights (IPR), government procurement or social and environmental values. No dispute settlement mechanism is foreseen beyond the regular annual dialogue in Joint Committee meetings. As a consequence of the rejection of European Economic Area membership by the Swiss people in 1992, Switzerland and the EU agreed on a **package of seven sectoral agreements** signed in 1999 (known in Switzerland as 'Bilaterals I'). Some of them are relevant from a trade perspective:

- The **Free Movement of Persons** Agreement[84] allows for the provision of services, limited in time.
- The Mutual Recognition Agreement in relation to **conformity assessment**[85] ensures that, in twenty regulated sectors, the conformity assessment provided by one party is recognised by the other, which facilitates trade between the parties.
- The **Public Procurement Agreement**[86], that builds on the WTO Government Procurement Agreement.
- The Agreement on trade in **agricultural products**[87], which includes sanitary and phytosanitary rules, as well as tariffs and tariff rate quotas for agricultural products, except for cheese that is liberalised.
- A protocol on **processed agricultural products** (protocol 2), which was added to the Free Trade Agreement in 2004. It includes a mechanism whereby in practice Switzerland receives compensation for the very significant price differential of basic agricultural products - which serve as inputs to processed agricultural products - between the EU and Switzerland.

In the last two decades, there was **no major evolution** to this rather complex setting. The gap is growing between the current legal arrangements governing trade relations between the EU and Switzerland and the standards of modern and comprehensive trade agreements concluded by the EU and Switzerland/EFTA, respectively. A modernisation of the FTA is therefore needed to unlock the potential for further bilateral trade.

83 https://eur-lex.europa.eu/legal-content/en/ALL/?uri=OJ:L:1972:300:TOC
84 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22002A0430%2801%29
85 http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_152006.pdf
86 https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:22002A0430(06)
87 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2002.114.01.0132.01.ENG

Between 2014 and 2018, both parties negotiated an **Institutional Framework Agreement** to streamline the operation of 5 of the 7 existing bilateral agreements between Switzerland and the EU, covering: the Agreement on the Free Movement of Persons; the Agreement on Air Transport; the Overland Transport Agreement; the Agreement on Trade in Agricultural Products; and the Mutual Recognition Agreement.

This Institutional Framework Agreement aims at structuring EU-Swiss relations, notably by providing crucial rules and procedures for dynamic take-over and homogenous application of internal market law, for enforcement of state aid rules and for dispute settlement. A **Joint declaration** is annexed to the agreement, where both parties commit to **modernise the trade-related agreements**.

The negotiations were concluded in November 2018. However, after consultations with its stakeholders between January and April 2019, the Swiss Federal Council came to the conclusion, on 7 June 2019, that it could not agree on the text, as it felt that further clarifications were needed on three parts of the agreement. While the EU has consistently stated its readiness to look at the requests for clarifications, it has also been urging for quick progress rebuffing at the same time any opening of the Institutional Framework Agreement for further negotiations.

Even if the Institutional Framework Agreement could be signed in the course of 2020, negotiations for the modernisation of the FTA and other trade related agreements are not expected to start before 2021. As foreseen in the Declaration, both parties will first launch discussions for agreeing in a more detailed manner on the scope of the modernisation and the specific areas to be covered. This will form the basis of an impact assessment study to be launched before a negotiating mandate is proposed to EU Member States.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGESS AND FOLLOW-UP ACTIONS

In terms of implementation of the FTA and sectoral agreements, **progress** was made on several issues in 2019, including the following:

-The long-awaited **Company tax reform**, modifying the discriminatory cantonal fiscal status of companies, which was also problematic from a State aid point of view, **was approved** by the Swiss Parliament in September 2018 and entered into force on 1 January 2020. The European Commission will closely monitor the implementation of the reform at cantonal level, in light of the transitional measures allowed in relation to the abolition of the Cantonal tax schemes.

-Following Switzerland's 2018 notification to the WTO of its intention to increase the tariffs for **"seasoned meat"**, the **EU and Switzerland reached an agreement in July 2019.** The issue related to the Swiss reclassification of "seasoned meat", which resulted in significantly higher import tariffs, affecting particularly EU exporters of beef. Being the main exporter to the country, in May 2018, the EU submitted a claim of interest to Switzerland in order to negotiate adequate compensation (Article XXVIII of the GATT). The negotiated agreement includes compensation in the form of an additional 1 200 tonnes to be added to the existing WTO meat tariff rate quota (TRQ) of Switzerland. In addition, Switzerland will also open an autonomous TRQ of 600 tonnes specifically for beef seasoned meat. The Decision was signed in December 2019 and the European Parliament gave its consent in June 2020. Switzerland will implement the compensation once having finalised its own legislative procedures, most likely in 2021.

-Solutions were found in the context of the EU-Swiss Institutional Framework Agreement, which includes **State aid rules for existing and future market access agreements** between the EU and Switzerland and a compromise solution to deal with Switzerland's so-called "flanking measures" relating to the posting of workers. As explained above, however, this Institutional Framework Agreement remains to be signed.

Some of the **main outstanding issues** include the following:

-The 2019 process of **adapting the reference prices** of basic agricultural products needed in the context of the price compensation mechanism for **processed agricultural products** (protocol 2 to the FTA) encountered some delays. However, there was progress in the development of a methodological handbook aiming at bringing more transparency and simplicity in this annual adaptation of protocol 2, notably on the change of the reference period to better reflect the realities of the market for basic agricultural goods.

-Market access in the services sector remains a major issue. The so-called "flanking measures" that the Swiss put in place to accompany the implementation of the EU-Switzerland Free Movement of Persons Agreement[88] are a long-standing trade issue, as the EU considers them burdensome and disproportionate. The lack of a **level playing field as regards state aid** also remains an issue, as existing agreements between the EU and Switzerland do not include effective state aid rules.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **66th Joint Committee meeting** under the EU-Swiss FTA took place on 21 November 2019. The meeting provided the opportunity, on the one hand, to underline the high level of integration of both parties' economies and the shared commitment to the multilateral trading system and, on the other hand, to revisit a wide range of issues from processed agricultural products to certain market access issues for EU service providers in Switzerland.

Joint committees under other bilateral agreements of trade relevance also take place on a regular basis. The **Annual Joint Committee meeting on Agriculture** took place on 7 November 2019 and several working groups met on technical issues such as Geographical Indications, organics and wine & spirits drinks. More recently, the 15th meeting of the Joint Committee established under the EU-Switzerland Agreement on Mutual Recognition in relation to conformity assessment took place in Brussels on 24 January 2020. The main issue discussed in the meeting related to the technical work for the update of the EU-Switzerland Mutual Recognition Agreement (MRA) in the sector of medical devices.

[88] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22002A0430%2801%29

4. SPECIFIC AREAS OF IMPORTANCE

Unlike the three EEA EFTA countries (Norway, Iceland and Liechtenstein), Switzerland does not have full access to the four freedoms of the EU Internal market and does not dynamically integrate the EU *acquis*. On the basis of the sectoral bilateral agreements, Switzerland has, however, access -to a certain extent- to two pillars of the internal market: the free movement of goods (with the exception of most agricultural products and approximately half of processed agricultural products, where access is limited), and the free movement of persons (which includes also cross-border provision of services limited in time).

Council Conclusions of February 2019 as well as the European Parliament recommendation of March 2019 made it clear that the **conclusion of the Institutional Framework Agreement is a precondition for the conclusion of future agreements on Swiss participation in the EU's internal market** and also an essential element for deciding upon further progress towards mutually beneficial market access. In the absence of this agreement, existing preferential access may therefore erode over time, as sectoral bilateral agreements may not be updated.

This was, for example, the case in July 2019 when the EU decided not to renew Switzerland's stock market equivalence. The issue of the timely update of the EU-Switzerland **Mutual Recognition Agreement** (MRA) **on Medical devices** was also the subject of recurring discussions in the past months. To maintain the MRA in operation after the entry into force of the new EU Regulations on medical devices[89], the revision of the Chapter on Medical devices would indeed need to be finalised before the entry into application of the new EU Regulations initially planned on 26 May 2020. In the absence of such revision, mutual recognition of conformity assessment results between the EU and Switzerland would cease due to a lack of legal basis. However, in the wake of the Covid-19 pandemic, the EU decided to postpone by one year the date of application of its Medical Devices Regulation to ensure the continued availability of vitally important medical devices. This means that the EU-Switzerland MRA Chapter on medical devices will continue to apply for one additional year, until 26 May 2021.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Switzerland figures amongst the **most competitive economies in the world**. In terms of GDP per capita, Switzerland figures amongst the world's top three. Around 75% of the Swiss GDP is generated in the services sector whilst 25% go to industry. The contribution from the

[89] Regulation (EU) 2017/745 on medical devices and Regulation (EU) 2017/746 on in vitro diagnostic medical devices.

agricultural sector is less than 1%. Over 99% of Swiss companies are small- and medium-sized companies.

Financial services are an important pillar of the Swiss economy. The banking and insurances sector account for around 9% of Switzerland's GDP and provides for around 6% of total jobs in Switzerland. Following the Eurozone crisis, the Swiss Franc appreciated remarkably and nearly reached parity with the euro. The strong franc is notably a challenge for the Swiss export industry. Over the last years, the Swiss National Bank has tried to depreciate the currency with negative interest rates and continuous devaluation but only had limited success.

Switzerland's foreign economy is very important. Around 2 out of 5 Swiss Francs are earned abroad and exports make up 66% of its GDP. In fact, Switzerland is highly integrated in global value chains and serves as a supplier of highly specialized pre-products to various other countries. Its top three export categories are chemical & pharmaceutical products, precious metals & gemstones, precision instruments & machinery and watches & jewellery.

As for agricultural trade, Switzerland's main export products are coffee, chocolate and cocoa-based products. Switzerland further exports food preparations and sauces. Switzerland's major agricultural imports are animal products, tea, coffee, spices and beverages (including alcohol). Switzerland's agricultural trade balance is regularly negative.

Switzerland relies on an **extensive FTA network**, which covers more than **75 countries**. Most recent additions include EFTA-Indonesia-FTA (signed in 2018 and ratified in 2019) and the EFTA-Mercosur FTA (negotiations concluded in 2018). Switzerland also has a bilateral FTA with China (since 2014). However, the EU is the country's most important partner with 49.9% of its exports going to the EU and 59% of its imports originating in the EU in 2019.

In 2019, Switzerland's GDP grew only moderately by 0.9 % (after 2.8 % in 2018). The cyclical weakness is particularly evident in the Swiss industry which is sensitive to demand. In industrial branches of machinery and metals, the poor development of the previous quarters has continued until the end of the year. The fall in turnover also affected the labour market: unemployment and partial unemployment continued to increase in these sectors. On the other hand, the pharmaceutical sector, which is less sensitive to cyclical conditions, has once again been affirmed as a pillar of growth. Switzerland is thus in line with the weak international development of the industrial sector, but its structure of industries constitutes a stabilising factor.

5.2 Trade in goods

The **EU remains Switzerland's main trading partner**, representing 53% of its imports and 41% of its exports in 2019. **Following BREXIT, Switzerland on the other hand is now the fourth largest trading partner of the EU**, after the US, China and the UK, representing roughly 7% of the EU's exports of goods, and 6% of its imports. Overall, both imports and exports grew by approximately 9% in 2019 with the total bilateral trade reaching €257 billion. The trade balance remains positive for the EU at around €36.5 billion in 2019.

In 2019, the top three products imported from Switzerland concerned chemicals and related products (41%), machinery and appliances (14.5%) and optical and photographic instruments

(10%). It is worth noting that Swiss exports of chemicals grew by nearly 23% since 2018, contributing almost exclusively to Switzerland's exports growth to the EU in 2019.

EU exports to Switzerland mainly included the following product categories: chemicals and related products (22%), machinery and appliances (16%) and transport equipment (9%). Almost 80% of the EU's exports growth to Switzerland in 2019 can be attributed to chemicals (+7.5%), transport equipment (+12.6%), pearls and precious metals (+40%) and raw hides and skins (+74.5%).

5.3 Trade in agricultural products

In 2019, trade in agricultural goods totalled nearly €13 billion, with a clear **surplus in the trade balance of agricultural goods for the EU** (€3.8 billion). With EU exports reaching €8.4 billion in 2019, **Switzerland is the 4th destination for EU's agricultural products**. On the import side, **Switzerland is the 6th origin country for agricultural goods imported** to the EU, as EU imports reached €4.6 billion in 2019. Total bilateral trade in agricultural goods has been steadily growing for the past decade.

The EU's imports were dominated by roasted coffee and tea (31%), waters and soft drinks (14%) and chocolate, confectionery and ice cream (12.2%). In 2019, the EU exported to Switzerland mainly wine, vermouth, cider and vinegar (13%), followed by pasta, pastry, biscuits and bread (6.5%) and vegetables (5.5%).

TRQs granted by the EU to Switzerland

Utilisation rate of TRQs opened by the EU to Switzerland						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in: 2017	2018	2019
Beef	Bovine animals	4.600	Number of items	0%	0%	0%
Pigmeat	Sausages; hams in brine, smoked chops and pork neck	1.900	T	17%	20%	16%
Beef	Beef (Viande des Grisons)	1.200	T	100%	72%	100%
Dairy	Cream & Yogurt	2.000	T	100%	15%	15%
F&V	Potatoe seed	4.000	T	15%	6%	46%
F&V	Tomatoes	1.000	T	0%	0%	8%
F&V	Onions, leeks & other	5.000	T	0%	0%	0%
F&V	Cabbages (except Brussels sprouts)	5.500	T	0%	0%	0%
F&V	Lettuce & chicory	3.000	T	1%	1%	1%
F&V	Carrots & turnips	5.000	T	0%	3%	8%
F&V	Edible root vegetables	3.000	T	0%	0%	0%
F&V	Cucumbers	1.000	T	0%	0%	0%
F&V	Beans	1.000	T	0%	0%	0%
F&V	Aubergines	500	T	0%	0%	0%
F&V	Celery	500	T	0%	0%	0%
F&V	Spinach	1.000	T	1%	1%	1%
F&V	Courgettes	1.000	T	0%	0%	0%
F&V	Pumpkins & Other vegetables	1.000	T	0%	0%	0%
F&V	Salad vegetables	1.000	T	2%	2%	2%
F&V	Chard & cardoons	300	T	0%	0%	0%
F&V	Fennel	1.000	T	0%	0%	0%
F&V	Potatoes, prepared	3.000	T	36%	35%	38%
F&V	Apples	3.000	T	10%	10%	55%
F&V	Pears & quinces	3.000	T	0%	1%	13%
F&V	Apricots	500	T	0%	0%	0%
F&V	Cherries, sweet	1.500	T	0%	6%	1%
F&V	Plums & sloes	1.000	T	0%	0%	0%
F&V	Strawberries	200	T	0%	0%	0%
F&V	Raspberries	100	T	0%	0%	0%
F&V	Blackberries, mulberries & loganberries	100	T	0%	0%	0%
F&V	Cherries, frozen	500	T	11%	21%	20%
Cereals	Flour, meal & powder of bananas	5	T	0%	0%	1%

TRQs granted by Switzerland to the EU[90]

Tableau : Taux de remplissage 2017-2019 (2019 prov.) des contingents tarifaires offerts par la Suisse à l'UE28 classés par numéro de contingent

Nr.	Produits	Contingent	unité	2017	2018	2019 (provisoire)	Remplissage 2017-2019
32	Aliments pour chiens et chats	6.000	tonnes	5.018	6.000	6.000	95%
101	Jambon salé ou séché à l'air	1.100	tonnes	1.099	1.098	1.095	100%
102	Viande bovine séchée dont Bresaola	220	tonnes	220	218	220	100%
104	Plants, arbres	60.000	unités	60.000	60.000	60.000	100%
105	Fleurs coupées	1.000	tonnes	709	869	756	78%
106	Tomates	10.000	tonnes	10.000	10.000	10.000	100%
107	Salade iceberg	2.000	tonnes	2.000	2.000	2.000	100%
108	Chicorées witloofs	2.000	tonnes	767	833	742	39%
109	Aubergine	1.000	tonnes	1.000	1.000	1.000	100%
110	Courgettes	2.000	tonnes	2.000	2.000	2.000	100%
111	Abricots	2.100	tonnes	2.100	2.100	1.323	88%
112	Fraises (01.09 - 14.05)	10.000	tonnes	10.000	10.000	10.000	100%
115	Porto	100.000	litres	100.000	100.000	100.000	100%
116	Retsina (vin blanc grec)	50.000	litres	26.651	27.500	17.319	48%
119	Chevaux vivants	100	têtes	80	100	92	91%
120	Poitrines de poulet congelées	2.100	tonnes	1.059	1.634	1.591	68%
121	Morceaux et abats de poulet congelé	1.200	tonnes	572	971	1.010	71%
122	Poitrine de dinde congelée	800	tonnes	762	800	800	98%
123	Poitrine de dinde congelée	600	tonnes	130	90	120	19%
124	Canards congelés	700	tonnes	538	509	534	75%
125	Foies gras	20	tonnes	20	20	20	100%
126	Viandes de canard et d'oie congelées	100	tonnes	100	100	100	100%
127	Viande de lapin	1.700	tonnes	836	788	701	46%
128	Viande de gibier	100	tonnes	100	100	100	100%
129	Oeufs d'oiseaux	150	tonnes	150	150	150	100%
130	Miel d'acacia	200	tonnes	129	85	79	49%
131	Miel non d'acacia	50	tonnes	50	50	50	100%
132	Concombres pour conserve (21.10 - 14.04)	100	tonnes	0	0	0	0%
133	Concombres pour conserve (15.04 - 20.10)	2.100	tonnes	825	571	577	31%
134	Cornichons	800	tonnes	227	123	84	18%
135	Poivrons (01.04 - 31.10)	1.300	tonnes	1.300	1.300	1.300	100%
136	Légumes et mélanges de légumes	150	tonnes	139	142	150	96%
137	Oignons	100	tonnes	100	100	100	100%
138	Pois fourragers	1.000	tonnes	1.000	1.000	1.000	100%
139	Pois non fourragers	1.000	tonnes	968	735	558	75%
140	Prunes (01.07 - 30.09)	600	tonnes	600	600	600	100%
141	Fraises (15.05 - 31.08)	200	tonnes	200	200	200	100%
142	Framboises (01.06 - 14.09)	250	tonnes	250	250	250	100%
143	Fraises de transformation (*)	1.000	tonnes				
144	Framboises, mûres de transformation (*)	1.200	tonnes				
145	Myrtilles	200	tonnes	160	100	171	72%
146	Autres fruits	1.000	tonnes	1.000	1.000	1.000	100%
147	Piments du genre Capsicum ou Pimenta	150	tonnes	150	150	150	100%
148	Blé et méteil fourrager	50.000	tonnes	50.000	50.000	50.000	100%
149	Maïs fourrager	13.000	tonnes	13.000	13.000	13.000	100%
150	Champignons du genre Agaricus	1.700	tonnes	1.688	1.682	1.490	95%
151	Viande de chèvre	100	tonnes	100	100	100	100%
152	Concombres pour salade (21.10. - 14.04)	200	tonnes	200	200	200	100%
153	Fruits à coque	100	tonnes	23	20	17	20%
301	Jambon saumuré, saucisses et cou de porc	4.087	tonnes	4.084	4.051	4.070	100%

sources : OFAG (KIC) et AFD le 12.05.2020

(*) Le taux NPF avec allègement douanier est plus petit que le taux préférentiel.

[90] The information is only available in French language.

5.4 Trade in services and Foreign Direct Investments

With trade in services valued at over €170 billion in 2018, Switzerland is the third trading partner of the EU after the US and the UK. Following a constant rise over five years, 2018 saw a 1% decline in the EU's exports of services to Switzerland. The services provided by Switzerland in the EU were worth €65.5 billion in 2018, a decrease of 4% compared to the previous year. The balance of trade in services remains favourable to the EU, with an excedent of €39.5 billion.

Given the very high integration between the two economies, Switzerland is a very important partner to the EU in terms of investment. In 2018, the stocks of Foreign Direct Investment in the EU held by Switzerland reached €750 billion, which represents a 58% increase since 2014, while the EU's FDI stocks in Switzerland reached over a trillion euros, amounting to a 40% increase since 2014. Switzerland gathers about 12% of the total EU27 stocks invested outside the EU27.

6. CONCLUSIONS

Trade between the EU and Switzerland is flourishing: the EU is Switzerland's main trading partner, whereas Switzerland is the EU's fourth trading partner after the US, China and the UK. However, since its entry into force in 1972, the FTA has not been updated to reflect the evolution of international trade law and standards, such as new provisions from WTO agreements or modern bilateral FTAs and introduction of a binding and automatic dispute settlement mechanism.

On 23 November 2018, the negotiations on the EU-Swiss Institutional Framework Agreement (IFA) came to a close. Since the 1972 FTA is not covered by the IFA, it includes a Joint Declaration where parties commit to a future modernisation of the trade relationship.

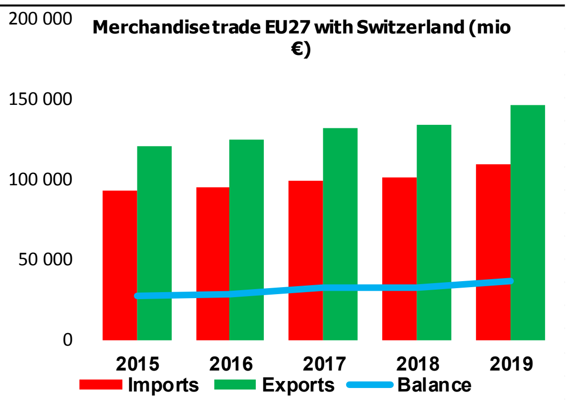
Council Conclusions adopted in February 2019 as well as the European Parliament recommendation adopted in March 2019 make it clear that the adoption of the IFA is a precondition for the conclusion of future agreements on Swiss participation in the EU's internal market and also an essential element for deciding upon further progress towards mutually beneficial market access. Given the ligh level of uncertainty around the timing of the adoption of the IFA on the Swiss side, the launch of the negotiations to modernise the FTA is also difficult to predict.

7. STATISTICS

SWITZERLAND

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Switzerland (mio €)					
Imports	93 570	95 735	99 119	101 658	110 261
Exports	121 292	124 842	132 238	134 674	146 775
Balance	27 722	29 108	33 119	33 016	36 515
Share Switzerland in EU27 trade with Extra-EU27					
Imports	5.7%	6.0%	5.6%	5.3%	5.7%
Exports	6.5%	6.7%	6.6%	6.5%	6.9%
Total (I+E)	6.1%	6.4%	6.1%	6.0%	6.3%
Share EU27 in trade Switzerland with world					
Imports	51.9%	48.7%	52.4%	53.4%	53.3%
Exports	38.7%	37.7%	39.6%	40.9%	40.9%
Total (I+E)	44.8%	42.9%	45.6%	46.8%	46.7%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Switzerland: IMF Dots



Switzerland	2018	2019	Growth mio €	Growth annual %
Imports	101 658	110 261	8 603	8.5%
Exports	134 674	146 775	12 101	9.0%
Balance	33 016	36 515	3 498	
Total trade	236 332	257 036	20 704	8.8%

Total merchandise trade EU27 with Switzerland (mio €)

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Switzerland (mio €)

Switzerland	2018	2019	Growth mio €	Growth annual %
Imports	4 466	4 598	131	2.9%
Exports	8 098	8 376	278	3.4%
Balance	3 632	3 778	146	
Total trade	12 565	12 974	409	3.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Switzerland (mio €)

Switzerland	2018	2019	Growth mio €	Growth annual %
EU27 imports	97 192	105 663	8 472	8.7%
EU27 exports	126 576	138 399	11 823	9.3%
Balance	29 384	32 736	3 352	
Total trade	223 767	244 062	20 295	9.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Switzerland (mio €)

Switzerland	2017	2018	Growth mio €	Growth annual %
Imports	68 065	65 528	-2 537	-3.7%
Exports	106 033	105 110	-924	-0.9%
Balance	37 969	39 582	1 613	
Total trade	174 098	170 637	-3 461	-2.0%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Switzerland (mio €)

	2014	2015	2016	2017	2018
Imports	59 018	67 106	88 902	68 065	65 528
Exports	93 557	99 480	100 695	106 033	105 110
Balance	34 539	32 373	11 793	37 969	39 582
Total trade	152 575	166 586	189 596	174 098	170 637

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Switzerland (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	475 379	634 955	720 338	748 126	751 184
Outward	722 489	870 876	979 152	970 061	1 014 519
FDI Flows					
Inward	39 292	99 640	116 244	15 681	45 502
Outward	-2 388	43 554	91 059	34 618	63 391

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-NORWAY TRADE AGREEMENT

1. INTRODUCTION

The **Free Trade Agreement (FTA) between Norway and the EU** entered into force on 1 July 1973. It concerns goods only and is one of the oldest trade agreements signed by the EU.

Although still in force, it has been superseded in many respects by the **Agreement on the European Economic Area** (EEA), which entered into force on 1 January 1994, and brings together the EU Member States and the three EEA EFTA States — Iceland, Liechtenstein and Norway — in the internal market. The EEA agreement ensures the free movement of goods, services, capital and persons between Norway and the EU and is the backbone of EU-Norway cooperation. Members of the EEA fully apply the whole *acquis communautaire* related to the "four freedoms" through dynamic incorporation of the relevant legislative acts into the Protocols and Annexes of the EEA Agreement via Joint Committee Decisions.

The EEA Agreement does <u>not</u> cover the common agricultural and fisheries policies, which means that agricultural and fisheries products are not in free circulation between the EU and Norway and quotas exist in a number of areas. Processed agricultural products are covered by a dedicated protocol to the EEA agreement but are also not in free circulation.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGESS AND FOLLOW-UP ACTIONS

Processed agricultural products

Trade in processed agricultural products is regulated by Protocol 3 to the EEA agreement and to a certain extent by Protocol 2 to the 1973 FTA. Protocol 3 of the EEA foresees the possibility to levy customs duties based on the cost of the basic agricultural products in the EU and in Norway. In practice, EU exports of processed agricultural products are hindered by high customs tariffs and this has been a long-standing trade barrier.

In the **Joint Working Group on processed agricultural products** which took place on 14 November 2019, the Commission recalled the EEA Council Conclusions, which welcomed the Contracting Parties' intention of conducting before the summer of 2019 a new review of the trade regime for processed agricultural products within the framework of Article 2(2) and Article 6 of Protocol 3 in order to further promote trade in this area. The Commission reaffirmed its wish to revise Protocol 3 and the duties therein to mutually improve market access in line with the spirit of market integration of the EEA Agreement. The Norwegian delegation however stated that the purpose of the reviews under Protocol 3 is not liberalization but rather the establishment of a level playing field. The Norwegian delegation therefore expressed its wish to keep Protocol 3 unchanged and was unwilling to make any commitments towards further liberalization in processed agricultural products considering the perceived positive results of the Protocol. This divergence of views, did not allow to make progress beyond certain technical aspects (identifying code lines and updating the figures for the processed agricultural products relevant for any review).

Geographical Indications

The EU and Norway agreed to encourage trade in agricultural products through Geographical Indications (GIs). The GIs negotiations were launched in 2013 and suspended at the request of Norway in April 2016. The Council of the European Union in its Conclusions of December 2018 called on Norway to "resume the negotiations on the protection of geographical indications, which is an important element of international trade in agricultural products and foodstuffs ".

Accordingly, in the context of the Joint Working Group on processed agricultural products of 14 November 2019, the Commission urged the Norwegian delegation to consider resuming the negotiations on Geographical Indications. The Norwegian delegation explained that it would consult back with relevant authorities on the possibility to resume these negotiations.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

In practice, since the signing of the EEA agreement, the bilateral agreement has been less active and no FTA Joint Committee meetings have been called in the last years. Joint committee decisions, often of technical nature and limited in number, are taken by written procedure. Bilateral trade issues such as trade irritants are discussed on a case-by-case basis, at technical and political level.

The EEA Joint Committee, where the European External Action Service represents the EU side, meets six to eight times per year[91]. Four subcommittees assist the Joint Committee[92]. They mainly deal with the incorporation of the EU acquis into the legal system of Norway.

The EEA Council meets twice a year to discuss at political level a series of issues related to the EEA agreement.

On the 25th anniversary of the entry into force of the EEA agreement, on 19 November 2019, the EEA Council recognised that the Agreement has been a solid basis for a broad and strong relationship among the parties.

More specifically in relation to trade, the EEA Council "expressed concerns regarding the current challenges in international trade and reconfirmed its commitment to open and fair trade and rule-based trade relations. In particular, the EEA Council underlined the importance of predictable trade conditions for economic operators within the EEA. In this regard, the exemption of Iceland, Liechtenstein and Norway from the EU's safeguard measures concerning imports of a number of steel products is a good example"[93]. These exemptions, it is reminded, are compatible with both the EU's bilateral and multilateral World Trade Organisation (WTO) obligations.

[91] https://eeas.europa.eu/diplomatic-network/european-economic-area-eea/348/european-economic-area-eea_en

[92] These four subcommittees are on the free movement of goods, the free movement of capital and services including company law, the free movement of persons and on horizontal and flanking policies.

[93] https://www.consilium.europa.eu/en/press/press-releases/2019/11/19/conclusions-of-the-52nd-meeting-of-the-eea-council/

4. Specific Areas of Importance

The **integration in the internal market via the EEA agreement** is a main achievement of EU-Norway relations and the main driver of the bilateral trade relations. Norwegian companies participate in the single market almost under the same conditions as Member States, and vice-versa. The same rules apply to ensure a level-playing field, such as technical requirements of certain products or competition rules. EU Internal Market rules are dynamically integrated into Norwegian law through the EEA agreement. This creates a stable and predictable environment. Norway has a say in the EEA decision-shaping process, albeit without a vote on the final decision. A relatively high number of legal acts pending incorporation into the EEA Agreement has created the so-called "backlog" in this dynamic approximation. A joint effort of both the EU and the EEA EFTA States resulted in a historical decrease of this backlog, with the number of outstanding legal acts reduced to less than 350 by December 2019. This is the lowest number since 2013, when these figures were first produced.

As Norway is not part of the EU Customs Union, nor linked with the EU by a customs union agreement, **customs procedures apply to goods exchanged between EU Member States and Norway**. Norway is free to negotiate its own trade agreements and is not bound by the European Common Customs Tariff. If goods originating in third countries are imported in Norway before being re-exported to the EU, the customs procedure in place between Norway and the EU will ensure that the duties applicable to the end-destination are being levied.

5. Evolution of bilateral trade

5.1 Economic environment

Growth in the Norwegian economy has been solid since 2016. The global upturn, improved cost-competitiveness and higher oil prices have helped lift activity, as have low interest rates. Norwegian GDP only grew by 1.2% in 2019. Inflation remained close to target at 2.17%. The policy rate is kept stable at 1.5% and unemployment remains low.

The krone exchange rate has reached record-low levels, both against the euro and other measures. Persistent uncertainty about global developments may have contributed to a weaker krone over time than projected and it is expected to remain weak in the years ahead. The krone depreciation also improves Norwegian firms' cost-competitiveness and may pull up demand for Norwegian goods and services. Goods from abroad are however becoming more expensive, which might impact imports.

As a small open economy, Norway is affected by trade tensions. At the same time, growth in the Norwegian economy has been solid in recent years in spite of weaker growth among trading partners. It is likely that the direct impact of trade tensions on the Norwegian economy has so far been limited. Lower growth among Norway's trading partners will however lead to lower demand for Norwegian exports.

In addition, lower global growth could reduce the demand for oil, resulting in a lower oil price. Norway also has substantial exports related to the car industry. These include car parts, aluminium and ferro-alloys, which make up close to 10% of total mainland exports. There is therefore reason to believe that an increase in tariffs on cars and car parts imported from and exported to the US might have a stronger direct effect on the Norwegian economy than the measures introduced so far.

In August 2019 EFTA and Mercosur concluded a comprehensive Free Trade Agreement covering, among other things, trade in goods, trade in services, investments, intellectual property rights and sustainable development. Agricultural issues were negotiated bilaterally and Norway made available some GSP quotas and existing WTO quotas already in use by the Mercosur states and increased quotas for input factors to the fisheries sector (soy and maize).

5.2 Trade in goods

In 2019 the EU remained the first trading partner for Norway, capturing 57% of the latter's total trade. However, at **€ 106 billion**, total bilateral trade dropped by 5% compared to 2018, highlighting mainly the sharp drop in mineral imports from Norway (-16.5%). Overall Norway's total exports to the EU-27 were down by 11% in 2019 while EU-27 exports to Norway were slightly up by 3%. Norway's exports contraction to the EU and the UK's exit from the EU contributed to Norway dropping two places in the top EU trading partners ranking (8th position). **Norway's trade surplus with the EU also contracted by 78% reaching € 2.4 billion in 2019.** Mineral products still represents nearly half of EU imports from Norway, despite a decrease of 16% in the reporting period. The largest share of exports in value are represented by machinery and appliances, followed by transport equipment and chemicals.

5.3 Trade in agricultural products

Trade in agricultural goods between the EU and Norway reached almost €5 billion in 2019, with a **clear surplus for the EU**, which exports more than eight times the value of the agricultural goods it imports from Norway. Both imports and exports have been steadily increasing since 2009.

In 2019, the EU exported to Norway mainly cigars and cigarettes (9%), pasta, pastry, biscuits and bread (9%), wine, vermouth, cider and vinegar (8%), and vegetables and fruits (7% and 6% respectively). As for the imports, they consisted mainly of food preparations (11%), oilcakes (11%) and raw hides, skins and fur skins (10.5%).

Norway makes little use of the agri-food TRQs granted by the EU. Only five TRQs are fully utilised (whey, waters, potato chips, fish feed, and preparations used in animal feeding) and two TRQs are utilised by about 50% (ethyl alcohol, chocolates).

TRQs granted by the EU to Norway

Utilisation rate of TRQs opened by the EU to Norway						
				Utilisation in TRQ period ending in:		
Sector	TRQ description	TRQ Quantity	Unit	2017	2018	2019
Sheep	Sheep or goat meat & edibble offal	500	t (carcass weight eq.)	not open yet	15%	9%
Poultry	Chicken wings, frozen	550	T	not open yet	0%	0%
Poultry	Chicken offal, frozen	150	T	not open yet	0%	0%
Dairy	Whey	1.250	T	not open yet	0%	0%
Dairy	Whey	3.150	T	not open yet	0%	100%
Dairy	Cheese	7.200	T	24%	26%	31%
Flowers	Indoor plants	544.848	Euro	0%	0%	0%
Flowers	Cut flowers, other	500.000	Euro	not open yet	0%	0%
F&V	Cauliflowers & headed broccoli	2.000	T	0%	0%	0%
F&V	Cabbage lettuce	300	T	0%	1%	0%
F&V	Other lettuce	300	T	0%	5%	0%
F&V	Cherries	900	T	0%	0%	0%
F&V	Plums	600	T	0%	0%	0%
F&V	Strawberries	900	T	0%	0%	0%
F&V	Strawberries	900	T	0%	0%	0%
F&V	Raspberries	400	T	0%	0%	0%
Oils	Margarine	2.470	T	5%	5%	6%
Sausages	Sausages	300	T	9%	3%	6%
Meat	Prepared or preserved meat, offal or blood	233	T	not open yet	14%	11%
Sugar products	Chocolate & other preparations containing cocoa	5.500	T	52%	67%	77%
F&V	Potato chips	350	T	100%	99%	100%
Waters	Waters, with sugar	173.030	Hl	100%	100%	100%
Ethanol	Ethyl alcohol, undenatured	164.000	Hl	49%	13%	3%
Ethanol	Ethyl alcohol, denatured	14.340	Hl	13%	9%	1%
Animal feed	Dog or cat food	13.000	T	31%	53%	25%
Animal feed	Fish feed	1.177	T	100%	100%	100%
Animal feed	Preparations used in animal feeding	200	T	not open yet	100%	100%
Tobacco	Smoking tobacco	370	T	0%	0%	0%
Albumins	Milk albumin	500	T	not open yet	0%	99%

Utilisation rate of TRQs opened by Norway to the EU

TRQs granted by Norway for key agricultural products (beef, pork, cheese) have been fully or almost completely utilised by the EU since 2012. The uptake of the TRQs for other agricultural products (fruit, sausages, live plants) has been high, ranging from more than 70% to almost 100%. The utilisation rate for poultry and turkey meat as well as for eggs has – with intermittent fluctuations – decreased from 100% in 2012 to more than 60% in 2017; these fluctuations are due to a variety of factors such as the EU internal market's own demand.

5.4 Trade in services and Foreign Direct Investments

With approximately €40 billion of services exchanges between the parties in 2018 (€14 billion of services imported and €26 billion exported), Norway and the EU are very important trading partners when it comes to services. Norway is in fact the 8th largest recipient of EU services. The balance for trade in services between Norway and the EU is positive for the EU – and has remained stable over the last five years.

Foreign Direct Investment (FDI) is slightly more outward orientated in Norway, with €95 billion worth of stocks in the EU versus a more modest €84 billion of stocks owned by the EU in Norway.

6. CONCLUSIONS

Institutionally, through the EEA agreement, Norway enjoys a very deep economic integration with the EU and is thus as closely linked to the Internal Market as a third country can be. This unique position allowed Norway to be excluded from the scope of application of the EU steel safeguard measures in place since the second half of 2018. This close integration is also reflected in the strong bilateral trade between the EU and Norway, still among the top ten trading partners of the EU despite the loss of the UK as a strong traditional partner of Norway. There is however room for further liberalisation of trade in basic and processed agricultural products, with the EU firmly calling on Norway to launch discussions in this area.

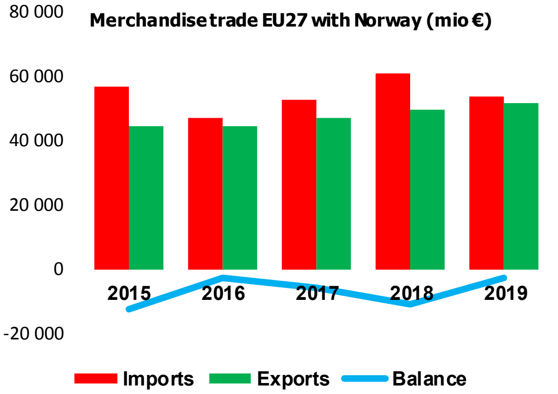
In multilateral trade fora, in particular within the WTO, the EU and Norway share the objective of preserving a stable, predictable and rules-based international trading environment. Norway was among the first WTO parties to endorse the Commission’s initiative on the Multi Party Interim Agreement (MPIA). Politically, Norway and the EU are also close allies. Norway notably actively aligns itself with EU foreign policy instruments, including the EU's sanction policy towards Russia, and is also subject to the Russian agricultural ban.

7. Statistics

NORWAY

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Norway (mio €)					
Imports	56 999	47 349	52 730	60 956	53 984
Exports	44 481	44 605	47 306	50 008	51 594
Balance	-12 518	-2 743	-5 424	-10 948	-2 390
Share Norway in EU27 trade with Extra-EU27					
Imports	3.5%	3.0%	3.0%	3.2%	2.8%
Exports	2.4%	2.4%	2.4%	2.4%	2.4%
Total (I+E)	2.9%	2.7%	2.7%	2.8%	2.6%
Share EU27 in trade Norway with world					
Imports	56.9%	58.3%	56.4%	56.3%	55.9%
Exports	58.7%	57.5%	59.1%	60.6%	58.7%
Total (I+E)	58.0%	57.9%	57.9%	58.8%	57.4%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Norway: IMF Dots



Total merchandise trade EU27 with Norway (mio €)

Norway	2018	2019	Growth mio €	Growth annual %
Imports	60 956	53 984	-6 972	-11.4%
Exports	50 008	51 594	1 586	3.2%
Balance	-10 948	-2 390	8 558	
Total trade	110 964	105 578	-5 386	-4.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Norway (mio €)

Norway	2018	2019	Growth mio €	Growth annual %
Imports	545	532	-13	-2.3%
Exports	4 292	4 457	165	3.8%
Balance	3 747	3 924	177	
Total trade	4 837	4 989	152	3.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Norway (mio €)

Norway	2018	2019	Growth mio €	Growth annual %
EU27 imports	60 411	53 452	-6 959	-11.5%
EU27 exports	45 716	47 137	1 421	3.1%
Balance	-14 695	-6 315	8 380	
Total trade	106 128	100 589	-5 538	-5.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Norway (mio €)

Norway	2017	2018	Growth mio €	Growth annual %
Imports	13 601	14 307	705	5.2%
Exports	25 579	25 709	130	0.5%
Balance	11 978	11 402	-576	
Total trade	39 180	40 015	835	2.1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Norway (mio €)

	2014	2015	2016	2017	2018
Imports	14 239	14 687	14 094	13 601	14 307
Exports	24 458	25 275	25 033	25 579	25 709
Balance	10 219	10 588	10 939	11 978	11 402
Total trade	38 698	39 962	39 127	39 180	40 015

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Norway (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	66 931	84 343	97 861	86 302	95 081
Outward	77 987	86 533	95 836	84 353	84 417
FDI Flows					
Inward	3 461			1 476	9 528
Outward		5 905	3 282	4 310	-4 444

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-TURKEY CUSTOMS UNION AND TRADE AGREEMENTS

1. INTRODUCTION

The contractual relations between the EU and Turkey date back to 1963 when the European Economic Community (i.e. the EU's predecessor) and Turkey signed an **Association Agreement** (the 'Ankara Agreement'), in which both parties agreed to progressively establish a **Customs Union** over a period of several years. An Additional Protocol was signed in November 1970, setting out a timetable for the abolition of tariffs and quotas on industrial goods circulating between the parties. The final phase of the Customs Union was completed on 1 January 1996 in the shape of the EU-Turkey Association Council Decision No 1/95, which is currently in force.[94]

The Customs Union ensures the free movement of all industrial goods and certain processed agricultural products between the EU and Turkey. It also requires Turkey to align with the EU's customs tariffs and rules, commercial policy, competition policy and intellectual property rights, as well as with the EU's technical legislation related to the scope of the Customs Union. The Customs Union with Turkey therefore **goes well beyond the traditional free trade agreements** which the EU has concluded with other third countries.

In addition to the Customs Union, the EU and Turkey concluded two further bilateral preferential trade agreements: The Agreement between the European Coal and Steel Community (ECSC) and Turkey on trade in products covered by the Treaty establishing the ECSC established a **Free trade agreement for coal, iron and steel products**[95] in 1996, along with relevant competition rules. **Association Council Decision No 1/98**[96] **(amended by Decision No 2/2006**[97]**)** provides for preferential concessions on trade in certain agricultural and fishery products.

On 21 December 2016, the European Commission adopted a Recommendation for a Council Decision authorising the opening of negotiations with Turkey on an **Agreement on the extension of the scope of the bilateral preferential trade relationship** and on the modernisation of the Customs Union. The negotiations can start only once the Council adopts the related negotiating directives. In this respect, the Council (General Affairs Council meeting of 26 June 2018, and repeated on 18 June 2019) noted that *"Turkey has been moving further away from the European Union. Turkey's accession negotiations have therefore effectively come to a standstill and no further chapters can be considered for opening or closing and no further work towards the modernisation of the EU-Turkey Customs Union is foreseen."*

94 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21996D0213(01):EN:HTML
95 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21996A0907(01):en:HTML
96 http://eur-lex.europa.eu/legal-content/en/ALL/?uri=OJ:L:1998:086:TOC
97 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22006D0999&from=EN

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

As regards the implementation of the existing bilateral preferential trade framework, limited progress was achieved in 2019 on certain issues, such as the lifting of divergent tariffs on selected product categories. However, on balance Turkey created further market access barriers in breach of the Customs Union rules, and aggravated existing ones, affecting European companies.

Turkey has upheld trade barriers in breach of the Customs Union agreement, notably in continuing - and broadening - its deviation from the Common Customs Tariff, through the imposition of **additional duties** on products originating outside the EU or Turkey's FTA partners. On the basis of these duties, Turkey requires a **proof of origin** for affected product categories, contrary to Customs Union rules. This issue was exacerbated by customs implementation rules introduced in May 2019 that lead to a sharp increase in certificates of origin demanded and increased uncertainty on the part of EU exporters. The non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States including the Republic of Cyprus also remains a critical demand. In addition, the Turkish Draft Implementing Regulation on Cosmetic Products foresees the application of certain administrative procedures to imports of **cosmetics products**. These measures constitute harmful technical barriers to trade that need to be removed urgently in line with the commitments under the EU Turkey Customs Union.

The European Commission has consistently raised concerns regarding these barriers in various fora, including the Customs Union Joint Committee and other bilateral meetings as well as in written exchanges. It will continue to follow up on these and any arising issues with the Turkish authorities, as well as with all relevant stakeholders.

Regarding the long-standing issue of the **localisation requirements** imposed by Turkey in the pharmaceutical sector in clear breach not only of bilateral agreements, but also WTO rules, the European Commission in April 2019 brought a case to WTO dispute settlement[98], as a last resort after repeated warnings. At issue are measures the Turkish authorities have adopted requiring foreign producers to commit to localise in Turkey their production of certain pharmaceutical products.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **36th Customs Union Joint Committee** (CUJC) meeting took place on 8 and 9 July 2019 in Brussels. As set out in the public report[99], The parties discussed issues linked to the proper functioning of the Customs Union, including the following:

- The increasing number of trade barriers and breaches of the Customs Union by Turkey, including measures such as additional duties imposed on imports of products from third countries and related customs measures, surveillance measures of certain products, export restrictions on copper, certification and testing requirements on imported goods etc.

[98] https://trade.ec.europa.eu/doclib/docs/2019/april/tradoc_157821.pdf

- The shortcomings of the IPR enforcement regime in Turkey and the new international exhaustion regime in breach of the Customs Union with the EU.

- Turkey's alignment to EU technical legislation in areas which are essential for the functioning of the Customs Union.

- Update on recent EU trade policy developments, in particular as regards negotiations of free trade agreements with third countries, linked to Turkey's obligation to align with the EU's commercial policy.

- The non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States including the Republic of Cyprus.

- The conditions on import of beef and live bovine animals into Turkey. The EU expressed its concerns about Turkey's restrictions and encouraged Turkey to improve its administrative import and transit requirements.

In addition, the **50th meeting of the EU-Turkey Customs Co-operation Committee** took place in Brussels on 19 November 2019. The main topics addressed by the Committee were the following:

- Recent developments in relation to customs legislation.

- rules of origin, including the revision of the Pan-Euro Mediterranean Convention.

- Implementation issues around the electronic issuance of movement certificates (A.TR, EUR.1, and EUR-MED).

- Trade barriers and breaches of the Customs Union by Turkey that affect customs, including in particular the requirement of proof of origin applied by Turkey and additional documentation requirements at customs.

4. SPECIFIC AREAS OF IMPORTANCE

Like other trading partners, such as Serbia, North Macedonia and Bosnia and Herzegovina, **Turkey has raised concerns regarding the EU's steel safeguard measures**. Definitive safeguard measures on certain steel products are in place since February 2019, preserving as much as possible traditional trade flows, in terms of volumes and origins. Since imposition of measures, the Commission further enhanced the effectiveness of the measures following a first Review investigation, concluded end of September 2019. In keeping with the European Coal and Steel Community FTA and the Customs Union agreement, the EU has organised bilateral consultations with Turkey on this issue, and will continue to ensure that the safeguard measures are applied fairly.

5. EVOLUTION OF BILATERAL TRADE

The Customs Union has led to substantial increase in trade between the EU and Turkey. Since its entry into force in 1996, the value of bilateral trade increased more than fourfold[100]. The rise in FDI to Turkey from the EU has been similarly significant, as has been the deeper integration in production networks between Turkish and European firms. In 2019, Turkey remained the EU's 6th largest trading partner overall, whilst the EU is by far Turkey's most important trading partner. According to Eurostat data, EU27 goods exports to Turkey fell by 1.3% to €68.3bn while imports from Turkey rose by 4.4% to €69.8bn. Overall trade in goods thus amounted to €138.1 billion in 2019, and moved from a long-standing EU surplus, most recently of €2.4 billion in 2018, to a €1.5 billion deficit.

The share of Turkish exports to the EU decreased from 43.4% to 42.2%, while the share of Turkish imports coming from the EU declined marginally from 32.9% to 32.3% between 2018 and 2019.

5.1 Economic environment

Turkey is a large and sophisticated middle-income economy driven by industry and increasingly services, although agriculture still accounts for a large share of employment. Exports are well diversified and integrated in EU and global value chains. Turkey remains highly dependent on imported oil and gas.

While the Turkish economy recovered faster than expected from the currency crisis that started in summer 2018, **the economy was in recession for much of 2019** and GDP growth was weak at 0.9% over the year. This recovery was supported by a large fiscal stimulus, but also a strong growth contribution of net exports. After the sharp fall in the value of the Turkish lira, worldwide exports from Turkey rose by 7.69% in euro terms, while imports contracted by 3.87%. Overall, Turkey therefore decreased its trade deficit, although it remained sizeable at €27.8 billion. Domestic demand was constrained, partly on the basis of higher unemployment, but strengthened somewhat towards the end of 2019.

5.2 Trade in goods

Regarding the sectoral split, the EU's biggest export category in 2019 continued to be machinery and appliances (25% of overall EU exports), followed by transport equipment (13.9%), chemical products (13.4%) and base metals and articles thereof (12.4%). Turkey's biggest export sector was transport equipment (25.7%), followed by textiles and textile articles (18.8%) and machinery and appliances (16.3%).

5.3 Trade in agricultural products

In 2019, Turkey was the EU's 8th largest supplier of agricultural goods at €4.2 billion, and the number 10 export destination with €3.4 billion in imports. The EU hence had a trade deficit in

[100] World Bank: Evaluation of the EU - Turkey Customs Union, March 2014

agriculture with Turkey of €784 million, down from the €1 billion high in 2018 due to a recovery in exports.

Over the reporting period, EU agri-food exports to Turkey rose by 14% when compared to 2018 and were well diversified, consisting mainly of: cereals – other than wheat and rice – (9%), cotton, flax and hemp and plaiting materials (8%) and food preparations (7%). EU imports from Turkey were up by 4.3% compared to 2018 (€4.19 billion by value) and consisted mainly of tropical fruits, nuts and spices (22%) and preparations of vegetables, fruits or nuts (21%).

Given the overall low volumes compared to industrial goods, a considerable variation was seen across many categories. While EU cereals exports expanded by 191% and dairy products also increased significantly, live animal exports dropped by almost half, and meat exports collapsed by 93%.

Turkey maintains certain SPS requirements that are not in compliance with EU regulations and procedures and also go beyond international standards thereby negatively impacting exports of live animals and meat from the EU Member States to Turkey.

Tariff rates quotas granted by the EU to Turkey

Utilisation rate of TRQs opened by the EU to Turkey						
				Utilisation in TRQ period ending in:		
Sector	TRQ description	TRQ Quantity	Unit	2017	2018	2019
Poultry	Turkey, frozen	1.000	T	0%	0%	0%
Dairy	Cheese (Kashkaval)	2.300	T	1%	0%	0%
F&V	Potatoes	2.500	T	100%	20%	43%
F&V	Onions	2.000	T	100%	100%	100%
F&V	Aubergines	1.000	T	100%	100%	100%
F&V	Courgettes	500	T	100%	100%	100%
F&V	Table grapes	350	T	100%	100%	100%
F&V	Fruit & nuts, frozen	100	T	0%	0%	0%
Oils	Olive oil, virgin, other than lampante	100	T	100%	100%	100%
Sugar products	Chewing gum	5.000	T	46%	65%	70%
Sugar products	Sugar confectionery, not containing cocoa	10.000	T	100%	100%	100%
Sugar products	Chocolate & other preparations containing cocoa	5.000	T	100%	100%	100%
Preparations	Malt extract; cereal preparations	900	T	100%	100%	100%
Preparations	Pasta	20.000	T	100%	100%	100%
Preparations	Roasted cereals	500	T	100%	100%	100%
Preparations	Roasted cereal flakes	100	T	100%	100%	100%
Preparations	Bulgar wheat	10.000	T	100%	100%	100%
Preparations	Other prepared cereals	2.500	T	99%	100%	95%
Preparations	Bread, pastry, cakes, biscuits	10.000	T	100%	100%	100%
Preparations	Waffles & wafers	3.000	T	100%	100%	100%
Preparations	Rusks & toasted bread	120	T	100%	100%	100%
Preparations	Bread & pastry	10.000	T	100%	100%	100%
F&V	Tomatoes, prepared or preserved	8.900	T	100%	100%	100%
F&V	Jams, fruit jellies, marmalades, fruit or nut purees & pastes	1.750	T	100%	100%	100%
F&V	Jams, jellies, marmalades, purees & pastes, sugar 13-30%	100	T	10%	31%	40%
F&V	Other preparations of fruit & nuts, sugar >30%	100	T	100%	100%	100%
F&V	Fruit & berries, prepared / preserved	2.100	T	6%	12%	6%
F&V	Fruit & vegetable juices	3.400	T	1%	0%	0%
Preparations	Food preparations; Protein concentrates & textured protein substances	4.000	T	65%	76%	82%

At the time of drafting of this staff working document, information on the use of tariff rates quotas opened by Turkey to the EU was not available.

Geographical indications

On geographical indications (GIs), the EU continued the assessment of 15 Turkish applications submitted in previous years. Two EU applications (Gorgonzola and Cognac) were under assessment by the Turkish IP authorities. The Commission participated in the Second International Geographical Indications Summit organised by the Ankara Chamber of Commerce and held in Ankara on 19 September 2019.

5.4 Trade in services and Foreign Direct Investments

The EU-Turkey Customs Union only covers trade in industrial goods and certain processed agricultural products. Services and investment are not covered under the current agreement.

As regards trade in services, the latest data available cover the year 2018. Data available shows a continued substantial and expanding trade deficit for the EU, to €1.6 billion. Total trade of €24.1 billion has not yet recovered its high in 2015, representing the important tourism sector that was notably hit by political turmoil in 2016 and the aftermath.

As for foreign direct investment (FDI), the EU remained by far the biggest source in Turkey, although the total FDI stock continued to shrink significantly from recent highs, to €58.5 billion in 2018. FDI flows with Turkey have been subject to the same politically induced factors that affected trade in 2016 and 2017, with the economic factors described above added in 2018. In 2018, EU gross outward FDI flows strengthened to €4.5 billion, however, while Turkish FDI in the EU retrenched in 2018.

6. CONCLUSIONS

Turkey's obligation to align with the EU's common customs tariff, as well as with EU technical legislation that is crucial for the production of industrial goods, go much beyond classic trade agreements and thus make the bilateral trade relationship unique.

The Customs Union has led not only to a significant increase in bilateral trade over the last 20 years, but also to important investment and production links between the two parties. However, the economic and trading environment has changed substantially since the creation of the Customs Union and it has become less well equipped to deal with the modern day challenges of trade integration. This is partly reflected in the open issues discussed above.

The European Commission therefore adopted on 21 December 2016 a proposal to modernise the Customs Union to improve its functioning and to further extend the scope of the bilateral preferential trade arrangements in line with its approach to modern free trade agreements, also covering areas such as services, public procurement, specific rules for SMEs and sustainable development, as well as further liberalisation of agricultural products. A modernised Customs Union would also need to contain an effective dispute settlement mechanism to address the increasing number of trade and market access problems faced by European companies. The negotiations can start only once the Council adopts the related negotiating directives. In this respect, the Council on 18 June 2019 noted that *"Turkey has been moving further away from the European Union. Turkey's accession negotiations have therefore effectively come to a standstill and no further chapters can be considered for opening or closing and no further work towards the modernisation of the EU-Turkey Customs Union is foreseen."*

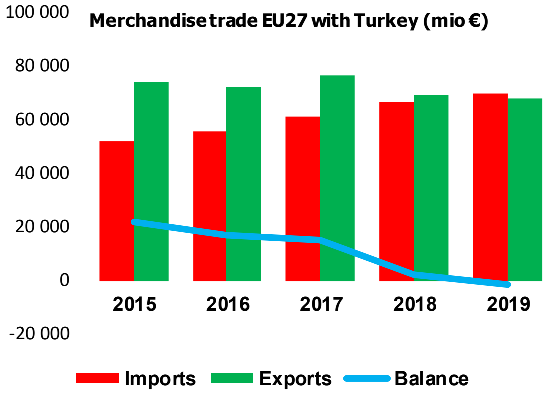
While the Commission proposal is pending authorisation by the Council given political circumstances, Turkish measures diverging from the present agreements have to be remedied, and the present trend of increasing market access barriers has to be reversed.

7. Statistics

TURKEY

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Turkey (mio €)					
Imports	52 105	55 759	61 394	66 831	69 782
Exports	74 149	72 445	76 657	69 192	68 283
Balance	22 044	16 687	15 263	2 361	-1 499
Share Turkey in EU27 trade with Extra-EU27					
Imports	3.2%	3.5%	3.5%	3.5%	3.6%
Exports	4.0%	3.9%	3.8%	3.4%	3.2%
Total (I+E)	3.6%	3.7%	3.7%	3.4%	3.4%
Share EU27 in trade Turkey with world					
Imports	35.3%	36.3%	33.6%	32.9%	32.3%
Exports	37.2%	39.8%	41.0%	43.4%	42.4%
Total (I+E)	36.1%	37.8%	36.6%	37.4%	37.0%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Turkey: IMF Dots



Total merchandise trade EU27 with Turkey (mio €)

Turkey	2018	2019	Growth mio €	Growth annual %
Imports	66 831	69 782	2 950	4.4%
Exports	69 192	68 283	-909	-1.3%
Balance	2 361	-1 499	-3 860	
Total trade	136 023	138 065	2 041	1.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Turkey (mio €)

Turkey	2018	2019	Growth mio €	Growth annual %
Imports	4 023	4 197	175	4.3%
Exports	2 994	3 413	419	14.0%
Balance	-1 029	-784	245	
Total trade	7 016	7 610	594	8.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Turkey (mio €)

Turkey	2018	2019	Growth mio €	Growth annual %
EU27 imports	62 809	65 584	2 776	4.4%
EU27 exports	66 199	64 870	-1 329	-2.0%
Balance	3 390	-714	-4 105	
Total trade	129 007	130 454	1 447	1.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Turkey (mio €)

Turkey	2017	2018	Growth mio €	Growth annual %
Imports	11 973	12 874	901	7.5%
Exports	10 724	11 225	501	4.7%
Balance	-1 250	-1 649	-400	
Total trade	22 697	24 099	1 402	6.2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Turkey (mio €)

	2014	2015	2016	2017	2018
Imports	13 912	14 109	11 948	11 973	12 874
Exports	9 090	11 185	10 761	10 724	11 225
Balance	-4 822	-2 924	-1 186	-1 250	-1 649
Total trade	23 003	25 294	22 709	22 697	24 099

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Turkey (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	8 689	11 599	25 531	23 885	22 846
Outward	62 216	69 547	71 185	65 753	58 481
FDI Flows					
Inward	1 716	1 494	1 014	9	-593
Outward		13 326	547	3 011	4 510

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PART III.2

TRADE AGREEMENTS WITH WESTERN BALKAN PARTNERS

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-ALBANIA STABILISATION AND ASSOCIATION AGREEMENT

1. INTRODUCTION

On 12 June 2006, the EU and Albania signed a **Stabilisation and Association Agreement** (SAA). The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process[101]. Under this process, all Western Balkans countries, including Albania, are granted a clear perspective to become EU Member States.

The full SAA entered into force on 1 April 2009, although the trade-related part of the SAA already entered into force through an Interim Agreement on 1 December 2006 (hereinafter 'the Agreement'). This Agreement established a free-trade area over a transitional period of ten years. As regards the EU, in 2006, 98.7% of its tariff lines were already duty-free, representing 100% of the value of imports from Albania. By 2010, Albania had liberalised 92.7% of its tariff lines for imports from the EU.

The Agreement covers products in all Chapters of the Harmonised System. Regarding agricultural products, the agreement is largely asymmetrical. EU agricultural imports from Albania are almost completely liberalised (with very few exceptions). On the other hand, EU agricultural exports to Albania are subject to tariffs and tariff rate quotas (TRQs).

The Agreement also includes provisions concerning competition matters, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the entry into force of the full SAA on 1 April 2009, a number of additional disciplines are being implemented concerning, notably, government procurement, legislative approximation in many areas including standardisation, as well as provisions regarding services and establishment.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

Albania has made **good progress** in implementing the SAA provisions since their entry into force. It is notable that there are no significant trade barriers. However a few issues remain to be addressed.

The **business environment remains challenging**. Businesses are negatively affected by inconsistent and arbitrary law enforcement as well as by inefficiencies and weak capacity in the public administration (however, a public administration reform is being implemented), and there is unfair competition from the substantial informal economy. The far-reaching overhaul of the justice system progressed well, but is still to translate into improved legal certainty for business. The business community highlights the continuing need to tackle corruption and to enhance transparency and accountability as well as consistency in implementation and enforcement of legislation. Albanian authorities strengthened operational

[101] See http://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/ for more information

coordination and monitoring capacities in the fight against corruption. Another recent positive development has been a proposal to align legislation with the EU's Late Payments Directive.

More efforts are needed to ensure the effective and transparent functioning of the public procurement system. Although the procurement legislation has improved over time, its implementation still needs to be improved and be made more transparent. In addition, the enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to the adoption of legislation and enforcement in the field of state aid control, including transparency of aid granted.

Albania's **National Plan on Trade Facilitation** shows promise but needs to be supported with sufficient resources. The acceleration of the European integration progress would give further impetus to the reform process and consequently have a positive impact on the investment and business climate in Albania.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The latest meeting of the **Sub-Committee on Trade, Industry, Customs and Taxation** took place in Tirana on 23 May 2019. In addition to reviewing trade trends, the Commission welcomed Albania's adoption of new legislation on **dual-use** goods, although further work is needed to adapt this legislation to the EU's evolving legislation. Albania's chairing of the Central European Free Trade Agreement (CEFTA) in 2019 was regarded positively, and in particular **Albania's ratification of additional Protocol 5** (on Trade Facilitation). It was also noted that Albania has made progress on establishing an **authorised economic operators (AEO) scheme** and that the implementation of its national plan on trade facilitation should be improved by the strengthened capacity of the Secretariat of Albania's National Trade Facilitation Committee.

4. EVOLUTION OF BILATERAL TRADE

4.1 Economic environment

After achieving 4.1% growth in 2018, Albania's economy slowed in 2019 to an estimated 3% growth. During the first half of 2019 the economy suffered from low hydropower production due to drought conditions (electricity production in Albania is almost 95% from hydro-energy sources) leading to an increase of electricity imports. However this was compensated by good economic performance during the third quarter of 2019, mainly due to a strong tourism season. Albania's real GDP growth picked up in the third quarter of 2019 to 3.8 % y-o-y after recording a slow-down to 2.3 % in the first half of the year.

During the first half of 2019, the performance of the processing industry, construction and services grew 4 - 6 % y-o-y, with private consumption remaining the main growth driver. The labour market has held up well with 2.6 % y-o-y growth in the third quarter. The overall unemployment rate (15-64 years) declined to 11.8 % in the third quarter compared with 12.7 % the same quarter of 2018.

Albania has a free floating exchange rate regime. During 2019 the real-effective-exchange-rate index climbed about 4% (compared to 9% in 2018). Average annual inflation dropped to 1.5 % in 2019.

Over the last five years, rising exports have helped the current-account deficit to gradually narrow, although it widened again to about 7.3 % of GDP in 2019. The share of remittances in GDP has continued to decrease to 5.2 % in 2019 while net FDI inflows (8% of GDP in 2019) have fully financed the current account deficit. Albania's historically large merchandise trade deficit widened over 2019 because of high electricity imports and low electricity exports compared with 2018. The surplus in the balance of services, which climbed to 9 % of GDP in 2019, continued to offset partly the goods trade deficit.

The **Albanian economy is dominated by the services sector** (54.7% GVA), led by trade, tourism, education and health; although agriculture remains important (21% GVA). Industry has lost some ground (12.2 % GVA), mainly because of a decline in mining and construction.

In 2019 there were slight declines (2-2.5%) of exports of construction materials, metals, mineral fuels, electricity, textiles and footwear; and increases in exports of food, beverages and tobacco (1%), machinery, equipment and spare parts (9%), and chemical and plastic products (+5%). In contrast there were slight increases in imports of minerals, fuels and electricity, food, beverages and tobacco and chemical and plastic products; and very small decreases in imports of machinery, equipment and spare parts, leather and leather manufactures, and textile and footwear.

On 26 November 2019 Albania experienced one of its strongest earthquakes in the last 30 years. As a result of the disaster, a total of 202,291 people were affected in the country, including 51 fatalities and at least 913 injuries. Up to 17,000 people were displaced due to the loss of their homes. The Albanian government has therefore revised its 2020 budget to set up a reconstruction fund of €150 million. The EU has provided assistance together with other international organisations (€1.15 billion in grants and loans were pledged for the reconstruction of damaged areas in Albania at a donor conference held in Brussels in February 2020).

4.2 Trade in goods

Although the EU remained Albania's main trading partner, total bilateral trade between the EU and Albania increased by less than 2% between 2018 and 2019 reaching a total of €5 billion. In 2019 the EU accounted for 63.5% of Albania's total trade in goods (76% of total exports and 58% of total imports). After the EU, China and Turkey are Albania's most significant trade partners (7% of Albania's total trade each). The main traded products are quite varied, covering the following sectors: machinery and appliances, footwear, hats and other headgear, textiles and textile articles, base metals, chemicals, mineral products, foodstuffs, beverages and tobacco. The overall trade balance is in favour of the EU, although last year the surplus fell slightly to €1.3 billion. This is somewhat offset by Albania's growing surplus in services.

4.3 Trade in agricultural products

In 2019, trade in agricultural products increased by 11% reaching a total of **€561 million**, which represents 11% of the total bilateral trade. However, EU exports of agricultural products to Albania represented 83% of bilateral trade and grew by almost 13% in 2019, whereas Albania's exports to the EU only grew by 6%. The trade balance in agricultural goods is therefore heavily in favour of the EU. The EU imported mainly edible vegetables, fruits, bulbs and live plants, as well as nuts from Albania and exported primarily pasta, pastry, biscuits and bread as well as beverages and tobacco to Albania.

Tariff rates quotas granted by the EU to Albania

Utilisation rate of TRQs opened by the EU to Albania						
				Utilisation in TRQ period ending in:		
Sector	**TRQ description**	**TRQ Quantity**	**Unit**	**2017**	**2018**	**2019**
Sugar	Sugar	1.000	t	0%	0%	0%
Wine	Wine, ≤ 2L (bottled)	5.000	hl	1%	1%	0%
Wine	Wine, > 2L (bulk)	2.000	hl	0%	0%	0%

The Albanian Law No 8/2019 "On quality schemes for agricultural products and foodstuffs", was adopted on 26 February 2019. It establishes quality schemes and responsible bodies for the recognition and protection of denominations of origin, geographical indications and traditional specialities guaranteed for agricultural products and foodstuffs.

TRQs granted by Albania to the EU

Annex II: Data submission about TRQ-s

TRQ identification (name)	TRQ availability (quantities)	TRQ use (quantities)	Remarks (e.g. reason for underfill)
Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, not exceeding 1 %, in immediate packings of a net content not exceeding two litres	790 Ton	790 Ton	
Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, not exceeding 3 %, in immediate packings of a net content not exceeding two litres			
Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, exceeding 3 %, in immediate packings of a net content not exceeding two litres			
Common wheat and meslin	42 000 Ton	1716.63 Ton	
Other			
Maize (except seeds)	10 000 Ton	0 Ton	
Sparkling wine In containers holding 2 litres or less	10 000 HL	10 000 HL	
Tomato ketchup and other tomato sauces	60 Ton	60 Ton	

4.4 Trade in services and Foreign Direct Investments

Total bilateral trade in services increased by 11% in 2018, reaching a total of €2.2 billion. Albania enjoys a considerable surplus of €112 million in its trade in services with the EU, mainly resulting from a continued growth of its foreign tourism. It is worth noting that 3 EU Member States (Italy, Greece and France) represent 77% of imports and 75% of exports in trade in services with Albania.

The EU remains the main source of Foreign Direct Investment into Albania, holding over half of the total FDI stock (€4.9 billion) at the end of 2018. The main EU countries investing in Albania are Greece, the Netherlands, Italy, Austria and France. EU FDI inflows to Albania were modest in 2018, reaching only just €100 million.

5. CONCLUSIONS

Albania and the EU remain close trade partners, despite the very modest increase in bilateral trade during 2019. This can be partially attributed to rather sluggish GDP growth in 2019. However, over the last 10 years total trade has almost doubled and the EU is Albania's main trading partner, accounting for almost two thirds of Albania's total trade in goods. In addition Albania has a significant surplus in trade in services with the EU, thanks to growing tourism, and the EU remains the main source of FDI.

The trade agreement is well implemented by Albania, and there are currently no major trade irritants. Albania is also a positive participant in CEFTA and contributes to the development of a Regional Economic Area.

Albania's competitiveness continues to be hampered by **inefficiencies in the energy sector**, including insufficient security of supply. The dependence on hydropower for electricity generation (98%) makes the economy vulnerable to climate change and hydrological conditions. In addition, the business and investment environment in Albania is hampered by structural weaknesses, corruption, difficulties to access finance, especially for SMEs and a poorly educated workforce. Efforts to improve the business environment lack effective policy instruments and a more strategic approach.

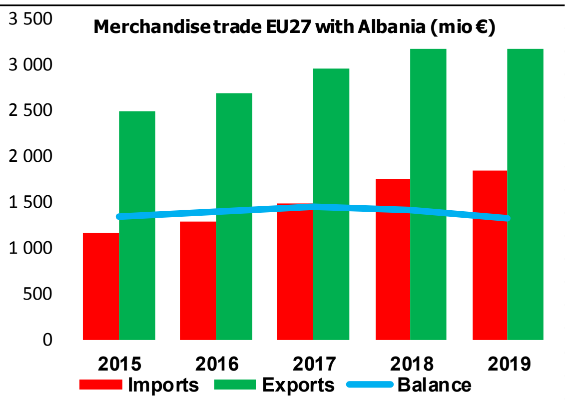
However, it is expected that in the near future Albania will benefit greatly from the renewed EU accession perspective and that closer economic, structural and legislative integration with the EU will have positive outcomes on trade relations and the business and investment climate in Albania.

6. STATISTICS

ALBANIA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Albania (mio €)					
Imports	1 160	1 286	1 499	1 751	1 845
Exports	2 498	2 685	2 961	3 178	3 175
Balance	1 338	1 398	1 462	1 427	1 331
Share Albania in EU27 trade with Extra-EU27					
Imports	0.1%	0.1%	0.1%	0.1%	0.1%
Exports	0.1%	0.1%	0.1%	0.2%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Albania with world					
Imports	60.2%	62.5%	60.6%	60.1%	57.6%
Exports	71.9%	77.7%	77.0%	76.0%	76.4%
Total (I+E)	63.9%	67.0%	65.6%	65.3%	63.5%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Albania: IMF Dots



Total merchandise trade EU27 with Albania (mio €)

Albania	2018	2019	Growth mio €	Growth annual %
Imports	1 751	1 845	94	5.4%
Exports	3 178	3 175	-3	-0.1%
Balance	1 427	1 331	-96	
Total trade	4 929	5 020	91	1.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Albania (mio €)

Albania	2018	2019	Growth mio €	Growth annual %
Imports	89	94	5	6.0%
Exports	415	467	52	12.6%
Balance	326	373	47	
Total trade	504	561	58	11.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Albania (mio €)

Albania	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 662	1 750	88	5.3%
EU27 exports	2 763	2 708	-55	-2.0%
Balance	1 101	958	-143	
Total trade	4 425	4 459	33	0.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Albania (mio €)

Albania	2017	2018	Growth mio €	Growth annual %
Imports	981	1 051	69	7.0%
Exports	1 013	1 163	150	14.8%
Balance	32	112	81	
Total trade	1 994	2 213	219	11.0%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Albania (mio €)

	2014	2015	2016	2017	2018
Imports	731	736	787	981	1 051
Exports	706	708	755	1 013	1 163
Balance	-25	-28	-32	32	112
Total trade	1 438	1 443	1 542	1 994	2 213

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Albania (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	39	-122	191	333	389
Outward	5 687	5 856	5 387	5 386	5 283
FDI Flows					
Inward	19	-162	241	49	55
Outward		188	-204	76	-149

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-BOSNIA AND HERZEGOVINA STABILISATION AND ASSOCIATION AGREEMENT

1. INTRODUCTION

On 16 June 2008, the EU and Bosnia and Herzegovina signed a **Stabilisation and Association Agreement** (SAA). The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans countries, including Bosnia and Herzegovina, are granted a clear perspective to become EU Member States.

The SAA entered into force on 1 June 2015, although the trade-related part of the SAA already entered into force through an Interim Agreement on 1 July 2008. This Agreement established a free-trade area over a transitional period of five years. The Agreement covers products in all Chapters of the Harmonised System. Regarding agricultural products, the agreement is largely asymmetrical. EU agricultural imports from Bosnia and Herzegovina are almost completely liberalised (with very few exceptions). On the other hand, EU agricultural exports to Bosnia and Herzegovina are subject to tariffs and tariff rate quotas (TRQs).

The Agreement also includes provisions concerning competition and state aid, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the entry into force of the full SAA on 1 June 2015, a number of additional disciplines are being implemented concerning, notably, government procurement, legislative approximation in many areas including standardisation, as well as provisions regarding services and establishment.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

Bosnia and Herzegovina has made good progress in implementing the SAA provisions since their entry into force. However a number of issues remain to be addressed.

The business environment remains challenging. Businesses are negatively affected by lengthy and cumbersome market entry and exit regulations, in particular, as the high degree of regional fragmentation leads to a high number of different rules and different interpretations. The **large size of the informal economy** distorts competition and the institutional and regulatory environment is unstable and unpredictable. The business community highlights the continuing need to tackle corruption and to enhance transparency and accountability as well as consistency in implementation and enforcement of legislation.

Public procurement procedures are complex and prone to corruption and there is a **lack of adequate enforcement of state aid control.** More needs to be done to ensure the effective, and transparent functioning of the public procurement system. And in line with SAA obligations, enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control.

In November 2018, Kosovo imposed a 100% import tariff for goods originating from Serbia and Bosnia and Herzegovina, indirectly affecting EU businesses operating in Serbia and trading in the region. Then Prime Minister Kurti of Kosovo lifted the tariffs on 1 April 2020, but introduced reciprocity measures before leaving office. These were revoked by now Prime Minister Hoti immediately after taking office (3 June 2020).

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The latest meeting of the **Sub-committee on Trade, Industry, Customs and Taxation** took place in Brussels on 18 October 2018. Exceptionally, no meetings were held during 2019. At that meeting, in addition to reviewing trade trends, the Commission encouraged Bosnia and Herzegovina to intensify its WTO accession efforts and urged the country to address key issues faced by businesses: namely, tackling infrastructure bottlenecks; improving the complex and inefficient administrative structures, and reducing regulatory uncertainty.

The Commission also pressed Bosnia and Herzogovina to revise its excise duties which are not in line with the SAA. Excise duties on spirits do not comply with the SAA requirements on the prohibition of fiscal discrimination nor the EU *acquis* that foresees a single rate for all spirits. In addition, the current excise duty structure for beer should be aligned for small breweries with the threshold set by the *acquis* (200 000 hl).

4. SPECIFIC AREAS OF IMPORTANCE

Like Serbia and North Macedonia, Bosnia and Herzegovina has raised concerns regarding the EU’s steel safeguard measures. In line with the provisions of the SAA, the EU has organised bilateral consultations with Bosnia and Herzegovina on this issue, and will continue to ensure the safeguard measures are applied fairly, that traditional trade flows are maintained and the measures will not have detrimental effects on Bosnia and Herzegovina’s stabilisation and economic development.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Following average GDP increases of 3% over 2014-2018, economic growth slowed slightly to 2.8% in 2019, maintained by domestic demand, which was primarily driven by private consumption, and supported by steady inflow of workers remittances and low inflation. External demand decelerated during 2019, reflecting weakening growth in some of the country’s main export markets, but also resulting from tariff hikes by Kosovo, a key export market for certain commodities.

After a slight drop in the current account deficit during the last five years, to 3.6% of GDP in 2018, the deficit amounted to 4.8% of GDP in 2019, resulting from decelerating exports, while solid domestic demand led to high import growth. Higher consumption-driven imports kept the trade deficit of goods and services at 23% of GDP in 2019.

The currency board arrangement with the euro as the anchor currency was maintained. This approach has served the economy well so far. However, it also implies that the burden of adjustment to external shocks has to be accommodated by other policy areas.

Average consumer price inflation dropped to 1.1% in 2019, compared to 1.4% the year before. Besides low prices for imported energy, price declines for clothing and footwear contributed to the low overall inflation rate. However, the inflation measure suffers from an outdated consumer basket and insufficient cooperation among key data providers.

International trade slightly declined during 2019, mainly due to weaker exports, dropping by about 3.4% in 2019, while imports remained largely unchanged, increasing by 1.2%. About one third of this drop in exports was due to a sharp decline in trade with Kosovo; but weaker exports to key trading partners, such as Germany, Croatia and Turkey, also played an important role. Exports to CEFTA countries rose slightly during 2019, by less than 1% to 16.6% of total exports.

The country's openness to trade increased over the last years - the share of total exports and imports in GDP amounted to nearly 96% in 2019, but is still relatively low given the country's economic size. The range of export commodities is not very sophisticated. While some further progress has been achieved in addressing non-tariff barriers to trade with the EU, such as required phyto-sanitary and sanitary standards, overall compliance with these requirements remains a problem.

5.2 Trade in goods

Total bilateral trade between the EU and Bosnia and Herzegovina fell very slightly (-0.4%) between 2018 and 2019 to a total of **€10.7 billion**. However, over the last 10 years bilateral trade has grown by 83% and the EU remains Bosnia and Herzegovina's first trading partner accounting for 65% of total trade (72% of total exports and 61% of total imports of goods). After the EU, Bosnia and Herzegovina's main trade partners are Serbia (11% of total trade), China (5%) and Turkey (4%). The main traded products were in the following sectors: machinery and appliances; base metals and articles and mineral products. The overall trade balance is in favour of the EU, and increased slightly in 2019 to €1.94 billion. This is offset slightly by Bosnia and Herzegovina's growing surplus in services.

5.3 Trade in agricultural products

In 2019, trade in agricultural products remained almost static, at a total of **€1.05 billion**, which represents just under 10% of the total bilateral trade. Only 4.1% of Bosnia and Herzegovina's exports to the EU are agricultural products compared to 13.9% of the EU's exports to Bosnia and Herzegovina. The total trade in agricultural products has fluctuated over the past decade, but since 2009 it has increased by over €200 million. The EU imported mainly fruits (20%) and vegetables (10%), as well as raw hides, skins and furs (11%); while its main exports to Bosnia and Herzegovina included bovine meat (11%), chocolate confectionery and ice cream (9%) and food preparations (8%).

Tariff rates quotas granted by the EU to Bosnia and Herzegovina

Utilisation rate of TRQs opened by the EU to Bosnia and Herzegovina						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in: 2017	2018	2019
Beef	Baby beef	1.500	t (carcass weight eq.)	0%	0%	0%
Sugar	Sugar	13.200	T	96%	90%	45%
Wine	Wine, ≤ 2L (bottled)	25.500	Hl	39%	85%	99%
Wine	Wine, > 2L (bulk)	15.100	Hl	17%	62%	24%

Information regarding the use of tariff rate quotas granted by Bosnia and Herzegovina to the EU was not readily available at time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

In 2018, total bilateral trade in services increased by almost 2% to just under €2 billion. However, Bosnia and Herzegovina's exports of services to the EU grew by 7.6% whereas imports of services from the EU fell by 4%, resulting in an increase in Bosnia and Herzegovina's surplus with the EU to €112 million. It is worth noting that Croatia represents more than one third of the EU's trade in services with Bosnia and Herzogovina, both in terms of imports and exports. Three other Member States (Italy, Austria and Slovenia) represent another third.

The **EU remains the main source of Foreign Direct Investment into Bosnia and Herzegovina**, holding €3.7 billion at the end of 2018. This represents an increase of €408 million (4.6%). In contrast, total FDI stock from Bosnia and Herzegovina in the EU was only €166 million.

6. CONCLUSIONS

Bosnia and Herzegovina and the EU remain close trade partners, despite the lack of growth in bilateral trade during 2019. This can be partially attributed to a slowdown in GDP growth in 2019. However, over the last 10 years total trade has increased by 83% and the EU is Bosnia and Herzegovina's main trading partner, accounting for almost two thirds of Bosnia and Herzegovina's total trade in goods. In addition Bosnia and Herzegovina has a small surplus in trade in services with the EU and the EU remains the main source of FDI.

Implementation of the trade agreement by Bosnia and Herzegovina is satisfactory, but progress on WTO accession seems to have stalled. The highly fragmented and complex political and administrative strutures in the country contribute to this lack of progress.

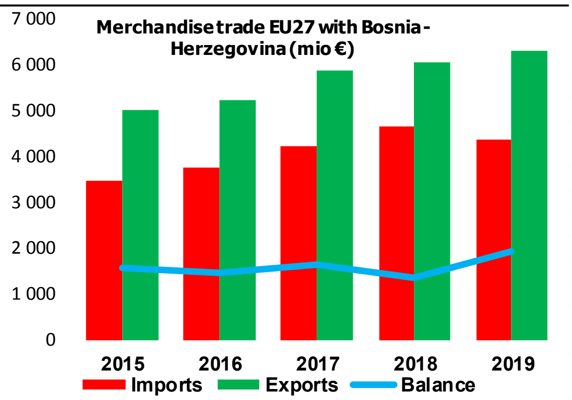
The business and investment climate is negatively affected by the fact that there is **no single economic space within the country**, a sizeable informal economy and the presence of large, non-transparent and inefficient state-owned enterprises (SOEs). The situation is compounded by the existence of different legal frameworks and implementation practices, a weak rule of law, lengthy bureaucratic procedures and a low quality of public administration. Country-wide strategies and coherent solutions to help businesses are long overdue.

7. STATISTICS

BOSNIA HERZEGOVINA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Bosnia-Herzegovina (mio €)					
Imports	3 468	3 758	4 231	4 678	4 378
Exports	5 044	5 228	5 891	6 061	6 318
Balance	1 576	1 470	1 660	1 383	1 940
Share Bosnia-Herzegovina in EU27 trade with Extra-EU27					
Imports	0.2%	0.2%	0.2%	0.2%	0.2%
Exports	0.3%	0.3%	0.3%	0.3%	0.3%
Total (I+E)	0.2%	0.3%	0.3%	0.3%	0.3%
Share EU27 in trade Bosnia-Herzegovina with world					
Imports	59.7%	60.8%	60.3%	59.7%	61.0%
Exports	72.5%	71.0%	70.4%	72.2%	72.3%
Total (I+E)	64.3%	64.6%	64.1%	64.5%	65.1%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Bosnia-Herzegovina: IMF Dots



Total merchandise trade EU27 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2018	2019	Growth mio €	Growth annual %
Imports	4 678	4 378	-300	-6.4%
Exports	6 061	6 318	258	4.3%
Balance	1 383	1 940	557	
Total trade	10 738	10 697	-42	-0.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2018	2019	Growth mio €	Growth annual %
Imports	207	180	-27	-13.1%
Exports	851	876	26	3.0%
Balance	644	696	53	
Total trade	1 058	1 056	-1	-0.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2018	2019	Growth mio €	Growth annual %
EU27 imports	4 471	4 198	-273	-6.1%
EU27 exports	5 210	5 442	232	4.5%
Balance	739	1 243	505	
Total trade	9 681	9 640	-41	-0.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2017	2018	Growth mio €	Growth annual %
Imports	979	1 053	74	7.6%
Exports	980	941	-39	-4.0%
Balance	1	-112	-113	
Total trade	1 960	1 994	35	1.8%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Bosnia-Herzegovina (mio €)

	2014	2015	2016	2017	2018
Imports	863	847	960	979	1 053
Exports	909	867	902	980	941
Balance	46	20	-58	1	-112
Total trade	1 772	1 714	1 862	1 960	1 994

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Bosnia-Herzegovina (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	99	171	89	52	166
Outward	2 442	3 377	3 407	3 578	3 744
FDI Flows					
Inward	7	38	45	25	116
Outward		463	122	225	408

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE STABILISATION AND ASSOCIATION AGREEMENT BETWEEN THE EU AND NORTH MACEDONIA

1. INTRODUCTION

On 9 April 2001, the EU and North Macedonia signed a **Stabilisation and Association Agreement** (SAA). The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans countries, including North Macedonia, are granted a clear perspective to become EU Member States.

The SAA entered into force on 1 April 2004, although the trade-related part of the SAA already entered into force through an Interim Agreement on 1 June 2001. Trade liberalisation between the EU and North Macedonia was completed over a period of ten years. The Agreement covers products in all Chapters of the Harmonised System.

Regarding agricultural products, the agreement is largely asymmetrical. EU agricultural imports from North Macedonia are almost completely liberalized (with very few exceptions). On the other hand, EU agricultural exports to North Macedonia are subject to tariffs and Tariff Rate Quotas (TRQs).

The Agreement also includes provisions concerning competition matters, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the full entry into force of SAA, a number of additional disciplines are being implemented concerning, notably, government procurement, legislative approximation in many areas including standardisation, as well as provisions regarding services and establishment.

2. MAIN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

North Macedonia has made **good progress in implementing the interim agreement** and then the SAA provisions since their entry into force, but some non-compliance issues remain. The most significant relate to non-tariff barriers, including technical standards and administrative obstacles, as well as relatively high logistical and customs costs.

In 2019 some **progress on alignment with EU product safety and market surveillance legislation** has been made, and North Macedonia has planned to adopt the Eurocodes (construction standards) relatively quickly.

In terms of trade facilitiation, a **new Customs Declarations** and Excise Documents Processing System (CDEPS) and an **Authorized Economic Operator (AEO) Programme** have been successfully introduced; and a new Customs Terminal with Albania has begun to operate.

In connection with the Economic Reform Programme, North Macedonia has introduced a number of strategies for boosting competitiveness and economic growth, including a strategy for SMEs. North Macedonia participates in COSME[102]. However the business community still perceives the country's approach to be inadequate. The business environment is adversely affected by the large informal economy, frequent legislative changes without proper consultation; and perceived corruption.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The last meeting of the **SAA Sub-committee on Trade, Industry, Customs and Taxation** took place in Brussels on 13 November 2019. In addition to discussing trade trends, the Commission commended North Macedonia for its high level of utilisation of quotas, and welcomed its active role in the WTO, including the application of almost all of the Trade Facilitation Agreement. North Macedonia thanked the Commission for its support in North Macedonia's accession process to the WTO Government Procurement Agreement (GPA). Regarding regional cooperation, the country was complimented for its active participation in the Central European Free Trade Agreement (CEFTA) and its contribution to the implementation of the Regional Economic Area (REA). Progress is also being made on the implementation of the various CEFTA Protocols.

North Macedonia explained that it intended to reduce MFN tariffs on certain goods linked to the automotive components sector as an incentive to companies to invest more in the automotive industry in the country.

4. SPECIFIC AREAS OF IMPORTANCE

North Macedonia has raised concerns about the EU's steel safeguard measures. In line with the provisions of the SAA, the EU has organised bilateral consultations with North Macedonia on this issue, and will continue to ensure the safeguard measures are applied fairly, that traditional trade flows are maintained and the measures will not have detrimental effects on North Macedonia's stabilisation and economic development.

With regard to the Pan-Euro Mediterranean Convention on Rules of Origin (PEM Convention), North Macedonia wishes to maintain the old rules for cigarettes (which require 70% of originating tobacco, instead of 10% in the new rules), as they see a disadvantage for their industry. The Commission is looking at ways to solve this issue.

[102] COSME is the European programme (2014-2020) to support the competitiveness of enterprises including small and medium sized snterprises.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

North Macedonia’s GDP growth rate in 2019 was a healthy 3.5% (up from 2.7% in 2018) with a deficit of 2.3% of GDP.

In November 2019, the IMF completed its regular Article IV mission. The Fund called on the government to rebuild the fiscal space and to focus on a more growth-enhancing public expenditure structure, to upgrade physical infrastructure and to reform the education sector. And in December 2019, Fitch Ratings affirmed the country's debt rating at +BB, citing solid economic policies, improved governance and ease of doing business.

The labour market improved in 2019 with a drop of the unemployment rate to 17.1% (from 20.7% in 2018). Supported by the government's "Youth Guarantee" programme, the situation of young workers continued to improve, even though, at 35.3%, the unemployment rate of the population aged 15-24 remains high.

The main drivers of growth in the last years have been public infrastructure projects, the manufacturing sector in the free economic zones and a pickup in private consumption. The 2017 GDP per capita remained at 37% of EU28. Long-term growth potential can only be realized through major structural reforms and improvements in education. The Government needs to resume reforms to ensure stronger job creation and a broader sharing of prosperity through greater spillover of the foreign investments into the domestic economy.

There is a high and growing degree of trade openness. The total value of trade in goods and services amounted to 126% of GDP in 2018. In 2019, both exports and imports grew by 10.3% and 9.6% respectively. Import coverage by export stood at 75.9% in 2019 with the trade deficit amounting to €2 billion. The trade deficit has declined over the last few years leading to a fall in the current account deficit and an easing of the pressure on the exchange rate.

The export product mix has been improving in recent years. The share of iron, steel, and clothing in total exports has fallen (to 17.4% in 2019 compared to 33.3% in 2013), to the benefit of chemicals and machinery and transport equipment (57.2% in 2019 compared to 32.8% in 2013). The key import products are platinum and platinum alloys, petroleum oils, other metals and alloys and flat-rolled iron products. However, exporting companies, notably SMEs, still face many trade impediments linked to non-tariff barriers, including technical standards and administrative obstacles. Insufficiently high quality of logistics is another impediment to further increases in exports. In 2018 the World Bank’s logistics performance indicator ranked North Macedonia 81st out of 160 countries. In World Bank Doing Business Trading Across Borders 2020, North Macedonia was ranked 11th of all countries of Europe and Central Asia.

5.2 Trade in goods

Total bilateral trade between the EU and North Macedonia increased by just over 5% between 2018 and 2019 reaching a total amount of **€9.9 billion**. This represents a huge increase of 189% in the last ten years. The EU remains North Macedonia's first trading partner accounting for 63% of its total trade in goods (79% of total exports and 51% of total imports). of goods. After the EU, North Macedonia's main trade partners are the UK (7.5% of total trade), Serbia (6%) and China (4%). The main traded products were in the following sectors: machinery and appliances; chemicals; and mineral products. The overall trade balance is in favour of North Macedonia, and increased significantly in 2019 to €404 million.

5.3 Trade in agricultural products

In 2019, trade in agricultural products increased by 3.7% reaching a total of **€690 million**, representing 7% of the total bilateral trade.

Only 5.6% of North Macedonia's exports to the EU are agricultural products compared to 8.4% of the EU's exports to North Macedonia. More than one quarter (27%) of the EU's imports from North Macedonia were tobacco and tobacco products. The other main imports were vegetables (17%), food preparations (17%) and wine, vermouth, cider and vinegar (9.3%). The EU's main exports to North Macedonia included food preparations (10%), chocolate, confectionery and ice cream (7%), bovine meat (7%) and poultry meat (6%).

Tariff rates quotas granted by the EU to North Macedonia

Utilisation rate of TRQs opened by the EU to North Macedonia						
	TRQ	TRQ		Utilisation in TRQ period ending in:		
Sector	description	Quantity	Unit	2017	2018	2019
Beef	Baby beef	1.650	t (carcass weight eq.)	0%	0%	0%
Sugar	Sugar	7.000	T	0%	0%	0%
Wine	Wine, ≤ 2L (bottled)	121.000	Hl	100%	97%	82%
Wine	Wine, > 2L (bulk)	359.000	Hl	92%	100%	94%

Information regarding the use of tariff rate quotas granted by North Macedonia to the EU was not readily available at time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

In 2018, total bilateral trade in services dropped by nearly 10% to **€1.3 billion**. However, while North Macedonia's imports of services from the EU only fell by 1.2%, exports of services to the EU fell by over 18%, resulting in a surplus in favour of the EU of €117 million. Two Member States (Greece and Bulgaria) represent 25% of imports of services from and 51% of exports of services to North Macedonia.

The EU remains the main source of Foreign Direct Investment into North Macedonia, holding just over €2 billion at the end of 2018.

6. CONCLUSIONS

North Macedonia and the EU remain close trade partners, seeing a **5% increase in bilateral trade during 2019**. Over the last 10 years total trade has grown by 189% and the EU is North Macedonia's main trading partner, accounting for almost two thirds of North Macedonia's total trade in goods, and the EU remains the main source of FDI.
The trade agreement is well implemented by North Macedonia, and there are currently no major trade irritants. North Macedonia is also a positive participant in CEFTA and contributes to the development of a Regional Economic Area.

However, the size of the **informal economy in North Macedonia continues to be a challenge** for the business environment as it creates unfair competition from unregistered companies. This also deters investments.

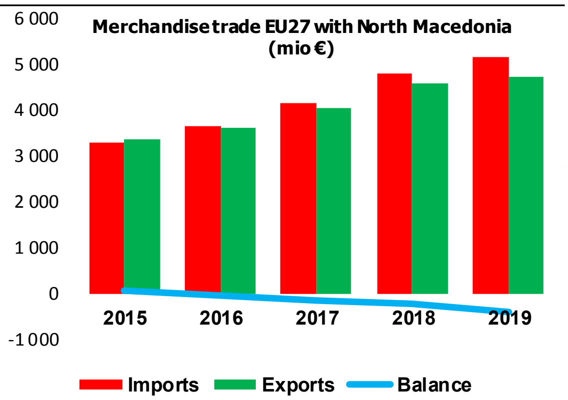
It is expected that in the near future North Macedonia will benefit greatly from the renewed EU accession perspective and that closer economic, structural and legislative integration with the EU will have positive outcomes on trade relations and the business and investment climate in North Macedonia.

7. STATISTICS

NORTH MACEDONIA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with North Macedonia (mio €)					
Imports	3 324	3 670	4 184	4 828	5 161
Exports	3 386	3 646	4 060	4 611	4 758
Balance	62	-25	-124	-217	-404
Share North Macedonia in EU27 trade with Extra-EU27					
Imports	0.2%	0.2%	0.2%	0.3%	0.3%
Exports	0.2%	0.2%	0.2%	0.2%	0.2%
Total (I+E)	0.2%	0.2%	0.2%	0.2%	0.2%
Share EU27 in trade North Macedonia with world					
Imports	52.0%	51.2%	52.7%	52.8%	50.7%
Exports	74.6%	78.7%	79.8%	80.3%	78.7%
Total (I+E)	61.4%	62.6%	64.2%	64.7%	62.8%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade North Macedonia: IMF Dots



Total merchandise trade EU27 with North Macedonia (mio €)

North Macedonia	2018	2019	Growth mio €	Growth annual %
Imports	4 828	5 161	333	6.9%
Exports	4 611	4 758	146	3.2%
Balance	-217	-404	-187	
Total trade	9 439	9 919	479	5.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with North Macedonia (mio €)

North Macedonia	2018	2019	Growth mio €	Growth annual %
Imports	276	290	14	5.2%
Exports	389	400	10	2.6%
Balance	114	110	-4	
Total trade	665	690	24	3.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with North Macedonia (mio €)

North Macedonia	2018	2019	Growth mio €	Growth annual %
EU27 imports	4 553	4 871	319	7.0%
EU27 exports	4 222	4 358	136	3.2%
Balance	-331	-514	-182	
Total trade	8 774	9 229	455	5.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with North Macedonia (mio €)

North Macedonia	2017	2018	Growth mio €	Growth annual %
Imports	683	557	-126	-18.4%
Exports	721	712	-9	-1.2%
Balance	38	155	117	
Total trade	1 404	1 270	-134	-9.6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with North Macedonia (mio €)

	2014	2015	2016	2017	2018
Imports	560	585	657	683	557
Exports	784	757	692	721	712
Balance	223	172	35	38	155
Total trade	1 344	1 342	1 348	1 404	1 270

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with North Macedonia (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	-48	-18	-33	-2	16
Outward	2 037				2 099
FDI Flows					
Inward	101	2	-29	20	43
Outward					179

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-KOSOVO[103] STABILISATION AND ASSOCIATION AGREEMENT

1. INTRODUCTION

On 27 October 2015, the EU and Kosovo signed a **Stabilisation and Association Agreement** (SAA). The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans partners, including Kosovo, have a clear European perspective.

The SAA - including the trade-related part - entered into force on 1 April 2016 and foresees:

- Upgrading the existing trade relations by gradual establishment of a free trade area over a period lasting a maximum of 10 years.
- Almost unrestricted market access to the EU for Kosovan products: upon entry into force of the SAA, the EU has abolished all customs duties that had applied to Kosovo, with the exception of a few product lines in the agricultural sector, which are subject to specific duties or tariff-quotas.
- Kosovo has abolished the customs duties on a number of tariff lines (industrial, agricultural and fishery products), while for the rest it will reduce the duties progressively over 10 years.

The SAA also includes Kosovo's commitment to ensure the gradual approximation of its laws with the EU acquis in a number of important areas, such as public procurement, standardisation, consumer protection, working conditions and equal opportunities. It also provides for a gradual liberalisation in the areas of rights of establishment, supply of services and movement of capital; and it includes provisions on competition matters, state aid, and intellectual property rights.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

Kosovo has yet to reap the full benefits of the SAA and **many challenges remain** regarding its implementation. Although Kosovo introduced e-procurement in 2019 and made efforts to enhance transparency, the business environment is still difficult due to weak rule of law and corruption, a lack of transparency in public procurement procedures, slow and inconsistent contract enforcement, and a large informal economy, which results in unfair competition from unregistered companies.

Kosovo's decision on 21 November 2018 to impose **100% import tariffs for goods originating in Serbia and Bosnia and Herzegovina** is indirectly affecting EU businesses established in these two countries and EU trade with Kosovo. The tariffs have been introduced for political reasons and are against the spirit of the SAA. Furthermore they are a

[103] The designation is without prejudice to position on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of independence.

violation of the Central European Free Trade Agreement (CEFTA) and thereby undermine regional cooperation. The EU has been calling on Kosovo to urgently lift these measures, while also proposing its support to mediate in the resolution of the regional trade issues.

On 9 October 2018, the Kosovo government introduced a **double excise tax regime for cigarettes**, differentiating between domestically produced and imported products. This new excise regime is in clear violation of Article 39 of the SAA prohibiting fiscal discrimination. The EU has been calling on Kosovo to bring the legislation in line with the SAA via the relevant SAA subcommittee structures.

Enforcement of competition rules also needs to be enhanced, and significant efforts are needed with regards to the adoption of legislation and enforcement in the field of state aid control. Kosovo also still excercises a non-necessary homologation procedure for each individual EU imported vehicle. This is a superfluous step, as certificates of conformity for EU manufactured cars should be automatically accepted in Kosovo.

Finally, the high administrative costs linked to procedural, quality, logistical and border barriers are affecting EU businesses doing business in Kosovo and are closely monitored and followed up through the SAA multidisciplinary subcommittee structures.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The latest meeting of the **SAA Sub-committee on Trade, Industry, Customs and Taxation** took place in Pristina on 18 June 2019. In addition to discussing trade trends, the Commission urged Kosovo to remove the 100% tariffs imposed on goods originating in Serbia and Bosnia and Herzegovina, and to amend its discriminatory tax regime for cigarettes, outlined in section 2 above.

The Commission also recalled Kosovo's commitment to the **multi-annual action plan for the development of a Regional Economic Area (REA)** and stressed, in particular, the need to ratify and implement a number of CEFTA Additional Protocols. The Commission stressed the importance of improving the investment climate, and further aligning with EU regulations and best practices as well as eliminating non-tariff barriers. In addition the Commission encouraged Kosovo to boost competitiveness and fully develop the export potential of Kosovo businesses, to take full benefits of the SAA.

On customs, Kosovo committed to amend the Kosovo Customs and Excise Code to further align it with EU legislation and practices.

Kosovo also committed to increase the capacity of institutions and to further align with the EU *acquis* the legislation improving quality infrastructure in the areas of standardisation, accreditation, conformity assessment, metrology and market surveillance. The Commission welcomed the ratification of Kosovo’s participation in COSME[104].

[104] 2014-2020 Europe’s programme for small and medium-sized enterprises.

4. EVOLUTION OF BILATERAL TRADE

4.1 Economic environment

Kosovo's economic growth rate reached 4.3% year on year in the first 9 months of 2019, and is estimated to have reached 4.0% for 2019 as a whole. Growth was mainly supported by private consumption, led by increases in credit (10% y-o-y), public wages and large remittances from abroad. Kosovo adopted the euro unilaterally in 2002 and has since used it as its *de facto* currency.

Kosovo's main exports are base metals (over 35% of total exports), followed by mineral products, plastic, rubber, prepared foodstuffs and beverages, reflecting a limited diversification in the production sector. Imports are dominated by mineral products, machinery, mechanical and electrical equipment, and beverages and tobacco among others. Despite the negative trade balance on goods, trade in services continues with a positive balance, mainly dominated by travel services to the diaspora.

The **persistent trade deficit** remains one of the key challenges of the economy, with imports of goods covering 89% of the trade balance, while increasing export of services, remittances and FDI continue to finance the trade deficit. A 100% tariff on imports from Serbia and Bosnia and Herzegovina remains in place since November 2018 and has led to a significant reduction of imports from those countries. The measure goes against Kosovo's obligations under CEFTA, is not in the spirit of the SAA and undermines regional cooperation objectives, including the REA.

In the OECD's 2018 Competitiveness Policy Outlook, **Kosovo's trade facilitation policies were ranked the lowest** among the six Western Balkans. Particularly critical are the areas of technical standards and sanitary and phytosanitary measures with scores of only 2.0 and 2.5 (out of 5). The score for import licences was also the lowest in the Western Balkans, whereas, regarding administrative barriers to trade, Kosovo's performance is comparable to other countries.

4.2 Trade in goods

Total bilateral trade between the EU and Kosovo increased by almost 25% between 2018 and 2019 reaching a total amount of **€1.4 billion**. Over the last 10 years bilateral trade has grown enormously by 111% and the EU remains Kosovo's first trading partner accounting for 47.5% of total trade (33% of total exports and 49% of total imports of goods). After the EU, Kosovo's main trade partners are Turkey (11% of total trade), China (9%) and Albania and North Macedonia (7% each). The main traded products were in the following sectors: live animals and animal products; animal or vegetable fats and oils; and articles of stone, glass and ceramics. The overall trade balance is very strongly in favour of the EU (imports from the EU make up 82% of total bilateral trade) reaching a surplus of €1.15 billion in 2019. However, Kosovo's exports to the EU – though modest in absolute terms – increased by 34% in 2019, i.e. at a faster rate than imports from the EU.

4.3 Trade in agricultural products

In **2019, bilateral trade in agricultural products increased by 47.5**% to a total of €405 million, representing 29% of total bilateral trade. This trade growth was entirely accounted for by increased exports from the EU to Kosovo, as imports from Kosovo remained very low and static (only €24 million). However, it should be noted that from 2009, the total trade in agricultural products between the EU and Kosovo has increased by more than six times. The EU's exports to Kosovo were mainly cigars and cigarettes (11.5%), waters and soft drinks (10.5%) and food preparations (8%). Whereas the EU's imports from Kosovo were mainly fruits (21%), waters and soft drinks (16.7%) and raw hides, skins and furs (12.5%).

Tariff rates quotas granted by the EU to Kosovo

Utilisation rate of TRQs opened by the EU to Kosovo						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in:		
				2017	2018	2019
Beef	Baby beef	475	t (carcass weight eq.)	0%	0%	0%
Wine	Wine, ≤ 2L (bottled)	10.000	Hl	5%	0%	61%
Wine	Wine	40.000	Hl	26%	57%	67%

Regarding geographical indications, in 2019 Kosovo was in the final phase of registration of the "Sharri Cheese" with the help of French experts.

Information regarding the use of tariff rate quotas granted by Kosovo to the EU was not readily available at time of drafting of this staff working document.

4.4 Trade in services and Foreign Direct Investments

At the time of drafting this information sheet, no information was available regarding trade in service and foreign direct investment between the EU and Kosovo.

5. CONCLUSIONS

Kosovo and the EU are becoming ever **closer trade partners**, seeing an **increase of 25% in bilateral trade during 2019.** Over the last 10 years total trade has risen by 111% and the EU is Kosovo's main trading partner, accounting for almost half of Kosovo's total trade in goods.

However, Kosovo has still to reap the full benefits of the 3 year old trade agreement. Its introduction of 100% import tariffs against Serbia and Bosnia and Herzegovina in late 2018 was a major blow against regional economic integration. With such actions, Kosovo has hampered the development of a Regional Economic Area.

Kosovo has a large informal economy combined with high youth unemployment and a poorly performing education, which constitute serious barriers to the development of its private sector and increased competitiveness. As in other parts of the region, therefore, the business and investment climate in Kosovo is extremely challenging.

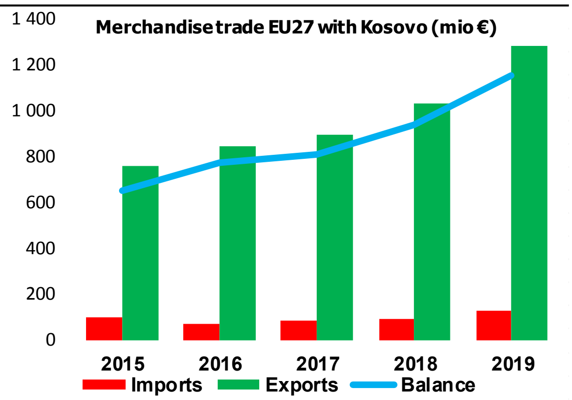
More constructive engagement with regional partners in CEFTA and cooperative participation in the development of the Regional Economic Area, on the basis of EU rules and standards, would assist Kosovo in moving forward.

6. Statistics

KOSOVO

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Kosovo (mio €)					
Imports	103	71	88	97	129
Exports	759	849	900	1 037	1 285
Balance	656	777	812	940	1 155
Share Kosovo in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.0%	0.0%	0.0%	0.1%	0.1%
Total (I+E)	0.0%	0.0%	0.0%	0.0%	0.0%
Share EU27 in trade Kosovo with world					
Imports	42.6%	42.4%	42.3%	42.6%	49.1%
Exports	23.7%	22.4%	22.0%	27.5%	33.3%
Total (I+E)	40.4%	40.4%	40.0%	41.1%	47.5%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Kosovo: IMF Dots



Total merchandise trade EU27 with Kosovo (mio €)				
Kosovo	2018	2019	Growth mio €	Growth annual %
Imports	97	129	33	33.8%
Exports	1 037	1 285	248	23.9%
Balance	940	1 155	215	
Total trade	1 133	1 414	281	24.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Kosovo (mio €)				
Kosovo	2018	2019	Growth mio €	Growth annual %
Imports	24	24	0	0.0%
Exports	250	381	130	52.1%
Balance	226	356	130	
Total trade	275	405	130	47.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Kosovo (mio €)				
Kosovo	2018	2019	Growth mio €	Growth annual %
EU27 imports	72	105	33	45.2%
EU27 exports	786	904	117	14.9%
Balance	714	799	85	
Total trade	859	1 009	150	17.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Kosovo (mio €)				
Kosovo	2017	2018	Growth mio €	Growth annual %
Imports				
Exports				
Balance				
Total trade				

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)				
Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Kosovo (mio €)	2014	2015	2016	2017	2018
Imports					
Exports					
Balance					
Total trade					

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Kosovo (mio €)	2014	2015	2016	2017	2018
FDI Stocks					
Inward					
Outward					
FDI Flows					
Inward					
Outward					

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-MONTENEGRO STABILISATION AND ASSOCIATION AGREEMENT

1. INTRODUCTION

On 15 October 2007, the EU and Montenegro signed a **Stabilisation and Association Agreement (SAA)**. The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans countries, including Montenegro, are granted a clear perspective to become EU Member States.

The SAA entered into force on 1 May 2010, although the trade-related part of the SAA already entered into force through an Interim Agreement on 1 January 2008. This Agreement established a free-trade area over a transitional period of five years. From the date of the Interim Agreement, the EU granted permanent liberalisation of 97.3% of tariff lines, representing almost duty free treatment to all imports from Montenegro. By 2013, Montenegro had liberalised 95% of its tariff lines, representing 99% of EU imports during the three years preceding the entry into force of the agreement. The Agreement covers products in all Chapters of the Harmonised System. Only a few agricultural and fishery products are not fully liberalised and subject to preferential quantitative concessions (TRQs).

The Agreement also includes provisions concerning competition matters, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the entry into force of the full SAA on 1 May 2010, a number of additional disciplines are being implemented concerning, notably, government procurement, legislative approximation in many areas including standardisation, as well as provisions regarding services and establishment.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

Montenegro has **made good progress** in implementing the interim agreement and the SAA provisions since their entry into force, but some non-compliance issues remain. The most significant are related to non-tariff barriers, including technical standards and administrative obstacles.

In terms of improving the business environment, it is key to tackle in particular unfair competition from the informal economy and deficiencies in the regulatory environment. Businesses are negatively affected by inconsistent and arbitrary law enforcement as well as by inefficiencies and weak capacity in the public administration.

In line with SAA obligations, **enforcement of competition rules needs to be enhanced**, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control, including transparency of aid granted. Public procurement is another area of concern. Under the SAA the respective public procurement markets are in principle opened on the basis of non-discrimination and reciprocity (no less favourable treatment). Despite a broad level of alignment with the EU *acquis* in the area of classical and utilities procurement, Montenegro still needs to improve implementation and enforcement capacities at all levels.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The latest meeting of the **SAA Sub-committee on Trade, Industry, Customs and Taxation** took place in Brussels on 8 November 2019. In addition to discussing trade trends, the Commission welcomed the fact that there were **no bilateral trade irritants**, and commended Montenegro for its high-level of integration with the Centra European Free Trade Agreement (CEFTA) and its active participation in the WTO.

The Commission noted the ongoing implementation of Montenegro's sectoral strategies on standardization, metrology, accreditation, and market surveillance; and the recent activities carried out by Montenegro in the areas of SMEs development, women's entrepreneurship and improved financial support to start-ups. It invited Montenegro to strengthen administrative capacity in these fields.

In the field of **customs and taxation**, the Commission commented that Montenegro's **legislation on VAT and its Excise Law** need to be brought in line with the EU *acquis* as part of the accession process. The success of the planned introduction of e-fiscalisation will depend upon the administrative and technical capacity put in place to manage the system. The two parties also discussed cooperation in th the fight against smuggling of tobacco products.

The Commission also took note of Montenegro's adoption of a new **Industrial Policy Strategy and Action Plan**, which includes an objective of enhancing export diversification, and noted the continuous growth trend for tourism in Montenegro which is positive for the national economy and employment.

4. EVOLUTION OF BILATERAL TRADE

4.1 Economic environment

The Montenegran economy recorded a robust growth in 2017 and 2018 (4.7% and 4.9% GDP growth respectively), driven by a strong investment cycle; but following the completion of some large infrastructure projects, the rate of economic expansion decelerated to 3.0% in 2019. Private consumption is now the main driver of growth, boosted by a strong tourism performance, growing employment and increasing household loans. Inflationary pressures have been low in the last five years, with the exception of some moderate price increases in 2017 and 2018.

Montenegro is a relatively small and open economy. It has chosen unilaterally to use the euro as legal tender, thereby importing the euro-zone monetary stance. As a result, there is an absence of monetary policy tools, leaving fiscal and structural policies as the major macroeconomic policy instrument.

Average annual inflation was 0.5% in 2019. The inflation was driven by food prices, but their impact has been largely offset by the decline in prices for oil derivatives, garments, communication, and tobacco.

The economy is service-oriented, with services accounting for 72% of total gross value added (GVA), followed by construction activity with 7% of GVA, while the manufacturing base is small, accounting for only 5% of GVA. The manufacturing base is concentrated on commodities with low value-added and with a high dependence on imported intermediate goods. Besides hard commodities (basic metals, rolling bearings and bauxite ores), economic output is concentrated on tourism and energy which exposes the country to fluctuations in external markets and terms of trade.

As a candidate country for EU accession since 2012, trade integration with the EU is strengthening. In 2019 trade with the EU reached 50.1% of total trade exchanges, while with the regional CEFTA partners it accounted for 25.5%. Montenegro participates in the Regional Economic Area framework, designed to increase trade exchanges. However, regional non-tariff barriers, in particular the time taken and procedures needed for border crossing, still appear to hamper stronger intra-regional trade. Montenegro signed amendments to the free trade agreement with Turkey in July 2019 ensuring additional liberalisation of trade in agricultural products and access to the services market.

4.2 Trade in goods

Total bilateral trade between the EU and Montenegro grew only marginally (+0.7%) between 2018 and 2019 to a total of **€1.38 billion**. Imports from the EU grew at a slightly better rate (2.5%) but exports to the EU fell by 11%. However, over the last 10 years bilateral trade has grown by 61% and the EU remains Montenegro's first trading partner accounting for 46% of total trade (37% of total exports and 47% of total imports of goods). After the EU, Montenegro's main trade partners are Serbia (20% of total trade), China (8%) and Bosnia and Herzegovina (6%). The main traded products were in the following sectors: mineral products; transport equipment; and machinery and appliances. The overall trade balance is heavily in favour of the EU, and increased slightly in 2019 to €1.06 billion. This is somewhat offset by Montenegro's significant trade surplus in services of €375 million.

4.3 Trade in agricultural products

In 2019, trade in agricultural products grew by almost 5%, reaching a total of €211 million, which represents 15% of the total bilateral trade. The trade balance is heavily in the EU's favour: exports of agricultural products from the EU to Montenegro represent 94% of bilateral trade in agricultural products. The EU exported mainly pork meat (24%), chocolate, confectionery and ice cream (8%) and pasta, pastry, biscuits and bread (7%). The EU imported mainly vegetables (33%), wine, vermouth, cider and vinegar (17%), essential oils (17%) and vegetables (17%).

Tariff rates quotas granted by the EU to Montenegro

Utilisation rate of TRQs opened by the EU to Montenegro						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in:		
				2017	2018	2019
Beef	Baby beef	800	t (carcass weight eq.)	0%	0%	0%
Wine	Wine, ≤ 2L (bottled)	16.000	Hl	14%	19%	20%

Regarding geographical indications, Montenegro is making progress in aligning its quality policy with that of the EU and there is a strong interest in capturing and promoting the local traditions and know-how of its food and drinks sector.

Information regarding the use of tariff rate quotas granted by Montenegro to the EU was not readily available at time of drafting of this staff working document.

4.4 Trade in services and Foreign Direct Investments

In 2018, **total bilateral trade in services increased by a massive 35%** to just under €884 million. This was mainly due to an increase in Montenegro's exports of services to the EU by 55%, compared to only a 2% increase in the import of services from the EU. As a result, Montenegro has a very healthy trade surplus in services of €375 million. This is almost entirely due to tourism.

The **EU remains the main source of Foreign Direct Investment into Montenegro**, holding €1.46 billion at the end of 2018. However, this represents a decrease of €70 million (4.6%) since 2017. In contrast, total FDI stock from Montenegro in the EU was only €18 million.

5. CONCLUSIONS

Montenegro and the EU remain close trade partners, despite the very small increase in bilateral trade during 2019. This can be partially attributed to rather sluggish GDP growth in 2019. However, over the last 10 years total trade has grown by 61% and the EU is Montenegro's main trading partner, accounting for almost half of Montenegro's total trade in goods. In addition Montenegro has a significant surplus in trade in services with the EU, thanks to growing tourism, and the EU remains the main source of FDI.

The trade agreement is **generally well implemented by Montenegro**, although there remain a few non-tariff barriers to be dealt with. Montenegro is a positive participant in CEFTA and contributes to the development of a Regional Economic Area.

As in other parts of the region, tackling the large informal economy remains an important structural challenge. Low labour market outcomes in Montenegro encompass several aspects that undermine potential growth and improving living standards. Low labour market activity and a high unemployment rate also reflect structural issues. Strengthening the regulatory environment requires a long-term, continuous commitment from the state and local authorities. Discretion and inconsistencies in interpretation and implementation of laws need to be addressed more forcefully.

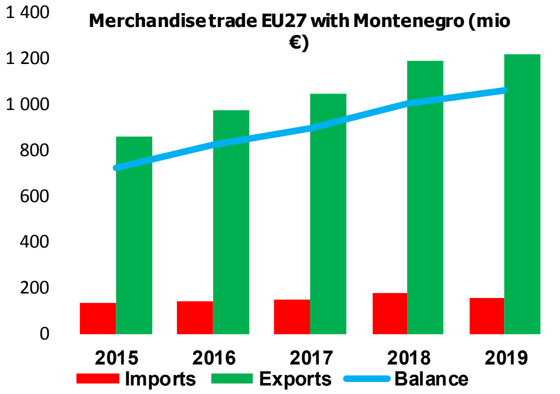
However, it is expected that in the near future Montenegro will benefit greatly from the renewed EU accession perspective and that closer economic, structural and legislative integration with the EU will have positive outcomes on trade relations and the business and investment climate in Montenegro.

6. STATISTICS

MONTENEGRO

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Montenegro (mio €)					
Imports	139	146	152	180	159
Exports	863	974	1 052	1 189	1 219
Balance	724	828	900	1 009	1 059
Share Montenegro in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.0%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.0%	0.0%	0.0%	0.0%	0.0%
Share EU27 in trade Montenegro with world					
Imports	40.6%	47.4%	46.5%	47.1%	47.0%
Exports	34.0%	36.7%	33.0%	42.8%	37.2%
Total (I+E)	39.6%	45.9%	44.6%	46.5%	45.7%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Montenegro: IMF Dots



Total merchandise trade EU27 with Montenegro (mio €)

Montenegro	2018	2019	Growth mio €	Growth annual %
Imports	180	159	-20	-11.3%
Exports	1 189	1 219	30	2.5%
Balance	1 009	1 059	50	
Total trade	1 368	1 378	10	0.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Montenegro (mio €)

Montenegro	2018	2019	Growth mio €	Growth annual %
Imports	7	7	-1	-7.0%
Exports	194	205	10	5.3%
Balance	187	198	11	
Total trade	202	211	10	4.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Montenegro (mio €)

Montenegro	2018	2019	Growth mio €	Growth annual %
EU27 imports	172	153	-20	-11.5%
EU27 exports	994	1 014	20	2.0%
Balance	822	862	40	
Total trade	1 167	1 167	0	0.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Montenegro (mio €)

Montenegro	2017	2018	Growth mio €	Growth annual %
Imports	406	630	224	55.2%
Exports	249	255	6	2.3%
Balance	-157	-375	-218	
Total trade	655	884	230	35.1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Montenegro (mio €)

	2014	2015	2016	2017	2018
Imports	206	223	285	406	630
Exports	252	186	202	249	255
Balance	47	-37	-83	-157	-375
Total trade	458	408	488	655	884

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Montenegro (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		98			18
Outward		2 927	1 516	1 516	1 446
FDI Flows					
Inward	-29	82	-73		8
Outward				202	-131

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON IMPLEMENTATION OF the TRADE PILLAR OF THE EU-SERBIA STABILISATION AND ASSOCIATION AGREEMENT

1. INTRODUCTION

On 29 April 2008, the EU and Serbia signed a **Stabilisation and Association Agreement** (SAA). The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans countries, including Serbia, are granted a clear perspective to become EU Member States.

The SAA entered into force on 1 September 2013, although the trade-related part of the SAA already applied, through an Interim Agreement, as of 1 February 2009 for Serbia, and as of 8 December 2009 for the EU side. This Agreement established a free-trade area over a transitional period of six years.

The Agreement covers products in all Chapters of the Harmonised System. Only a few exceptions, concerning a limited number of agricultural and fishery products were not fully liberalised and are still subject to preferential quantitative concessions (Tariff Rate Quotas).

The Agreement also includes provisions concerning competition and state aid, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the entry into force of the full SAA in 2013, a number of other legislation approximations with impact on trade were put in place in the fields of public procurement, standardisation and the right of establishment.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

Although Serbia has made progress in implementing the interim agreement and then the SAA provisions since their entry into force, some non-compliance issues remain unresolved. The most significant are: **discriminatory excise duties on certain alcoholic beverages** (grain-based spirits); **systematic inspections** of EU products at import and non-recognition of EU certificates of conformity at the Serbian border; **restrictions on the free movement of capital** - in particular restrictions on the acquisition by foreigners, including EU citizens, of agricultural land; and the lack of respect for the transparency and non-discrimination principles in **public procurement** procedures.

In line with Serbia's SAA obligations, enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control, including transparency of aid granted. In particular, Serbia should ensure that intergovernmental agreements concluded with third countries and their implementation do not unduly restrict competition, comply with the basic principles of public procurement, such as transparency, equal treatment and non-discrimination, and are in line with the EU *acquis.*

Regarding legislative alignment, Serbia has made **good progress** in adjusting its legislation **on dual-use goods**. And as part of the accession process, Serbia has begun work to implement the **REACH directive** (chemical products) and is making progress towards alignment of legislation on explosives for civil use, pyrotechnic articles, construction products and toy safety. However, Serbia still needs to remove legislative provisions related to the Serbian mark of conformity for products marketed in Serbia after accession to the EU.

Regarding SMEs and the business climate, despite improved performance in various international rankings, the **regulatory environment remains weak** and further efforts are needed to improve the predictability and quality of legislation. The existence of a large grey economy negatively affects competition. Serbia's new **SME strategy** is welcome, but its objectives **need to be concretised**. Alignment with EU legislation on combating late payment in commercial transactions needs to be completed.

In November 2018, Kosovo imposed a 100% import tariff for goods originating from Serbia (and Bosnia and Herzegovina), indirectly affecting EU businesses operating in Serbia and trading in the region. These measures are politically motivated and the EU has repeatedly called for their termination.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **SAA Sub-committee on Trade, Industry, Customs and Taxation** last met in Belgrade on 16 October 2019. Both sides noted the positive trade trends, and in particular that exports to the EU grew at a higher rate compared to imports, which is not the case with other major trading partners in the region.

All the pending issues raised in section 2 were discussed.

Regarding investment, the Commission commended the work undertaken by the World Bank to analyse all the investment treaties existing in the region, and recommended that Serbia should update its investment treaties or sign a new model Bilateral Investment Treaty, aligned with EU standards and including a 'sunset' clause in relation to Serbia's expected EU accession.

The Commission emphasized that **regional cooperation is of great importance** for the integration of the Western Balkans and that all initiatives aimed at furthering regional cooperation are welcome, provided that they are all inclusive. Serbia noted that the Joint Economic Development Declaration with Albania and North Macedonia, which aims to further the free movement of persons, goods, services and capital in the Region, will encourage better integration of economies in the Western Balkans, and that other parties are invited to join. Both parties regretted the introduction of 100% tariffs by Kosovo, and noted that these hinder economic integration in the region.

The Commission urged Serbia to make more efforts to progress the WTO accession process and recalled that this is a condition for EU accession under chapter 30.

The Commission noted that Serbia has signed an FTA with the Eurasian Economic Union and took note of the provision that Serbia will be able to terminate the Agreement before its accession to the EU.

4. SPECIFIC AREAS OF IMPORTANCE

Serbia has repeatedly raised its strong concerns regarding the impact of the EU's steel safeguards at the highest political levels. In line with the provisions of the SAA, the EU has organised bilateral consultations with Serbia on this issue, and will continue to ensure the safeguard measures are applied fairly, that traditional trade flows are maintained and the measures will not have detrimental effects on Serbia's stabilisation and economic development.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

After strong economic growth in 2018 (+4.4% GDP), economic expansion slowed somewhat in 2019 to 4.2%. Robust domestic demand has been the main growth driver (private consumption, sustained by rising employment and real incomes). Rising domestic demand has led to a strong growth in imports, resulting in a negative trade balance for a third consecutive year. Price pressures remain subdued and inflation has been contained at around 1.3%. Price stability was supported by a continuously strong dinar exchange rate. Both the dinar nominal and the real effective exchange rates remained stable in 2019.

Electrical machines top the list of Serbia's exports (11.7% of total exports), followed by road vehicles, power engines and motors, rubber products, and iron and steel. Imports are dominated by oil and oil derivatives (6.6% of total imports), electrical machines, road vehicles, and iron and steel.

The introduction of a 100% tariff by Kosovo in late 2018 on imports from Serbia and Bosnia and Herzegovina adversely affected Serbia's trade relations with Kosovo causing a drop in exports of goods of 79.4 % compared to 2018.

In contrast, the EU's safeguard measures on steel, introduced in June 2018, do not appear to have had a significant impact on Serbia's ability to export affected steel products to the EU.

Significant bottlenecks at borders with neighbouring EU countries (lengthy inspection procedures, non-recognition of EU certificates) still remain in place, hampering further trade facilitation with the EU

.

5.2 Trade in goods

Total bilateral trade between the EU and Serbia grew by 4.8% between 2018 and 2019 to a total of **€26.5 billion**. Over the last 10 years bilateral trade has grown by an impressive 156% and the EU remains Serbia's first trading partner accounting for 63% of total trade (68% of total exports and 59% of total imports of goods). After the EU, Serbia's main trade partners are Russia (7% of total trade), China (6%) and Bosnia and Herzegovina (5%). The main traded products were in the following sectors: machinery and appliances; base metals and articles; plastics, rubber and articles thereof; and transport equipment. Thanks to a greater increase in Serbia's exports to the EU than imports from the EU in 2019, trade is almost in balance, with the EU showing only a slight surplus of €116 million.

5.3 Trade in agricultural products

In 2019, overall trade in agricultural products grew by 16% to reach a total of **€2.6 billion**, which represents 9.9% of the total bilateral trade, and more than double the value of agricultural trade in 2009 (€1.2 billion). Serbia's exports of agricultural products to the EU grew by an impressive 25% in 2019 (compared to an increase of 8% for imports from the EU) resulting in an agricultural trade surplus for Serbia of €108 million. The EU imported mainly fruit – excluding citrus and tropical fruit – (21%), cereals – other than wheat and rice – (16%) and vegetable oils – other than palm and olive oils – (8%); while its main exports to Serbia included mainly chocolate, confectionery and ice cream (9%) and food preparations (9%).

Tariff rates quotas granted by the EU to Serbia

Utilisation rate of TRQs opened by the EU to Serbia						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in: 2017	2018	2019
Beef	Baby beef	8.700	t (carcass weight eq.)	6%	4%	7%
Sugar	Sugar	181.000	T	93%	18%	53%
Wine	Wine, ≤ 2L (bottled)	55.000	Hl	7%	6%	9%
Wine	Wine, > 2L (bulk)	12.300	Hl	0%	2%	0%

With financial and technical support under the EU Instrument for Pre-Accession Assistance, Serbia is making firm progress in aligning its quality policy with that of the EU. Serbia has a rich tradition in food and culture, which sees many of its local products now being registered as geographical indications.

Information regarding the use of tariff rate quotas granted by Serbia to the EU was not readily available at time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

In 2018, total bilateral trade in services increased by 4% to just under €4.5 billion. Trade in services is well balanced, with the EU having a small surplus of €467 million. The EU's trade in services with Serbia is well spread across several Member States both in terms of imports and exports, including Austria, Hungary, Greece, Italy, Croatia and Slovenia.

At the time of drafting this report there no information was available on foreign direct investement between the EU and Serbia.

6. CONCLUSIONS

Serbia and the EU remain close trade partners, seeing an increase of almost 5% in bilateral trade during 2019. Over the last 10 years total trade has grown by 156% and the EU is Serbia's main trading partner, accounting for almost two thirds of Serbia's total trade in goods.

In general, Serbia implements the trade agreement fairly well, and is making decent progress in its EU accession. Serbia also participates constructively in CEFTA and contributes to the development of a Regional Economic Area. On the other hand, Serbia's WTO accession has been stalled for some time without progress.

Serbia's business environment has improved, but remains hampered by red tape, political interference and a lack of predictability in the implementation of legislation. The outsized state-owned enterprises crowd out private sector development. Foreign direct investments (FDIs) often receive generous public support, leaving other companies, in particular domestic small and medium sized enterprises (SMEs), in a less favourable position. The informal economy is still sizeable and poses a challenge in terms of unfair competition from unregistered companies. In addition, Serbia's competitiveness continues to be hampered by a polluting, inefficient and not properly regulated energy sector and weak labour market integration of young people. The emigration of workers across the occupational spectrum hampers the growth potential.

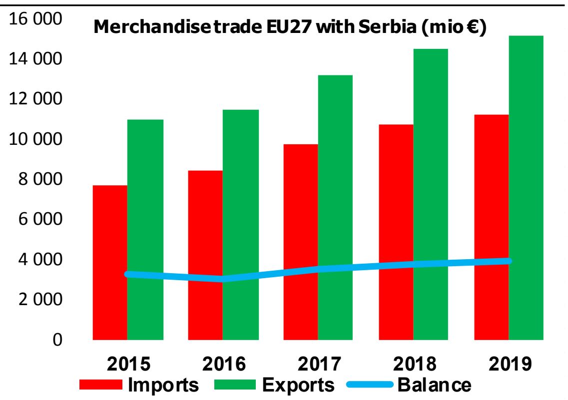
However, Serbia would benefit greatly from progress in its EU accession process, as closer economic, structural and legislative integration with the EU would have positive outcomes on trade relations and the business and investment climate in Serbia. Furthermore, the development of a Regional Economic Area in the Western Balkans based on the CEFTA agreement and on the EU rules and standards could also generate untapped growth.

7. STATISTICS

SERBIA

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Serbia (mio €)					
Imports	7 696	8 487	9 731	10 736	11 278
Exports	10 973	11 515	13 225	14 531	15 189
Balance	3 277	3 028	3 495	3 795	3 911
Share Serbia in EU27 trade with Extra-EU27					
Imports	0.5%	0.5%	0.5%	0.6%	0.6%
Exports	0.6%	0.6%	0.7%	0.7%	0.7%
Total (I+E)	0.5%	0.6%	0.6%	0.6%	0.7%
Share EU27 in trade Serbia with world					
Imports	61.2%	60.0%	61.1%	59.4%	58.6%
Exports	64.3%	64.5%	65.7%	68.6%	68.2%
Total (I+E)	62.5%	62.0%	63.0%	63.2%	62.6%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Serbia: IMF Dots



Total merchandise trade EU27 with Serbia (mio €)

Serbia	2018	2019	Growth mio €	Growth annual %
Imports	10 736	11 278	542	5.0%
Exports	14 531	15 189	658	4.5%
Balance	3 795	3 911	116	
Total trade	25 267	26 468	1 201	4.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Serbia (mio €)

Serbia	2018	2019	Growth mio €	Growth annual %
Imports	1 090	1 360	270	24.8%
Exports	1 157	1 252	95	8.2%
Balance	68	-108	-175	
Total trade	2 247	2 612	364	16.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Serbia (mio €)

Serbia	2018	2019	Growth mio €	Growth annual %
EU27 imports	9 646	9 919	272	2.8%
EU27 exports	13 374	13 937	564	4.2%
Balance	3 727	4 018	291	
Total trade	23 020	23 856	836	3.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Serbia (mio €)

Serbia	2017	2018	Growth mio €	Growth annual %
Imports	1 938	2 033	95	4.9%
Exports	2 420	2 500	81	3.3%
Balance	481	467	-14	
Total trade	4 358	4 534	176	4.0%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Serbia (mio €)

	2014	2015	2016	2017	2018
Imports	1 744	1 917	1 781	1 938	2 033
Exports	2 434	2 246	2 218	2 420	2 500
Balance	690	330	437	481	467
Total trade	4 177	4 163	3 999	4 358	4 534

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Serbia (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		139			399
Outward	12 291				12 866
FDI Flows					
Inward		71	65		16
Outward	161	552	743		11

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PART III.3

DEEP AND COMPREHENSIVE FREE TRADE AREAS WITH GEORGIA, MOLDOVA AND UKRAINE

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) BETWEEN THE EU AND ITS MEMBER STATES AND GEORGIA

1. INTRODUCTION

The Deep and Comprehensive Free Trade Area (DCFTA) of the EU-Georgia Association Agreement (AA)[105] entered into force on 1 July 2016 after being applied on a provisional basis since 1 September 2014.[106] This information sheet constitutes the fourth report on the implementation of the EU-Georgia DCFTA, in line with the reporting requirements of the Regulation implementing the anti-circumvention mechanism provided for in the EU-Georgia Association Agreement.[107]

The Government of Georgia adopted in November 2017 an **Action Plan for the implementation of the DCFTA 2018-2020**[108]. It is a continuation of the Action Plan for 2014-2017, outlining the priorities of the Association Agenda in different sectors (including for example Technical Barriers to Trade, SPS measures, customs or IPR) and the planned activities related to each priority with indicators, responsible implementing institutions and timeframe for implementation.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

The **approximation** commitments for 2015-2019 are mostly on track, but have not been entirely implemented to date. This concerns in particular the submission of draft laws approximating to EU telecommunication directives. It should be noted that the timeline for approximation of Georgian legislation was back-loaded in the negotiation process to the extent that approximation intensified in 2018, but will continue, in line with the DCFTA, until, e.g., 2022 in the TBT area or even 2027 with regard to certain veterinary measures, plant protection and food safety.

[105] The EU-Georgia Association Agreement was published in OJ L 261, 30.08.2014. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:261:FULL&from=EN

[106] When it comes to DCFTA application to breakaway regions Abkhazia and South-Ossetia, the EU gives its full support to Georgia's territorial integrity. However, in accordance with Article 429 (Territorial application) of the Association Agreement, conditions enabling effective implementation of the DCFTA, and notably de facto government control over those territories, would need to be created in either Abkhazia or South Ossetia for the DCFTA to apply to those regions, which is not the case at present.

[107] Regulation (EU) 2016/401 of the European Parliament and of the Council of 9 March 2016 implementing the anti-circumvention mechanism provided for in the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part (OJ L 77/2016). According to its Article 4, the Commission shall submit an annual report on implementation of this Regulation and Title IV (DCFTA) of the Association Agreement. The report shall, inter alia, include information about the application of the anti-circumvention mechanism and set out a summary of the statistics and the evolution of trade with Georgia.

[108] See http://www.dcfta.gov.ge/en/implementation.

Sanitary and Phytosantinary (SPS) aspects

The list of the EU SPS acquis that Georgia will approximate was submitted to the EU in December 2015 and formally adopted by the EU-Georgia SPS Sub-Committee on 7 March 2017. Deadlines committed by Georgia to achieve compliance with the EU SPS system are rather long, to the extent that about 45% of the legal acts will be subject to approximation only after 2020 (in concrete terms, 35 legal acts in case of veterinary measures, 41 on food safety and 46 in case of plant protection). Georgia has approximated 101 acts so far. The institutional capacity in terms of food safety control still needs to be enhanced. A number of **Georgian establishments are authorised to export fruit, vegetables, honey and fishery products (from the Black Sea)** to the EU. Georgia has submitted a residue monitoring plan for aquaculture, and an audit on a Georgian pet food company was carried out in 2019.

In 2019, the Commission launched a process to verify Georgia's efforts on approximating to the EU legislation regarding sanitary and phytosanitary measures. This review resulted in minor recommendations to the Georgian National Food Agency.

Technical Barriers to Trade

Georgia is on schedule with the approximation of legislation on market surveillance of industrial and consumer products. Annex III-A of the DCFTA setting out the list of acquis to be approximated was amended in 2019 to reflect the latest EU *acquis*. This meant that Georgia had to approximate to twelve EU acts in 2019, amongst which some, which Georgia already had approximated to in a former version. The twinning project launched in the beginning of 2018 helps the Technical and Construction Supervision Agency (TCSA) to contribute to the approximation of legislation, apply relevant institutional changes and build capacity of the staff, especially in order to effectively implement the adopted legislation. In 2019, the TCSA made progress in capacity building and training on surveillance and contributed to drafting regulations on risk assessment methodology for market surveillance activities and cooperation between market surveillance authorities. In 2019 the Market Surveillance Agency became a separate agency from the TCSA.

Public Procurement

The institutional part in public procurement approximation has been delayed, but should now be completed[109]. A recently adopted law sets up the impartial and independent review body ensuring that its members will be independent, selected on a competitive basis and appointed by the Prime Minister for five years. The secretariat of the review body will be affiliated with

[109] In accordance with the Association Agreement the first approximation stage relates to setting up the institutional framework: an executive body at central government level responsible for coherent policy in all areas related to public procurement and an impartial and independent body tasked with the review of decisions taken by the contracting authorities and entities as well as with the introduction of basic standards regulating the award of contracts.

the Georgian Competition Agency. The Public Procurement Roadmap was finalised taking correctly into account reference to the alignment with the EU Concessions Directive, as foreseen in the Association Agreement. This roadmap will be a point of reference to facilitate the implementation of the Public Procurement Chapter of the DCFTA, including on the step by step alignment of the Georgian legislation to the EU acquis in this area. On 2 July 2020, the Parliament of Georgia approved the Law of Georgia on Amendments to the Law of Georgia on Public Procurement with the three readings. Once the Association Committee in Trade Configuration (ACTC) will have approved it, major parts of the Law will enter into force and will be enacted from 01 January 2021. As a result of aforementioned amendments, the current administrative review body – so called "Dispute Resolution Council" (the "Council") will be completely reformed and a new independent and impartial public body will be established within that Council.

Institutional capacity needs to be further built both within the Georgian State Procurement Agency and within the contracting authorities. In this regard, further concrete steps were being taken following a joint Commission visit by DG NEAR and GROW to Georgia in November and the Trade Committee in Tbilisi in December 2019. Georgia is expected to conclude phase 1 and endorse the Roadmap in 2020.

Intellectual Property

The implementation of the IPR Chapter of the DCFTA has started and Georgia has brought the majority of its laws in compliance with the DCFTA. However, the exhaustion regime of Georgia is still not line with its DCFTA commitments, as it provides for a regime of international exhaustion as opposed to domestic exhaustion as foreseen in the agreement.

As one of the deliverables of the meeting between the Government of Georgia and the Commission on 21 November 2018, the Commission decided to allocate resources to a cooperation programme between the Georgian Intellectual Property Centre (Sakpatenti) and the European Intellectual Property Office (EUIPO), aiming at among others aligning the Georgian laws and standards concerning registration and management of IP rights with EU norms and standards. Georgia is planning to work on further amendments to IPR laws and in particular on the trademark law. This is being done in cooperation with the EUIPO under the cooperation programme, one overarching project between EUIPO and Sakpatenti.

Rules of Origin

On 1 July 2017 Georgia joined the **Convention on pan-Euro-Mediterranean preferential rules of origin** ("PEM Convention")[110]. The joint Decision of the Customs sub committee on the linkage of the rules of origin in bilateral trade to the Protocol of PEM Convention[111]

[110] The Decision of the Joint Committee of the PEM Convention on Georgia accession was published in OJ L 329, 3.12.2016 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22016D2126

[111] Council Decision (EU) 2017/2433 of 18 December 2017 on the position to be adopted on behalf of the European Union within the Customs Sub-Committee; OJ L 344, 23.12.2017, p. 21.

entered into force on 1 June 2018. This allows Georgia to benefit from diagonal cumulation of origin with the EU and Turkey as of 1 June 2018, and to be better integrated in regional trade flows. In 2019 Georgia and Ukraine also signed an amendment their bilateral tradea agreement to allow for diagonal cumulation between them.

Energy

Georgia officially became a Contracting Party to the **Energy Community Treaty** on 1 July 2017. The **Protocol of Accession to the Energy Community Treaty** commits Georgia to approximate its legislation to key energy and energy-related EU acquis between 2017 and 2020. The law relating to the electricity and natural gas market directives and the law on renewables entered into force in 2019, whereas the law on energy efficiency was adopted in Parliament in May 2020.

Customs and Trade Facilitation

On 4 January 2016, **Georgia ratified the WTO Trade Facilitation Agreement which has been in force since February 2017**, and contains commitments on simplifying border procedures and modernisation of customs techniques and instruments and customs control. The Georgian National Committee on Trade Facilitation was established in 2019. A new customs code entered into force in September 2019, approximating to the Union customs code (which remains to be reflected in Annex XIII of the DCFTA). The customs code is accompanied by 51 secondary normative acts.

2.2 Progress in the implementation of trade and sustainable development provisions

The Parties continued to make progress on the implementation of the Trade and Sustainable Development (TSD) Chapter in 2019. The identification by the EU of TSD priorities per partner, in line with the European Commission's 15-point action plan, allowed a more focused approach to implementation. For Georgia, these priorities are outlined in the Workplan[112] agreed in 2018.

The **4th TSD Subcommittee meeting** took place on 26 March 2019. During the meeting, the EU and Georgia reaffirmed their commitment to implement the TSD Work Plan 2018-2020[113] agreed in June 2018, and reviewed the state of play of the areas covered. Accordingly, the Sub-Committee reviewed the implementation of the labour provisions of the TSD Chapter, including the ratification and effective implementation of the ILO conventions and of the Decent Work Agenda.

The EU welcomed the adoption of the **revised Georgian Occupational Safety and Health (OSH) law**, which entered into force on 1 September 2019, and on-going strengthening of the

[112] https://trade.ec.europa.eu/doclib/docs/2019/april/tradoc_157858.pdf
[113] The workplan can be consulted at http://trade.ec.europa.eu/doclib/docs/2019/april/tradoc_157858.pdf

Labour Inspection Department's capacity as further steps towards aligning supervision and control in this area with international and EU standards. The new law allows labour inspectors to conduct unannounced inspections across all economic sectors (the first OSH law from March 2018 limited this to workplaces defined as involving "Hard, Harmful and Hazardous" conditions). The EU also took note of Georgia's plans to further develop the Department to ensure supervision and control of labour legislation.

The EU and Georgia discussed the state of play of Georgia's implementation of the environmental provisions of the TSD Chapter, including of multilateral environmental agreements (MEAs) and their joint efforts and cooperation to support multilateral environmental governance.

Regarding climate change, the EU and Georgia recalled that, collectively, Nationally Determined Contributions (NDC) submitted by the Parties under the Paris Agreement and current emission trajectories fall far short of what is required to achieve the long-term goals of the Paris Agreement and they discussed their respective strategies on greenhouse gas emission. In addition, the EU emphasised the need for close cooperation with civil society and highlighted the project it has put in place to support the functioning of civil society consultation mechanisms established under TSD chapters of its trade agreements. A first workshop to build the capacity of the Domestic Advisory Groups was also organised in the margins of the TSD subcommittee. Further, an open Civil Society Forum was organised on 27 September. During this forum, the EU and Georgia presented the TSD Sub-Committee's Joint Statement[114] and replied to the questions posed by the EU and Georgian Domestic Advisory Groups.

On a national level, Georgia adopted a **new Forest Code in October 2019**. The code was prepared with the technical assistance of the EU, the World Bank and GIZ.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

3.1 Joint decisions of the Association Bodies

In 2019 **amendments/updates** were made to the following parts of the DCFTA:

- ✓ **Standardisation**: Annex III (rules applicable to standardisation, accreditation, conformity assessment, technical regulation and metrology)[115];
- ✓ **Public Procurement**: Annex XVI (public procurement)[116];

[114] Available at http://trade.ec.europa.eu/doclib/docs/2019/april/tradoc_157854.pdf

[115] OJ L 296, 15.11.2019, p. 30-32

[116] OJ L 296, 15.11.2019, p. 33-62

- ✓ **Agriculture:** List of EU agricultural products and foodstuffs other than wine and spirits to be protected in Georgia (Annex XVII-C) and the List of spirit drinks of the EU to be protected in Georgia (part B of Annex XVII-D).[117]

3.2 Meetings of the Association Bodies

The **6th meeting of the EU-Georgia Association Committee in Trade configuration** was held on 5-6 December 2019 in Tbilisi. It provided an opportunity to review all issues relating to the comprehensive and timely implementation of the EU-Georgia DCFTA and allowed to take note of the fact that approximation takes place in generally good conditions. The EU and Georgia reviewed progress made in all DCFTA Chapters, including trade in goods, SPS measures, intellectual property rights, customs and trade facilitation, technical barriers to trade, public procurement, establishment, trade in services and electronic commerce, trade-related energy, competition, and trade and sustainable development. The Committee assessed the development of bilateral trade after five years of implementation of the DCFTA, which is not increasing at a similar level (in terms of magnitude or diversification) as with Ukraine or Moldova.

Both partners raised their respective concerns relating to the implementation of the commitments on approximation with EU law in particular in the area of SPS measures, technical barriers to trade, public procurement, customs, competition, intellectual property rights, and trade and sustainable development. They instructed the specialised Sub-Committees to continue to seek solutions. Both sides underlined the importance of EU financial and technical assistance in the implementation of the DCFTA, notably projects aimed at supporting both Georgia’s administration and its small and medium-sized enterprises (SMEs) to align with the *acquis* and to reap the benefits from the Agreement.

The **5th Customs Sub-Committee** met in Tbilisi on 12 June 2019. The discussion focused on the following matters: developments in customs legislation and procedures, including the approximation process (Annex XIII of the Agreement), customs enforcement of intellectual property rights, Georgia's accession to the Convention on a Common Transit Procedure – progress of the Twinning Project, Mutual Administrative Assistance in Customs Matters and World Customs Organisation matters, rules of origin, revision of the pan-Euro-Mediterranean Convention (PEM) on rules of origin as well as harmonisation of legisation on dual use goods. Following the adoption of an admendment to the DCFTA, adding a rules of origin protocol in 2018, diagonal cumulation is now possible between the EU, Georgia, the Republic of Turkey and Ukraine. The parties also confirmed the harmonisation of Georgian legislation with the EU Regulation 953/2013, as amended.

[117] OJ L 66, 4.3.2020, p. 1–156

The **5th Sub-Committee on SPS measures** (SPS Sub-Committee), met on 19 November 2019 in Brussels. During this meeting, the Georgian authorities presented progress in the implementation of the operational conclusions of the previous Sub-Committee meeting (of October 2018) as well as of the DCFTA SPS Chapter, and institutional reforms. The EU underlined the importance for Georgian authorities to meet the deadlines foreseen in Annex XI-B of the Association Agreement and to allocate human resources in order to meet this priority. The parties also discussed the need to make some slight changes to Annex XI-B in light of amendments to the legal acts on the EU side.

Georgia indicated that it is looking forward to the implementation of ENPARD IV[118], and called for funding to enhance the country's laboratory capacity. Further, the parties discussed the progress on exports of animal origin products. In this context, Georgia had submitted a residue monitoring plan for aquaculture in 2019, which, once agreed by the EU and authorisations are given to export related products, could lead to new export opportunities to the EU. In accordance with Georgia's list of products with export potential, an audit by the Commission on a Georgian pet food company was accelerated and carried out in 2019 in order to include it on the third country authorisations list. The audit resulted in a few recommendations to the National Food Agency to adapt further their structures before pet food can be exported to the EU. Georgia presented information about SPS Border Control Infrastructure and pointed out that there are five upgraded fully functional Border Inspection Posts. It also underlined the need for funding of four additional Border Inspection Posts.

The 4th meeting of the **Geographical Indications Sub-Committee** took place in Brussels on 23 January 2020. The Sub-Committee discussed updates of the EU GI lists for agricultural products and foodstuffs, wines, spirit drinks and aromatized wines. During the meeting the parties adopted a Decision amending Annex XVII-C (list of EU agricultural products and foodstuffs other than wine and spirits to be protected in Georgia) and part B of Annex XVII-D (list of spirit drinks of the EU to be protected in Georgia) of the DCFTA[119]. The provisions on exchange of information on all the updates on EU as well as Georgian Geographical Indications (new ones, removals from the list, modifications) were also discussed in order to allow each party to run objection procedures for the new names and to follow other procedures necessary for the next update of the Geographical Indications Annexes to the DCFTA.

The 4th **TSD Sub-committee** took place on 26 March 2019. The meeting was the main occasion for the Parties to take stock on progress and engage in substantial discussions in line with the TSD Work Plan 2018-20. The EU welcomed Georgia's amendments to the Occupational Safety and Health (OSH) law, as well as the ongoing work to amend the Labour Code in order to strengthen the mandate of the Labour Inspectorate. On this point, the Commission noted the current capacity challenge for the Labour inspection department, notably in terms of staff. On climate change, Georgia informed the EU on their ongoing

[118] European Neighbourhood Programme for Agriculture and Rural Development.
[119] Decision 1/2020, OJ L 66, 4.3.2020.

update of Nationally Determined Contributions (NDCs) and their intention to develop a long-term 2050 Low Emission Development Strategy within the framework of the EU4Climate initiative. These exchanges were followed by a Civil Society Forum on 27 September, after which the Domestic Advisory Groups (DAGs) on both sides issued a joint statement[120].

4. SPECIFIC AREAS OF IMPORTANCE

An **anti-circumvention mechanism** applies to several agricultural goods i.e. beef, pork, sheep and poultry meat, dairy products, eggs and albumins, mushrooms, cereals, malt, starches and sugars as well as to processed agricultural products such as: sweetcorn, processed sugars and cereals and cigarettes. For none of the products under the anti-circumvention mechanism the respective trigger levels were exceeded in 2019, due to the low trade levels for those products in the analysed period.

The Parties agreed on a **review clause,** i.e. that after five years from the entry into force of the DCFTA, they would consult to consider broadening the scope of the liberalisation of customs duties in bilateral trade. The parties agreed at the 6th ACTC, in December 2019, that there was a need to review the mechanisms.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

The **economic growth rate** for Georgia was 5.1% in 2019 while the **annual inflation rate** amounted to 7.0%. The main driving forces were price changes for 1) food and non-alcoholic beverages (+12.3%), 2) alcoholic beverages and tobacco (+15.6 %), particularly tobacco (especially for tobacco (30.8%)), 3) recreation and culture (+6.9%), 4) transport +2.9 %) and 5) restaurants and hotels (+7.9%).

With regard to the **Georgian Lari's (GEL) exchange rate with the euro**, the percentage change in January 2019 compared to the corresponding month in 2018 was 2.9%, whereas in December 2019 compared to corresponding month of previous year it had decreased by -0.6%. The monthly exchange rate of the GEL with the euro in January 2019 was 3.0 and in December 2019 3.2. **Domestic demand** was supported by higher consumption, investment contracted due to the completion of several infrastructure projects and declining foreign direct investment (FDI)".

In 2019, **total foreign trade** of Georgia with the rest of the world amounted to EUR 10.8 billion (+2.7%). Exports increased by 12.4% and reached EUR 3,2 billion. Imports decreased by 0.8 % and amounted to USD 9.1 billion. The trade deficit equalled EUR 4.5 billion and its share in trade turnover constituted 41.2%. Comparing the 2019 figures with trade turnover in 2014 (EUR 9.8 billion), an increase of 12% is observed. In 2019, 21.9%

[120] https://www.eesc.europa.eu/en/agenda/our-events/events/4th-joint-meeting-eu-georgia-domestic-advisory-groups

of Georgian exports went to EU member states, 53.1% to the Commonwealth of Independent States (CIS) and 25.0% to other countries. During the same period, Georgia imported 25.6% from EU member states, 26.9% from CIS countries, and 47.5% from other countries. The **number of exporting companies** (11,376) from Georgia during 2019 has increased significantly by 41% compared to 2018. In terms of exporter companies to EU specifically, there is also a positive trend, namely 4% growth with a total of 915 exporter companies.

In 2019 the **top five exported goods** from Georgia were 1) motor cars (18.2% share in total exports). Commodity price y-o-y increased by 68%; 2) copper ores and concentrates (17.3%). Commodity price y-o-y increased by 29%; 3) ferro-alloys (8.0%). Commodity price y-o-y decreased by 14%; 4) wine of fresh grapes (5.9%). Commodity price y-o-y increased by 13%; 5) medicaments put up in measured doses (4.6%). Commodity price y-o-y increased by 17%.

In 2019 **top five imported goods** to Georgia were 1) petroleum and petroleum oils (8.4% share in total import). Commodity price y-o-y decreased by 12%; 2) motor cars (7.2%). Commodity price y-o-y increased by 6%; 3) copper ores and concentrates (6.7%). Commodity price y-o-y increased by 52%; 4) medicaments put up in measured doses (3.9%). Commodity price y-o-y increased by 5%; 5) petroleum gases and other gaseous (3.6%). Commodity price y-o-y increased by 13%.

On 21 June 2019 Russia's President signed a decree that banned Russian airlines to fly Russian citizens from Russia to Georgia from 8 July and advised tour operators/travel agents to "refrain from selling tourist products to citizens, which provide for transportation (including commercial) of citizens from Russia to Georgia" for the duration of the ban. This ban remains active up to now.

The Free Trade Agreement between Georgia and Hong Kong entered into force from 13 February 2019, and on 21 October 2019 an agreement on strategic partnership and cooperation between Georgia and the United Kingdom of Great Britain and Northern Ireland was signed. The agreement includes an FTA part.

5.2 Trade in goods

The scope of trade liberalisation

At the start of provisional application of the DCFTA on 1 September 2014 **both partners eliminated import duties for all goods with a few exceptions on the European Union side,** related to sensitive agriculture products, for which market access has in the meantime also improved. For example, in 2019 the EU granted duty-free Tariff Rate Quotas for garlic originating from Georgia and, for 28 agricultural products (including fruits and vegetables) that are subject to **entry prices,** the EU eliminated the *ad valorem* component of the import duty.

Overall evolution of EU–Georgia trade in goods

In accordance with 2019 Eurostat data, the **EU is the most important trading partner of Georgia with a 23% share in its overall trade** (21.9% in total export and 25.6% in total imports), followed by Turkey (14%), Russia (11%), China (9%) and Azerbaijan (8%) **Georgia is the EU's 78th trade partner** and accounts for only 0.1% of its total trade.

In 2019 the overall trade between the EU and Georgia decreased on year-on-year-basis by 3% and amounted to €2.6 billion. **EU exports to Georgia decreased by 1.8%**, while **EU imports from Georgia noted a decrease of 5%** compared to 2018. The top 5 products (mineral products, foodstuffs, beverages, tobacco, products of chemical or allied industries, and textiles and textile articles) accounted for 87 % of total Georgian exports to the EU.

In the analysed period **the surplus in EU trade with Georgia** has slightly decreased from €1.42 billion to €1.40billion.

Sectoral structure of EU-Georgia trade in goods

As concerns the **structure of EU exports to Georgia** in 2019, the most important product categories (by Sections of the Harmonized System Nomenclature – HS) were: products of the chemical or allied industries and machinery and appliances.

The observed shares and dynamics in 2019 in comparison to 2018 were as follows: products of the chemical or allied industries amounted to 19 % of overall EU exports to Georgia and increased by 7%; machinery and appliances amounted to 18% of EU overall exports to Georgia (a decrease by 14%); mineral products amounted to 16% (a decrease by 15%); and transport equipment to 9% (increase by 42%). Other products categories that showed an increase in EU exports are live animals; animal products, vegetable products and textiles.

In terms of the **structure of EU imports from Georgia** in 2019, the most important product categories were: mineral products, foodstuffs, beverages and tobacco, chemicals, vegetables, textiles and base metals.

The following shares and dynamics in 2019 comparing to 2018 were observed: Mineral products accounted for 54 % of total EU imports from Georgia and decreased by 1%; foodstuffs, beverages, tobacco accounted to 10% of total EU imports from (decrease by 25%); chemicals accounted for 10% (increase by 8%); vegetables made up 8% of the imports (32% increase); whereas textiles remained stable at 7% of total EU imports. Finally base metals and articles thereof accounted for 5% of EU total imports (a 48% decrease).

5.3 Trade in agricultural products

Total trade in agricultural goods with Georgia counted for €358 million in 2019. EU exports of agricultural goods to Georgia (€251 million in 2019) have been steadily increasing since 2009. In 2019 EU exported to Georgia mainly spirits and liqueurs (13%), beet and cane sugar (8%) and food preparations (7%). EU imports from Georgia (€107 million in 2019) consisted mainly of beverages, spirits and vinegar (44%) followed by tropical fruits, nuts and spices (36%). Compared to 2018, the imports of tropical fruits, nuts and spices increased by 30%, whereas the import of spirits and liqueurs decreased by 58% in the same period (from €31 million to €13 million).

As regards the anti-circumvention mechanism for agricultural products and processed agricultural products set out in Article 27 of the DCFTA, none of the trigger levels were overshot in 2019. There were no imports of garlic within the TRQ.

TRQs opened by the EU to Georgia

Utilisation rate of TRQs opened by the EU to Georgia						
				Utilisation in TRQ period ending in:		
Sector	TRQ description	TRQ Quantity	Unit	2017	2018	2019
F&V	Garlic	220	T	0%	1%	0%

There are no TRQs opened by Georgia to the EU.

5.4 Trade in services and Foreign Direct Investments

Market access related to establishment and trade in services

In the DCFTA the EU and Georgia laid down the necessary arrangements for the progressive reciprocal liberalisation of establishment and trade in services and for cooperation on electronic commerce. Both Partners committed to freedom of **establishment** as from the start of the DCFTA's provisional application, by granting each other national treatment and most favoured-nation treatment (subject to several reservations specified by EU Member States and a few reservations by Georgia). The **Cross-border supply of services** was also liberalised (the EU and Georgia granted each other national treatment with several limitations and reservations on both sides).

In four services sectors (**postal and courier services, telecommunication, financial services and international maritime transport services**) Georgia recognised the importance of gradual approximation (over a period of 4 to 8 years) of its existing and future legislation to the EU *acquis* (in case of financial services Georgia also committed to the international best practice and standards). Further market opening in those sectors is conditioned upon Georgia fulfilling its commitments of gradual approximation up to 2022.

The EU and Georgia also agreed on a **review clause** with a view to liberalising establishment, cross-border supply of services and capital movement. This review, if and when triggered, shall take into account, inter alia, the process of gradual approximation foreseen in the DCFTA and its impact on the elimination of remaining obstacles to cross border supply of services between the parties.

Trade in services

Trade in services between the EU and Georgia has more than doubled between 2006 and 2018, both in terms of imports and exports. As Georgian exports of services are growing faster than EU exports, the EU positive trade balance has been gradually decreasing. Total trade in services between the Partners increased in 2018 by 15% from €846 to €978 million, while the EU's trade balance with Georgia decreased from €89 million to €75 million.

The structure of exports of services by Georgia to the world is dominated by travel and transport services. In terms of imports the most important sectors are transport, travel, insurance and pension services as well other business services.

Foreign Direct investment

In 2018 Foreign Direct investment (FDIs) stocks in Georgia originating from the EU have remained roughly constant at €1.9 billion, decreasing from €2 billion in 2017). The top three EU Member States investing in Georgia include Ireland, the Netherlands and Luxembourg. Inward FDI flows in that year amounted to €116 million, which is a slight decrease from the €147 million registered in 2017.

According to the data provided both by the EU and Georgia, the main sectors chosen by EU investors are: telecommunications, transport, infrastructure and manufacturing.

The above statistics show that positive impact of the DCFTA on attracting more investments from the EU is still ahead for Georgia. Georgia performs very well in international rankings in terms of business climate. According to the 2019 World Bank Doing Business Index Georgia is on 7th position amongst 190 countries. In the 2019 Transparency International – Corruption Perception Index Georgia appeared on 44th position among 180 countries.

6. CONCLUSIONS

After five years of DCFTA implementation, external trade and FDIs remain key for the **overall economic growth of a small open economy like Georgia**. Economic uncertainty in some key trading partners in the region (Russia, Turkey and Azerbaijan) and the recovery from the recession in the EU created a relatively fragile but positive external environment for Georgia's trade in 2019.

The **EU is constantly encouraging and assisting Georgia** to accelerate the necessary reforms, notably in the SPS area, as these reforms would not only enhance food safety in the country but also allow further market access opportunities for Georgian agricultural products to the EU market. In the medium term, the benefits from approximation to the EU *acquis* should translate into an increase of bilateral trade, and especially growth in Georgia's exports to the EU. Georgia has an untapped trade potential not only in relation to trade in goods, but also to services and public procurement. The DCFTA will help Georgia to diversify its economy and enhance regional trade with its neighbours and the broader paneuromed region.

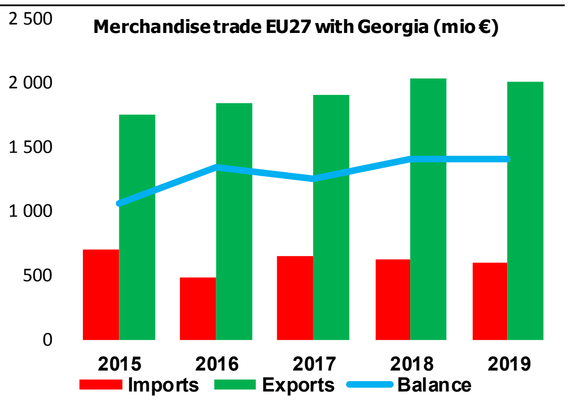
The **continuation of the DCFTA implementation**, notably through legal approximation (that has a dynamic character due to developments in the EU *acquis*) and institutional capacity building will require continuous efforts by Georgian authorities as well as on the EU side in terms of assisting Georgia in this process. The ACTC as well as the specialised Sub-Committees established under DCFTA remain the main fora for discussions and comprehensive evaluation of that progress. Simultaneously, in order to effectively enhance exports from Georgia, the EU delivers financial and technical support to the reforms and administrative capacity building in trade-related areas like TBT (e.g. standardisation and metrology infrastructure; accreditation and surveillance system), SPS (notably in institutional capacity building in food safety control) as well as in promotion of producers organisations, value chain optimisation and SME development. Improving the enforcement and governance of labour standards and working conditions is an important factor for Georgia to fully reap the benefits of the DCFTA and of the Assocation Agreement.

7. STATISTICS

GEORGIA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Georgia (mio €)					
Imports	704	491	652	634	599
Exports	1 763	1 843	1 906	2 046	2 008
Balance	1 059	1 352	1 254	1 412	1 409
Share Georgia in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Georgia with world					
Imports	27.3%	28.4%	26.5%	26.3%	24.4%
Exports	28.3%	26.1%	23.5%	21.3%	21.0%
Total (I+E)	27.5%	27.9%	25.7%	25.0%	23.4%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Georgia: IMF Dots



Total merchandise trade EU27 with Georgia (mio €)

Georgia	2018	2019	Growth mio €	Growth annual %
Imports	634	599	-34	-5.4%
Exports	2 046	2 008	-37	-1.8%
Balance	1 412	1 409	-3	
Total trade	2 679	2 608	-72	-2.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Georgia (mio €)

Georgia	2018	2019	Growth mio €	Growth annual %
Imports	116	107	-8	-7.2%
Exports	240	251	11	4.5%
Balance	124	143	19	
Total trade	356	358	2	0.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Georgia (mio €)

Georgia	2018	2019	Growth mio €	Growth annual %
EU27 imports	518	492	-26	-5.0%
EU27 exports	1 806	1 758	-48	-2.7%
Balance	1 288	1 265	-22	
Total trade	2 324	2 250	-74	-3.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Georgia (mio €)

Georgia	2017	2018	Growth mio €	Growth annual %
Imports	379	451	73	19.2%
Exports	467	526	59	12.6%
Balance	89	75	-14	
Total trade	846	978	132	15.6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Georgia (mio €)

	2014	2015	2016	2017	2018
Imports	256	278	245	379	451
Exports	520	518	378	467	526
Balance	264	240	133	89	75
Total trade	776	795	622	846	978

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Georgia (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	71	111	32	147	116
Outward		4 060	1 657	2 047	1 902
FDI Flows					
Inward	4	-25	-61	123	4
Outward		200	-1 639	68	-17

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) BETWEEN THE EU AND ITS MEMBER STATES AND MOLDOVA

1. INTRODUCTION

The Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Moldova is the main economic pillar of the Association Agreement (AA)[121] and has been provisionally applied since 1 September 2014 (it fully entered into force on 1 July 2016). The DCFTA comprises two main components: trade liberalisation (in the form of a Free Trade Agreement) and regulatory approximation to the EU *acquis*.

In 2019, both Parties completed the third-year review of tariff concesions for agricultural products, which was foreseen in the DCFTA and had been initiated by Moldova in 2017. This process was finalised with the Decision of the Association Committee in Trade configuration (ACTC) amending Annex XV to the AA, which was adopted on 23 January 2020. Moldova is making progress in the adoption and implementation of EU *acquis* in several areas, such as sanitary and phytosanitary matters, technical barriers to trade, customs and intellectual property rights. Despite this progress, there are still concerns about corruption and the business climate in the country, and reforms are needed in the institutional landscape of the country in order to guarantee independent enforcement of the provisions in the newly adopted legislation. The country had three successive governments in 2019, as a result of parliamentary elections in February 2019 and a motion of no-confidence in November 2019. Despite this changing political situation, trade can be considered an anchor in EU-Moldova relations.

The DCFTA applies to the entire territory of the Republic of Moldova including Transnistria since 1 January 2016, as per Decision No 1/2015 of the EU-Republic of Moldova Association Council. The EU is monitoring the implementation of these arrangements and its adherence by both Chisinau and Tiraspol on a yearly basis, and progress is assessed in the framework of the annual ACTC.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

Third-year review clause of the Association Agreement (review of the duty free tariff-rate quotas or “TRQs”): In October 2017, Moldova activated the review clause foreseen in the DCFTA (Article 147(5)). As a result of the negotiations, which were concluded in July 2019, the EU agreed to increase TRQs for two products (table grapes and plums), to introduce a new

[121] The EU-Republic Moldova Association Agreement was published in OJ L 260, 30.08.2014. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:260:FULL&from=EN

TRQ for cherries, and to raise the levels of imports triggering the anti-circumvention mechanism for wheat, barley, maize and processed cereals, taking into account the trade patterns over the last years. Moldova agreed to raise the TRQs for EU exports of pork and poultry meat, dairy and sugar. The results of the negotiation were formalised through a Decision of the EU-Moldova ACTC, which applies since 23 January 2020 (see also section 5.2 below).

In terms of **regulatory approximation**, parliamentary activity slowed down in 2019 due to the parliamentary elections in February 2019 and subsequent long negotiations to form a government. The DCFTA was updated to reflect evolution in EU *acquis*: two annexes were amended in 2019 (Annex XXVIII-B - Rules applicable to telecommunication services; and Annex XXVIII-D - Rules applicable to international maritime transport).

As regards **technical barriers to trade**, Moldova is advancing in the implementation and several relevant acts have been adopted (Law on accreditation and conformity assessment; Law on national standardization; Law on metrology; Law on market surveillance for non-food products; amended Civil Code to include liability for defective products; Law on general product safety). Moldova has also adopted over 25,000 EU technical standards, half of which are already applied. Moldova's National Accreditation Centre ("Moldac") has played a meanigful role in this process. However, Moldova's Law on controls and inspections (Law No. 131) runs contrary to the provisions of its Law on market surveillance, which was in line with EU *acquis*. As a result, the market surveillance area is currently not harmonised with the EU legislation. Moldova is also in the process of determining potential sectors for the possible negotiation of an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), and early 2020 it communicated the outcome of this preliminary assessment.

As regards, **intellectual property rights**, the DCFTA provides for alignment with international conventions, norms and standards. In 2019, the EU voiced concerns about the draft copyright act, which was not fully in line with the EU Collective Rights Management Directive. According to the draft, only national authors and rights holders could benefit from private copying and reprography remuneration schemes, which would discriminate foreign rights holders and be contrary to the "national treatment principle" under the Berne Convention. As of early 2020, the draft law was still under preparation.

Moldova is moving forward with the legal and institutional alignment in the field of **public procurement.** Moldova completed phase 1 of the indicative time schedule for institutional reform, approximation and market access (Annex XXIX-B). Phase 2 was expected to be completed five years after the entry into force of the AA (i.e. by September 2019) and needs to be reviewed. The draft Law on procurement in the utilities sector (energy, water, transport and postal services), required for the completion of phase 2, was still being discussed in the Parliament as of early 2020.

Moldova's **energy** reforms progress fairly well within the Energy Community but the market still lacks transparency, with repercussions also for EU investors. There have been some improvements in electricity procurement in terms of procedure and transparency.

2.2 Progress in the implementation of trade and sustainable development provisions

The 4th Trade and Sustainable Development Sub-Committee took place on 4 July 2019 in Chisinau. Moldova explained the ongoing situation as regards the reform of the **labour inspectorate** and agreed on the need to bring both the labour code and the labour inspectorate system in compliance with ILO standards. This will require sufficient administrative and financial resources to adequately train labour inspectors. On **environment**, waste management is a significant concern raised by civil society and business. The need for a strategic approach to waste management, waste sorting and recycling has been raised several times. Moldova has plans to introduce eco-labelling, with the help of the EU4environment project, but more efforts are needed to increase awareness among the population about sustainability schemes.

The parties had agreed on a number of follow up actions both in the area of labour, environment and climate. However, it is hard to identify tangible progress made by Moldova in any of the fields due to the unstable political situation in the country (there were three consecutive governments in 2020).

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **6th meeting of the EU-Moldova Association Committee in Trade configuration** (ACTC) was held in Chisinau on 4 October 2019. The meeting took place in a context of political renewal in Chisinau, following the formation of a new coalition government in June 2019, between the ACUM block and the Socialist Party (this coalition collapsed in November and be followed by a new government led by the Socialist Party). The meeting allowed for a useful exchange on the state of play of implementation of the different chapters of the DCFTA. Moldova reaffirmed its commitment to the full implementation of the DCFTA and showed openness to addressing certain outstanding issues of concern to EU business. The EU highlighted the renewed engagement between the EU and Moldova, and recalled the recent good developments in Chisinau. Trade-related assistance to support the reform process in Moldova and the conditionality of the EU's assistance were also discussed.

The **5th Sub-Committee on SPS measures** (SPS Sub-Committee) met on 19 July 2019 in Chisinau. Moldova presented progress in the implementation of the operational conclusions of the previous Sub-Committee meeting of July 2018 and updated the EU on the implementation of the DCFTA SPS Chapter and on the institutional capacity of the Food Safety Agency (ANSA). The EU underlined the importance for Moldova to meet the deadlines foreseen in Annex XXIV-B of the DCFTA due for the period 2014-2019, and to allocate human resources in order to meet this priority. Discussions also touched upon the need for the laboratory network to be strengthened and extended, the negotiation on veterinary-sanitary certificates for export from the EU to Moldova and Moldova’s application for export of poultry meat and eggs.

The **5th Sub-Committee on Customs and Trade Facilitation** took place in Chisinau on 21 November 2019. Moldova informed that the national legislation on Authorised Economic Operators (AEO), which was adopted in approximation to EU provisions, applies since 2017, with currently 135 authorisations issued for EU AEOs. The EU showed concerns about the high thresholds for criminal investigation in the area of customs (Law 179), and Moldova informed that an assessment was being carried out and results will be shared with the EU. As regards the new Customs Code, Moldova is assessing the expert report from the TAIEX mission that took place in September 2019 and adoption is expected in 2020. Moldova also informed about the closure of duty-free shops for fuel sales at Transnistria border points, and the adoption of more restrictive criteria for issuance of licences for airport shops once the current ones expire.

The **5th Geographical Indications (GI) Sub-Committee** met on 17 October 2019. It took stock of the latest developments in the area of GIs in the EU and Moldova and of the on-going work on two specifications submitted by the Republic of Moldova ("Brînză de Popeasca" and "Zăbriceni"), and it discussed the overall implementation of the GIs section of the Association Agreement.

The **4th TSD Sub-Committee** met in Chisinau on 4 July 2019 (see section 2.2 above).

4. SPECIFIC AREAS OF IMPORTANCE

On 3 May 2018, the Moldovan Parliament discussed in first reading amendments to the **domestic trade law**. The draft had been promoted by the Ministry of Economy and contains several problematic provisions incompatible with DCFTA and WTO rules. This includes, for example the obligation for at least 50% of products in stores to be of Moldovan origin. Furthermore, the proposed prohibition for producers to give retail chains and shops more than 10% of the discount on invoices might limit free competition on the market. The draft also foresees significant penalties for business operators that do not comply with the new requirements. This draft was withdrawn by the government in 2019, but has been reintroduced early 2020 and was again discussed in the Parliament in February 2020. The EU reiterated once again its concerns about the provisions included in the legal text.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

In 2019, GDP increased by 3,6% in real terms in spite of a significant slowdown in the fourth quarter. Growth in the first three quarters of 2019 was driven by a surge in investments and a rise in household consumption supported by growing real wages. The slowdown in the fourth quarter of 2019 was caused by a cut in public investments and consumption due to a set of fiscal measures introduced in August and the fact that the effects of the cut in tax rates introduced in October 2018 were fading. On the supply side, the main contributors to growth in 2019 were construction (up by 15.9%), wholesale and retail trade (5.7%), IT (9.2%) and industry (2.4%), together adding 3.3 percentage points to the growth figure. Agriculture contracted by 0.2%.

Inflation accelerated quickly in 2019 to 7.5% in December (year-on-year), following a depreciation of the currency, decreases in the rates of personal income taxes and social contributions, and large increases in public sector wages. The National Bank decreased the base interest rate by two percentage points to 5.5% in December 2019.

The budget deficit for 2019 ended at of 1.5% of GDP. The budget for 2020 includes an ambitious surge in infrastructure investments, especially road construction, which would increase the budget deficit to 3.3% of GDP. Financing of the deficit is not yet secured. Public debt was 27.4% of GDP at the end of 2019. About 80% of the public debt is long-term, mostly with IFIs and the rest with bilateral official creditors.

The current account deficit has remained significantly high in 2019 at 9.8% of GDP (it was 10.7% in 2018), in comparison to 6.1% of GDP in 2017 and 4.1% in 2016. The deterioration reflects strong growth in non-energy imports fuelled by increased consumption demand. The trade deficit is partly offset by remittances that stood at around 15% of GDP in 2019. Foreign direct investment has been low at around 2% of GDP in recent years, but increased in 2019 due to some one-off investments in the agricultural sector. The reserves level is well above the target stipulated in the IMF programme reaching to EUR 2.6 billion by end-December 2019 (corresponding to five months of imports).

5.2 Trade in goods

The scope of trade liberalisation

At the start of the DCFTA provisional application on 1 September 2014, the EU eliminated all customs duties on goods imported from Moldova except for six agricultural products (tomatoes, garlic, table grapes, apples, plums and grape juice), which are subject to annual duty-free Tariff Rate Quotas (TRQs). Further to that, the EU eliminated the ad valorem component of the import duty for twenty categories of fruits and vegetables (the entry prices for these remain). Import of fourteen groups of agricultural and processed agricultural products (pig meat, poultry, dairy products and processed dairy products, eggs and albumins, cereals and processed cereals, sugar and sugar processed goods, cigarettes and sweet corn) is duty-free but monitored under anti-circumvention mechanism (if the imports to the EU reaches certain agreed levels and Moldova fails to provide a proof of the origin of these imports, the EU may temporarily suspend the preferential treatment of the products concerned).

The scope of elimination of customs duties has broadened as a result of the **review of certain TRQs**, following the agreement between the EU and Moldova in the framework of the review clause included in the Association Agreement. As a result, both Parties have obtained additional duty-free TRQs to access the other partner's market: the EU for pork, poultry, dairy products and sugar, and Moldova for table grapes and plums, as well as a new TRQ for sweet cherries. In addition, the trigger volumes of the anti-circumvention mechanism for Moldovan imports into the EU have been increased for wheat, barley, maize and processed cereals.

Overall evolution of EU – Moldova trade in goods

In 2019, the EU remained a **key trade partner of Moldova**, accounting for 54% of its total trade (approx. 64% of total exports and 49% of Moldova's total imports), followed by Russia (10%) and China (7%). Moldova is EU's 59th trade partner.

In 2019, the **total trade between the EU and Moldova grew by 3,9%** compared to 2018, to slighlty over €4.7 billion. The EU maintained a trade surplus with Moldova which increased to €1.16 billion. Over the reporting period, EU exports increased by 8,5% from €2.71 billion to €2.94 billion, while EU imports from Moldova decreased by 2,7% from €1.83 billion to €1.78 billion. This decrease needs to be seen in light of the particular strong increase of imports, by 17,6%, between 2017 and 2018. While the main export of Moldova into the EU (i.e. insulated wire and cables, which represents around a quarter of all exports into the EU) has kept its positive trend and increased by 11% in 2019, the biggest drops concerned cereals (decrease of 23%) and iron and steel (decrease of 36%). Again, these drops contrast with the increases noted in previous years, particularly for iron bars and rods.

As regards EU exports, there were increases in all top categories. The main exports by Moldova into the EU in 2019 were, by order of importance, electrical machinery and equipment, apparel and clothing and oil seeds (especially sunflower seeds). The main EU exports into Moldova were mineral fuels, electrical machinery and vehicles.

The number of companies involved in trade with the EU has continued to increase, with approximately 1 837 Moldovan companies exporting to the EU in 2019 up from 1 734 firms engaged in exporting to the EU in 2018.

5.3 Trade in agricultural products

Total trade in agricultural goods between the EU and Moldova reached a sum of €914 million in 2019, compared to €873 million in 2018 (i.e. an increase of 4,7%). In terms of EU imports from Moldova in 2019, agricultural goods counted for 33.1% (€589 million) and consisted mainly of: oilseeds – other than soyabeans – (24%, €142 million), wheat (11%), vegetable oils – other than palm & olive oil – (11%) and cereals – other than wheat and rice – (11%).

EU exports of agricultural goods to Moldova increased by 14.4% from 2018, to reach in 2019 €325 million. EU's exports of agricultural goods to Moldova are quite diverse, and include oilseeds – other than soyabeans (8%, €25 million), cigars and cigarettes (6%), pork meat (5%), food preparations (4.6%) and cereals – other than wheat and rice – (4.6%). The export of cigars and cigarettes increased by 125% compared to 2018.

As regards the anti-circumvention mechanism for agricultural products and processed agricultural products set out in Article 148 of the FTA, the 2019 trigger levels were exceeded for wheat, maize and processed cereals. As regards TRQs, only two (table grapes and plums) were fully utilised by Moldova, while there were only small imports of apples and grape juice and no imports of tomatoes and garlic.

TRQs openend by the EU to Moldova

Utilisation rate of TRQs opened by the EU to Moldova						
				Utilisation in TRQ period ending in:		
Sector	TRQ description	TRQ Quantity	Unit	2017	2018	2019
F&V	Tomatoes	2.000	t	4%	2%	0%
F&V	Garlic	220	t	0%	0%	0%
F&V	Table grapes	10.000	t	100%	100%	100%
F&V	Apples	40.000	t	5%	5%	6%
F&V	Plums	10.000	t	100%	99%	100%
F&V	Grape juice (incl. must)	500	t	1%	0%	7%

Information on the utilisation of TRQs openend by Moldova to the EU was not readily available at the time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

Market access related to establishment and trade in services

Approximation to the EU acquis is foreseen in four services sectors (postal and courier services, telecommunication services, financial services and international maritime transport services). Moldova recognised the importance of gradual (lasting between 3 and 8 years) approximation of its existing and future legislation to the list of the EU acquis (in case of financial services also to the international best practice and standards).

Trade in Services

In 2018, total trade in services between the EU and Moldova reached €957 million, which represents an increase of 7,6% when compared to 2017 (up from 3.4% in the previous reporting period). Over the same period of time, EU exports of services to Moldova increased by 2.5% (from €437 million to €448 million) while EU imports from Moldova increased by 12.4% (rising from €452 million to €509 million).

While import and export values had been evolving mostly in tandem with a slight surplus for the EU, this was reversed in 2017, when the value of imports from Moldova into the EU was higher than the value of exports from the EU to Moldova. This trade deficit in services slightly widened in 2018. The main sub-sectors of services exported by Moldova to the world remain transport, travel, ICT and other business services as well as manufacturing services on physical inputs owned by others. In terms of imports, the most important sub-sectors belong to transport and travel-related services.

Foreign Direct investment (FDIs)

In 2018, EU FDI stocks in Moldova increased from €928 million to €1.1 billion, with the EU ranking as a major foreign investor representing over 60% of overall FDI stocks. EU companies are present in many sectors (including energy, financial sector, industry, retail trade, agriculture and services).

As in 2016, direct investment flows from the EU also increased in 2018 (from €118 million to €127 million).

6. CONCLUSIONS

After five years of implementation of the DCFTA, the EU has consolidated its position as key trade partner of Moldova. While there has been progress in the process of regulatory approximation, there remains untapped potential from the DCFTA. Trade between both Parties should continue to be broadened and stimulated, particularly from Moldovan companies towards the EU. In this regard, there are two key elements to consider in the coming years: continued trade liberalisation and regulatory approximation.

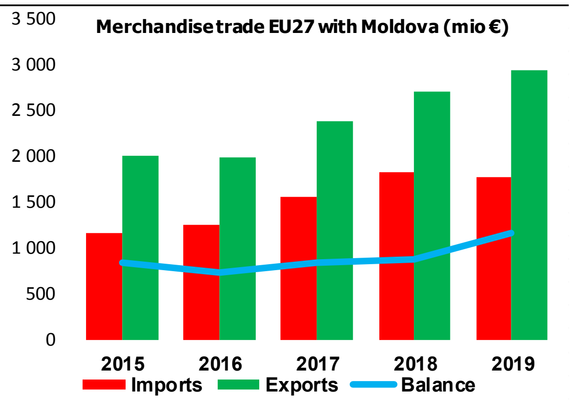
To fully reap the benefits of trade liberalisation, it is crucial that Moldova continues its process of approximation to the EU acquis in all trade-related areas (e.g. sanitary and phytosanitary matters -SPS-, technical specifications -TBT-, public procurement, customs, etc.), as foreseen in the annexes to the AA/DCFTA. To achieve this, the authorities need to continue introducing the legislative changes and, more importantly, ensure a robust and independent institutional framework to guarantee proper implementation and oversight of these new provisions. This should have a positive knock-on effect on the business climate in the country and would stimulate investment and innovation.

7. Statistics

MOLDOVA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Moldova (mio €)					
Imports	1 161	1 265	1 556	1 829	1 780
Exports	2 011	2 001	2 395	2 712	2 940
Balance	850	736	839	883	1 159
Share Moldova in EU27 trade with Extra-EU27					
Imports	0.1%	0.1%	0.1%	0.1%	0.1%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Moldova with world					
Imports	47.7%	47.6%	48.3%	48.4%	48.8%
Exports	54.5%	59.2%	60.1%	65.8%	63.6%
Total (I+E)	49.9%	51.5%	52.2%	54.0%	53.6%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Moldova: IMF Dots



Total merchandise trade EU27 with Moldova (mio €)

Moldova	2018	2019	Growth mio €	Growth annual %
Imports	1 829	1 780	-48	-2.6%
Exports	2 712	2 940	227	8.4%
Balance	883	1 159	276	
Total trade	4 541	4 720	179	3.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Moldova (mio €)

Moldova	2018	2019	Growth mio €	Growth annual %
Imports	583	589	5	0.9%
Exports	284	325	41	14.4%
Balance	-299	-264	36	
Total trade	868	914	46	5.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Moldova (mio €)

Moldova	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 245	1 192	-54	-4.3%
EU27 exports	2 428	2 614	186	7.7%
Balance	1 183	1 423	240	
Total trade	3 673	3 806	133	3.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Moldova (mio €)

Moldova	2017	2018	Growth mio €	Growth annual %
Imports	452	509	56	12.4%
Exports	437	448	11	2.5%
Balance	-15	-60	-45	
Total trade	889	957	67	7.6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Moldova (mio €)

	2014	2015	2016	2017	2018
Imports	440	369	384	452	509
Exports	534	499	461	437	448
Balance	95	130	77	-15	-60
Total trade	974	868	844	889	957

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Moldova (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	55	85	83	92	91
Outward				928	1 100
FDI Flows					
Inward	7	11	-6	-14	4
Outward			83	118	127

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) BETWEEN THE EU AND ITS MEMBER STATES AND UKRAINE

1. INTRODUCTION

The **Deep and Comprehensive Free Trade Area (DCFTA)**, the trade part of the Association Agreement, provisionally entered into force on 1 January 2016 while the full Association Agreement formally entered into force on 1 September 2017.

Since 2016 bilateral trade has increased steadily in both directions and reached € 43.3 billion in 2019. Bilateral trade data also reveal that the variety of goods that Ukraine exports to the EU is broadening and includes more value added goods while ever more companies are exporting these goods to the EU. The number of Ukrainian companies exporting to the EU increased from approximately 11,700 in 2015 to over 14,500 in 2019.

Overall the implementation of Ukraine's considerable commitments under the DCFTA is making headway with progress in most sectors. However, the EU has in the past expressed strong concerns about legislation and enforcement of intellectual property rights (IPR) in Ukraine while the rule of law, the business and investment climate and corruption remain issues Ukraine needs to tackle more vigorously to further faciliate trade and attract investment.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

A number of market access barriers could be solved in 2019:

The **value added tax refund law** No 2440 that cancels the refund of the value added tax upon export of soybeans and rapeseed has been in force since 2018. It was introduced to restrict exports of these products and encouarge domestic processing. This measure has been under heavy cristism by farmers and exporters alike and by the EU as it violates Ukraine's commitments in the WTO and under the DCFTA. Ukraine announced in late 2019 its intention to amend the law and bring it in compliance with the DCFTA. The law is to be signed by the President and will become effective in 2020.

Further, in order to eliminate a risk of unlimited imports of a new cut of poultry meat from Ukraine, which reached 55,000 tons in 2018, the Commission held negotiations with Ukraine to amend the trade preferences for **poultry meat and poultry** meat preparation. The outcome of these negotiations consists of 1) including two poultry tariff lines in the existing quota, 2) increasing the existing poultry quota for Ukraine by 50,000 tonnes and 3) reintroducing the most favoured nations duty of €100.8/100kg net for impots exceeding the quota. The agreement in the form of an exchange of letters was signed in Kyiv on 30 July 2019 and ratified by both the EU and Ukraine in December 2019. The agreement entered into force on 1 February 2020.

Moreover, over a long period Ukraine has had restrictive measures in place for importing samples of unregistered **crop protection products (CPP)** for the purpose of state trials and research, which hampered farmers' access to new and different crop protection products. The EU raised concerns in particular on the legal provision according to which an importer must submit a confirmation of such product's state registration in the country of manufacture. Ukraine finally confirmed that this requirement will be cancelled and requirements will be brought in line with EU provisions in the course of 2020.

According to the Chapter on public procurement under the DCFTA Ukraine will, over several years, adopt most of the current and future EU legislation on public procurement. The reciprocal granting of market access in the area of public procurement will be linked to the successful implementation of EU legislation in five different phases. Ukraine's alignment to EU's **public procurement** legislation continued in 2019 and the completion of Phase 1 on public procurement, which entails implementation of articles 150(2) and 151 and adoption of the reform strategy in Article 152 of the DCFTA, should be finalised and formalised through a decision of the EU-Ukraine Association Committee in Trade Configuration (ACTC) in 2020. Legislative alignment is also moving forward in relation to the fulfilment of Phases 2 and 3 while the law on concessions adopted in October 2019 is being assessed by the Commission.

The comprehensive **SPS Strategy**, which contains a list of around 240 EU legislative acts on SPS and animal welfare to which Ukraine has committed to approximate, was adopted by the SPS Management Sub-Committee on 18 November 2019[122]. This approximation process has been underway even before the formal adoption of the SPS Strategy and Ukraine is undertaking it with considerable technical assistance from the EU. Once fully implemented, Ukraine will be the first third country exporting significant volumes of poultry meat to the EU that applies EU welfare standards throughout the production chain. Ukraine still needs to recognise the regionalisation measures in place in the EU for African Swine Fever (ASF). In this regard, Ukraine has carried out audits in some EU Member States and we expect formal recognition in 2020. The new harmonised certificates for EU exports to Ukraine of poultry meat and egg products entered into force on 15 October 2019 and previous bilateral certificates for these products were phased out until 15 January 2020. As regards EU exports to Ukraine of mechanically separated poultry meat (MSM), Ukraine agreed to extend the use of bilateral certificates until mid-January 2021, by when we expect to find mutually satisfactory long term solution. The recognition of equivalence of Ukrainian provisions on certification of cereal seed with those of the EU, which was requested by Ukraine, is expected to be finalised in 2020.

In the area of technical **barriers to trade** Ukraine's efforts in aligning legislation and standards gained momentum in 2019 with the adoption of the market surveillance law, which is the remaining horizontal law on technical barriers to trade referred to in the TBT Chapter. Examinatiuon of the law's compliance with EU legislation will be finalised in 2020. Ukraine remains very keen to conclude an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA) but there are several necessary steps required before negotiations can eventually begin. A pre-assessemnt mission is foreseen in 2020 that will examine progress in relation to the work done on technical barriers to trade and implementation of the

[122] OJ L 268 of 22.10.2019

Ukrainian national quality infrastructures. Cooperation on technical barriers to trade and the pre-assessment mission continues to take place in 2020.

There is also progress in the field of **competition,** but there are still improvements required in the legal framework. Some of the remaining issues relate to the independence of the anti-monopoly committee, how it applies competition law to individual cases and the quality of decisions of the competition authority. The EU remains actively involved in the ongoing discussion in Ukraine to revise and review the existing legislative framework on competition. This will continue in 2020.

Geographical Indications under the DCFTA cover food products, wines and spirits and ensure a high level of protection for the full list of EU GI's and two Ukrainian GIs. The level of protection reflects the level of GIs protection in the EU. In 2019, Ukraine made considerable legislative progress by adopting the framework law laying the foundation of a GI system in Ukraine according to EU norms and standards. Work continues on several sectoral bylaws under this umbrella law. With the help of the EU GIs technical assistance programme, one new foodstuff GI was formally recognized by the Ukrainian authorities and several other applications are in the pipeline. The technical assistance programme also carried on work on the rebranding of EU GI names used in Ukraine (champagne, cognac, feta) and on the development of eno-gastro tourism projects.

In the area of **customs and trade facilitation** Ukraine has adopted important pieces of legislation, including on the Authorised Economic Operator (AEO) Programme; on integrated transit procedure and on IPR Customs enforcement. Discussions on the mutual recognition of the AEO programme could start late 2020 or early 2021 once Ukraine's AEO programme has been tested and functioning for some time. Ukraine is also moving ahead with legislation that could possibly lead to its accession in 2020 to the EU conventions on a common transit and simplification of formalities. There is also work ongoing on a draft law on criminalisation of smuggling of goods, which are subject to excise duties. The Commission continues to closely cooperate with Ukraine on this. Once adopted and effectively implemented, this should become an effective tool in the fight against the smuggling of goods. Ukraine still needs to submit a proposal to amend Annex XV of the DCFTA on aligning its customs code to the Union Customs Code. Efforts to increase transparency in customs valuation procedures is underway and will need further follow-up in 2020.[123]

In relation to **services,** joint work continues on updating the appendices of Annex XVII on the list of EU acquis in four services sectors: financial services; postal and courier services; telecommunication services; and international maritime transport services. To support Ukraine's aspirations to further approximate its national legislation in the area of the digital economy, the EU launched in 2019 an on-site assessment of Ukraine's policy framework, institutional capacity and the current state of play of implementation of its commitments listed in the telecommunications Annex. The findings of this assessment are expected in the first quarter of 2020 and will be used to formulate recommendations for adjusting or improving Ukraine's telecommunications policy framework. A project of €25 Million to support Ukraine's digital transformation, will be signed in 2020.

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[123] OJ L 206 of 6.8.2019

2.2 Progress in the implementation of trade and sustainable development provisions

The third Trade and Sustainable Development (TSD) Sub-Committee between the EU and Ukraine was held on 6 November 2019 in Brussels, followed by an open Civil Society Forum on 7 November 2019 during which members of the EU Advisory Group were able to meet the newly established Ukraine Advisory Group for the second time. The meeting of the Sub-Committee enabled a substantial exchange on TSD labour, forestry and energy provisions.

With respect to trade and labour, at the Sub-Committee meeting, Ukraine and the EU reviewed the priority issues and actions agreed at the 2018 meeting, including plans to ensure effective implementation of labour standards, improve the functioning and capacity of Ukraine's State Labour Services, as well as to tackle undeclared work and to address the issue of wage arrears. Both parties also agreed on the need to modernise labour legislation. The EU welcomed the decision by Ukraine to adopt a new Labour Code in early 2020 that would address legal gaps related to several ILO fundamental labour standards and related to other Association Agreement obligations which require approximation to relevant EU labour law. Ukraine also informed the EU that its draft Law "On Collective Agreements and Contracts" has passed consultations and is now pending review and approval by the Government. The EU urged swift adoption of the draft Law and submission to the Parliament. The EU once again stressed the need to ensure that the trade unions' rights and activities are respected in line with international standards.

The second priority discussed was sustainable and legal forest management. Both parties had agreed in 2018 that a system should be set up for the management of all Ukrainian state forests that should be independent from a robust forest control body and from forest policy and legislation function; Ukraine noted at the sub-committee that the reform process is currently underway. Both sides agreed to deepen and intensify discussions on forestry governance and to discuss outstanding issues in depth in early 2020 so that the identified issues can be addressed by the end of 2020.

Finally, the subcommittee meeting saw renewable energy being discussed for the first time. Progress was made with regard to the adoption of eco-design/energy labelling legislation in Ukraine. The EU and Ukraine also shared information on sustainable biomass legislation; this cooperation will be stepped up over the coming years. Finally, both sides confirmed the importance of stable, predictable, transparent and market-based regulatory frameworks for supporting renewable energy.

2.3 Legal enforcement – dispute settlement case

The **wood export ban** is a long-standing trade irritant violating the commitments Ukraine has taken under the Association Agreement. The EU strongly supports legitimate measures to preserve forests and to combat illegal logging but it has repeatedly stated that Ukraine's export ban cannot be considered an appropriate or effective measure for this purpose. Ukraine did not make any attempt in 2019 to repeal the wood export ban. Therefore, and following bilateral dispute settlement consultations in February 2019 that failed to resolve the matter, the EU has requested the formal establishment of a bilateral arbitrarion panel to adjucate on the matter. The request was launched in June 2019[124] and the arbitration panel, the first one under any EU free trade agreement, was formallly established on 28 January 2020. A ruling by the panel is expected by mid-2020.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The fourth meeting of the ACTC took place in Brussels on 18-19 November 2019. The ACTC adopted Decision n° 1/2019 concerning the list of arbitrators[125].

Also the Sanitary and Phytosanitary Management Sub-committee met for the fourth time on 18 November 2019 in Brussels and adopted the SPS Strategy. The SPS Strategy contains a comprehensive list of EU legislation on sanitary and phytosanitary and animal welfare, with deadlines for approximation by Ukraine.[126]

The other three Sub-Committees on Customs, Geographical Indications (GI) and Trade and Sustainable Development (TSD) also held their third annual meetings throughout 2019 for details, see sections 2.1 and 2.2 above and the reports from those meeting published on DG TRADE Web site. The agenda and reports of the Association Committee in Trade configuration and sub-committees are available on DG TRADE's website.[127]

4. SPECIFIC AREAS OF IMPORTANCE

There are systemic problems with **enforcement of IPR** in Ukraine, as confirmed by the recent report on the protection and enforcement of intellectual property rights published by the Commisison in January 2020[128]. In particular, there are concerns about the implementation of the law on collective management organisations (CMOs) related to tariff setting, retransmission, accreditation of CMO's and non-payment of royalties. In addition, Ukraine's efforts against counterfeiting and piracy need to be reinforced. The adoption of the customs IPR enforcement law is a step in the right direction but this would need to be effectively and efficiently implemented to improve the situation in relation to IPR protection in Ukraine.

In relation to **patent legislation**, the Commission, often with other third countries, has been actively advising the Ukrainian authorities to ensure that its legislation respects Ukraine's international and DCFTA commitments. The European Patent Office has also been involved in this process. For example, Ukraine's intention to limit the patentability criteria and exclude certain pharmaceuticals from patent protection has been discussed on several occasions, incldûing with European Patent Office. Cooperation on the patent legislation will continue in 2020.

The Commission continues to be actively involved in the discussions in Ukraine on **trademark and copyright laws**. The large number of intellectual property related draft laws

[124] https://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=144
[125] OJ L120 of 8.5.2019
[126] OJ L 268 of 22.10.2019
[127] https://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=144
[128] https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158561.pdf

submitted to the Verkhovna Rada over 2019 (Ukrainian Parliament) complicates the process of ensuring that the legislation respects and complies with Ukraine's DCFTA and international commitments. A monitoring mechanism will be established that will aim at ensuring better tracking of the legislation and real-time response from Ukraine to the input from the Commission. IPR related isues are discussed both in the ACTC and in the IPR dialogue, which takes place annually in Ukraine.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Ukraine's economy has returned to growth after the deep recession in 2014-15 and strengthended in 2019 driven by investment activity and private consumption. Economic growth in Ukraine was solid at 3.2% in 2019, led by a good agricultural harvest and sectors dependent on domestic consumption. The COVID-19 crisis is expected to impact economic activity in the country.

The Ukrainian government has made significant progress in the consolidation of its public finances in the past five years and prudent fiscal policy and budget execution continued in 2019. Inflation slowed down to around 4.1% in 2019 from 9.8% at the end of 2018.

The National Bank of Ukraine also lowered the key policy rate in light of falling inflation and lower inflation expectations, to 11% as of February 2020 from 18% per annum in September 2018. Official foreign exchange reserves increased from USD 17.8 billion in July 2018 to USD 25.3 billion by the end of 2019, equivalent to 4 months of goods and services imports.

The unemployment rate decreased to around 8.5% in 2019 from its peak at 10.1% in early 2017. Ukraine remains a very open economy, even though the combined volume of imports and exports of goods and services decreased from 107.8% of GDP in 2015 to around 99% in 2019. The negative goods and services balance widened from 2.6% of GDP to 8.5% in the same period. The current account deficit has been much smaller (1.9% of GDP in 2017, 3.3% in 2018 and an estimated 0.7% in 2019) thanks to significant and growing foreign income flows, primarily driven by remittances from abroad.

5.2 Trade in goods

Bilateral trade between Ukraine and the EU has been growing since the provisional application of the Agreement in 2016, reaching € 43.3 billion in 2019. EU exports to Ukraine increased by 12% to € 24.2 billion while Ukrainian exports increased by roughly 10% in 2019 to € 19.1 billion. Although most of the increase in Ukrainian exports was due to increased exports of agricultural goods (€ 12,1 billion), Ukrainian exports of industrial goods also remain high (€ 7 billion) and the highest since 2016. EU exports to Ukraine are split differently with a much higher proportion of industrial goods, € 21.8 billion Euros, and only € 2.4 billion of agricultural goods. See statistical section for more detailed data. In 2019, the EU was the destination of 41,5 % of Ukraine's worldwide exports while the EU trade surplus increased to roughly €5 billion, up from around €4 billion in 2018. The main product categories exported by the EU to Ukraine in 2019 were machinery and appliances, chemical products, transport equipment, mineral products, plastics, rubber and articles thereof, textiles and textile articles. In 2019, Ukraine mainly exported base metals, mineral products, vegetable products, machinery and appliances and wood and charcoal. As mentioned in the introduction, Ukraine's export profile is becoming more diversified with a higher degree of value added products such as electrical machinery and equipment, machinery and mechanical appliances, furniture and optical and medical products.

5.3 Trade in agricultural products

In 2019, Ukraine continued to be the EU's 4th biggest supplier of agricultural products, with imports of agricultural goods from Ukraine reaching €7.02 billion in 2019 (with an increase of 29.7% compared to 2018). Imports of agricultural goods represents 36.7% of all imports from Ukraine. The EU imported from Ukraine mainly cereals (38%, €2.67 billion), vegetable oils – other than palm & olive oil – (19%) and oilseeds – other than soyabeans – (17%). These three main categories of imports increased by respectively 30%, 49% and 68.2% compared to 2018.

EU exports of agricultural goods to Ukraine increased by 20,3% since 2018 and reached €2.45 billion. In agricultural goods, exports to Ukraine were diversified, with cigars and cigarettes accounting for 6.7%, oilseeds – other than soyabeans – for 6.4%, pet food for 6%, and chocolate, confectionery and ice cream for 6.1% of exports in agricultural goods. In particular, the exports of cigars and cigarettes increased by 132% compared to 2018.

Tariff rate quotas granted by the EU to Ukraine

While most of agricultural exports from Ukraine were liberalised, **TRQs of limited volume were granted for EU sensitive products**. Altogether, the EU opened 40 TRQs for agricultural products, out of which 27 are managed on first-come-first-served basis and 13 under import licences. Certain quotas are subject to 5-year phasing in periods (from 2016 to 2021).

Among the TRQs granted to Ukraine only some of them were fully utilised in 2019, e.g. poultry, sugar and starches. The zero utilisation for beef and pig meat is related to non-authorisation for Ukraine to export to the EU due to SPS reasons. The same reason is behind low utilisation of dairy TRQs.In the cereals sector Ukraine is making full use of the maize and what quotas whereas barley and oats quotas are used to a lesser extent. This can be explained by very competitive maize and wheat production in Ukraine, whereas oat production in Ukraine remains rather modest. As to barley, the EU is itself a major producer and exporter.

Tariff rates quotas opened by the EU to Ukraine

Utilisation rate of TRQs opened by the EU to Ukraine						
				Utilisation in TRQ period ending in:		
Sector	TRQ description	TRQ Quantity	Unit	2017	2018	2019
Beef	Beef	12.000	t (net weight)	0%	0%	0%
Pigmeat	Pigmeat	20.000	t (net weight)	0%	0%	0%
Pigmeat	Pigmeat, excluding hams, loins & boneless	20.000	t (net weight)	0%	0%	0%
Sheep	Sheep meat	1.950	t (net weight)	0%	0%	0%
Poultry	Poultrymeat & poultry preparations	18.400	t (net weight)	100%	100%	100%
Poultry	Chicken, frozen	20.000	t (net weight)	26%	59%	46%
Dairy	Milk & cream, condensed & yogurt	9.200	t (net weight)	4%	15%	15%
Dairy	Milk powder	3.600	t (net weight)	35%	24%	29%
Dairy	Fermented milk processed products	2.000	T	0%	22%	43%
Dairy	Butter & dairy spreads	2.400	t (net weight)	100%	100%	84%
Dairy	Processed butter products	250	T	0%	0%	0%
Eggs	Eggs & albumins	2.400	t (shell egg eq.)	37%	75%	84%
Eggs	Eggs	3.000	t (net weight)	20%	53%	63%
Honey	Honey	5.600	t (net weight)	100%	100%	100%
F&V	Garlic	500	t (net weight)	33%	98%	79%
F&V	Sweetcorn	1.500	T	1%	1%	2%
Mushrooms	Mushrooms (Agaricus), prepared or preserved	500	t (net weight)	0%	0%	0%
Mushrooms	Mushrooms (Agaricus), prepared or preserved	500	t (net weight)	0%	0%	0%
Cereals	Common wheat, flours & pellets	980.000	T	100%	100%	100%
Cereals	Barley, flour & pellets	310.000	T	100%	17%	80%
Cereals	Oats	4.000	T	46%	36%	31%
Cereals	Maize, flour & pellets	550.000	T	100%	100%	100%
Cereals	Barley groats & meal	7.200	T	100%	100%	100%
Cereals	Malt & wheat gluten	7.000	T	98%	100%	90%
Starches	Starches	10.000	T	99%	100%	100%
Sugar	Sugars	20.070	T	100%	85%	100%
Sugar	Other Sugars	16.000	t (net weight)	76%	16%	6%
Sugar	Sugar processed products	2.600	T	14%	14%	16%
Sugar products	Milk-cream processed products	420	T	3%	4%	2%
Preparations	Cereal processed products	2.000	T	27%	40%	99%
F&V	Tomatoes, processed	10.000	T	100%	100%	100%

Utilisation rate of TRQs opened by the EU to Ukraine						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in:		
				2017	2018	2019
F&V	Grape juice & Apple juice	16.000	t (net weight)	100%	100%	100%
Preparations	Sugar syrups	2.000	T	0%	0%	0%
Preparations	Food preparations	2.000	T	1%	1%	3%
Ethanol	Ethanol	70.800	T	7%	10%	9%
Animal feed	Bran, shaps & residues	20.000	T	31%	43%	72%
Tobacco	Cigars & cigarettes	2.500	T	0%	0%	0%
Alcohols	Mannitol & sorbitol	100	T	0%	0%	0%
Starches	Modified starches; Glues	1.600	T	30%	100%	100%
Starches	Amylaceous finishing agents	2.000	T	0%	100%	100%

On 15 May 2019, the EU and Ukraine also held the annual **agricultural dialogue meeting** focussing this year on organic agricultural production. On 16 May 2019, the **Cluster V Sub-committee**, organised under the cooperative part of the Association Agreement, took place where, among others, the legislative developments and reforms relating to the agriculture and rural development sector were discussed.

Tariff rate quotas granted by the Ukraine to the EU

At the entry into force of the DCFTA, 87% of the Ukrainian agricultural tariff lines were fully liberalised and the average duty in the remaining tariff lines was 10%. Ukraine liberalised completely many products for which the EU had strong offensive interests, e.g. cheeses, olive oil, wine. In the sensitive tariff lines (e.g. meat products, fruits and vegetables, dairy) the EU benefits from duty reductions from 20% to 50%.

The table shows Ukraine's TRQs for EU exports of pork, poultry meat and sugar.

Product	Quantity (tonnes)	Utilisation rate (2019)
Pork meat	10 000	99.5%
Pork meat (additional)	10 000	56.5%
Poultry meat	9 200	99.8%
Poultry meat (additional)	10 000	0.4%
Sugars	36 000	2.5%

Autonomous Trade Measures

In view of the difficult economic and political situation in Ukraine, the EU granted Ukraine temporary autonomous trade measures (ATMs) for certain agricultural and industrial products for a period of three years, starting on 1 October 2017[129].These comprise:

- increased TRQs for eight groups of agricultural products (natural honey, barley, barley groats, prepared or preserved tomatoes, grape juice, common wheat, maize and oats);
- elimination of EU import duties for 22 industrial products, including pigments, ammonium sulphate and nitrate, fertilisers, aluminium, footwear and certain electrical machinery. Most of these import duties would otherwise only have been phased out by 2021 and mean that Ukraine benefit from tariff savings of duties up to 10% for some products.

These zero-duties and some of the TRQs apply from 1 October 2017 and will expire on 30 September 2020 while the TRQs for certain cereals (e.g. common wheat, common wheat flour, meslin flour, wheat pallets, maize flour and pellets, barley flour and pellets) are managed by import licenses, administered annually from 1 January until 31 December. They were applied from 1 January 2018 and will accordingly expire on 31 December 2020. Ukraine has used most of the agricultural quotas to the fullest and made tariff savings. The table shows the use of the agricultural quotas in 2018 and 2019 provided under the ATM.

Utilisation rate of TRQs opened by the EU to Ukraine					
				TRQ utilisation	
Sector	TRQ description	TRQ Quantity	Unit	2018	2019
Honey	Honey	2,500	t (net weight)	100%	100%
Cereals	Common wheat, flours & pellets*	65,000	T	100%	100%
Cereals	Barley, flour & pellets*	325,000	T	23%	67%
Cereals	Oats	4,000	T	9%	23%
Cereals	Maize, flour & pellets*	625,000	T	100%	100%
Cereals	Barley groats & meal	7,800	T	100%	100%
F&V	Tomatoes, processed	3,000	T	100%	100%
F&V	Grape juice	500	t (net weight)	0%	0%

(*) TRQs, which expire on 31.12.2020

[129] Regulation (EU) 2017/1566 of the European Parliament and of the Council of 13 September 2017.

The low quota fill rates can be explained in case of sugar by the non-competitiveness of EU produce in Ukrainian market in comparison to Ukrainian domestic production. The additional poultry meat quota covers poultry carcasses, a product for which there is very low demand on the Ukrainian market.

5.4 Trade in services and Foreign Direct Investments

Total trade in services reached € 10 billion in 2018, an increase of 10% compared to 2017. EU exports of services reached € 7 billion in 2018 while imports from Ukraine amounted to around € 3 billion. Hence the EU maintains a trade surplus in services.

According to the Ukrainian National Bank, total FDI incoming to Ukraine (from all countries) amounted to € 2.1 billion (1.9% of Ukraine's GDP) in 2018 and to € 2.7 billion (2% of GDP) in 2019, while the outgoing FDI was much lower: €0.1 billion in 2018 and €0.6 billion in 2019. According to estimates published by the National Bank of Ukraine, more than one third of the incoming FDI represents round-tripping of capital of domestic origin. Round-tripping, which is often motivated by tax optimisation, implies that domestic investments are registered as undertakings by foreign legal entities. Thus, the actual non-resident FDI having entered Ukraine in 2019 is estimated at around 1.3% of GDP, which is low in comparison to other emerging and developing economies.

6. CONCLUSIONS

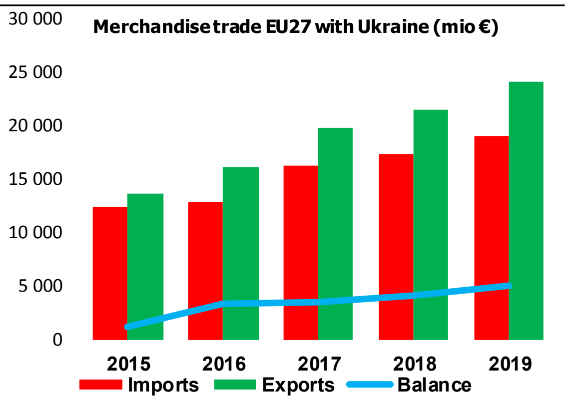
Bilateral trade continues to increase and the trend towards more diversified Ukrainian exports to the EU, combined with an increasing number of Ukrainian companies exporting to the EU, are positive developments resulting from the DCFTA, boding well for the future. Proper enforcement and implemementation of the law on customs IPR enforcement, combined with correct and efficient measures in the customs area will help faciliate trade further. Ukraine in particular needs to step up efforts against counterfeiting and piracy and to align its enforcement laws on intellectual property rights. The removal of trade barriers related to VAT refunds and crop protection will be confirmed in 2020. Also the adoption of the SPS Strategy is a welcome and significant commitment and should, like Ukraine's efforts in aligning to EU legislation in the area of public procurement, be valued. As regards technical barriers to trade, the pre-assessment mission should give an overview of the state of play of Ukraine's efforts in aligning legislation and standards. Implementation of DCFTA commitments, reforms and approximation with EU rules are advancing steadily and are closely monitored and supported by the Commission. Ukraine should continue its reform process so that it can fully benefit from the DCFTA and further develop its trade relations with the EU.

7. STATISTICS

UKRAINE

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Ukraine (mio €)					
Imports	12 504	12 860	16 239	17 425	19 116
Exports	13 719	16 176	19 838	21 555	24 222
Balance	1 215	3 316	3 599	4 130	5 106
Share Ukraine in EU27 trade with Extra-EU27					
Imports	0.8%	0.8%	0.9%	0.9%	1.0%
Exports	0.7%	0.9%	1.0%	1.0%	1.1%
Total (I+E)	0.7%	0.8%	1.0%	1.0%	1.1%
Share EU27 in trade Ukraine with world					
Imports	39.4%	41.9%	40.3%	39.1%	39.9%
Exports	33.2%	36.3%	39.7%	41.5%	40.5%
Total (I+E)	36.3%	39.2%	40.0%	40.2%	40.2%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Ukraine: IMF Dots



Total merchandise trade EU27 with Ukraine (mio €)

Ukraine	2018	2019	Growth mio €	Growth annual %
Imports	17 425	19 116	1 692	9.7%
Exports	21 555	24 222	2 667	12.4%
Balance	4 130	5 106	976	
Total trade	38 980	43 339	4 359	11.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Ukraine (mio €)

Ukraine	2018	2019	Growth mio €	Growth annual %
Imports	5 416	7 024	1 609	29.7%
Exports	2 040	2 455	415	20.3%
Balance	-3 376	-4 570	-1 194	
Total trade	7 456	9 479	2 023	27.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Ukraine (mio €)

Ukraine	2018	2019	Growth mio €	Growth annual %
EU27 imports	12 009	12 092	83	0.7%
EU27 exports	19 515	21 768	2 252	11.5%
Balance	7 506	9 675	2 169	
Total trade	31 524	33 860	2 336	7.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Ukraine (mio €)

Ukraine	2017	2018	Growth mio €	Growth annual %
Imports	2 742	2 868	126	4.6%
Exports	6 553	7 069	517	7.9%
Balance	3 810	4 201	391	
Total trade	9 295	9 937	642	6.9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Ukraine (mio €)

	2014	2015	2016	2017	2018
Imports	2 534	2 593	2 487	2 742	2 868
Exports	4 618	4 988	5 360	6 553	7 069
Balance	2 084	2 395	2 874	3 810	4 201
Total trade	7 153	7 581	7 847	9 295	9 937

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Ukraine (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		1 391	1 191	1 020	663
Outward	19 054	13 730	16 883	18 310	19 354
FDI Flows					
Inward			196	2	-34
Outward			1 872	2 342	102

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PART III.4

ASSOCIATION AGREEMENTS WITH MEDITERRANEAN AND MIDDLE EAST PARTNERS

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-ALGERIA ASSOCIATION AGREEMENT

1. INTRODUCTION

The EU and Algeria established a Free Trade Area (FTA) under the **EU-Algeria Association Agreement**, signed in 2002, which entered into force on 1 September 2005 (hereinafter called 'the Agreement'). The Agreement provides for a reciprocal liberalisation of trade in goods, with elements of asymmetry in favour of Algeria, such as a 12 years transitional period for dismantling tariffs for industrial goods and a selective liberalisation on agriculture. In 2012, the EU and Algeria agreed to review the timetable of tariff dismantling set forth in the Association Agreement for certain products (steel, textile, electronics, and automobiles), extending the transitional period from 12 to 15 years. Complete dismantling of tariffs and thus **completion of the EU-Algeria free trade area is now scheduled for September 2020.** Market opening for agricultural products so far only concerns a limited number of tariff lines subject to full liberalisation, Tariff Rate Quotas (TRQ) or a reduction of Most Favoured Nation (MFN) rates respectively, for both Parties. The agreement contains general provisions on dispute settlement but so far, no additional negotiations have been opened on a specific Dispute Settlement Protocol.

Algeria is a member of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin, which it signed in 2012 and notified the EU of ratification in January 2017.

Algeria started negotiating its accession to the WTO in 1987. The negotiation process with the Accession Working Party has, however, stalled since 2014.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

Several market access issues remain in Algeria and new ones appeared in 2019. Although these measures are not specifically targeted at the EU, they affect EU companies disproportionally as the EU is Algeria's most important trading partner, accounting for two thirds of the country's total trade.

2018 saw the introduction of the so called DAPS[130], a **tax having an effect equivalent to a custom duty, ranging from 30% to 200% of the value of the goods**, which was levied on 1,095 tariff lines, across all sectors of the economy. This measure broadly replaces an import ban which, in 2017, had affected 877 products. A **custom duty hike** imposed in 2017 on another goup of 129 products still applies. A **ban on import on vehicles** remains in place - which were, until 2017, subject to an import licence scheme which effectively resulted in a zero quota for three years. Effectively, EU car exports have been banned since 2015.

In September 2019, the Algerian authorities issued a circular imposing **new restrictive procedures on the imports of mobile phones and household appliance** products based on three elements. First, payment for imports must be delayed by nine to twelve months. Second,

[130] *Droit additionnel de prélevement spécial*.

operators are required to use national maritime transport capacities whenever such choice is possible. Third, letters of credit are to be issued only for contracts using FOB incoterms. Even if the implementation of these measures has been inconsistent so far, they are expected to have significant negative impact on EU exports to Algeria. The intention was to extend these requirements to the import of all products. A later circular, of December 2019, somehow relaxed these conditions, with FOB no longer being mandatory but to be used as preferred option whenever possible.

Other long-standing trade-related issues include: a **ban on imports of medicines** for which there exists a locally-produced equivalent; technical standards; particularly stringent mandatory security devices for vehicles, coupled with **obligatory inspections**.

2.2 Legal enforcement – dispute settlement case

Given the number and impact of these import-restrictive measures taken in violation of the EU-Algeria Association Agreement, the EU has initiated an active political and technical dialogue with Algerian authorities. A dedicated high-level working group was set up and met several times in 2017 and 2018. At the latest meeting of the Association Council in May 2018, the Parties agreed to resolve these matters by the end of 2018. Unfortunately, in the absence of genuine engagement by the Algerian side this objective could not be achieved during 2019.

According to the European Commission, the Algerian measures are inconsistent with the Association Agreement and would justifiy a recourse to the dispute settlement mechanism under this Agreeement. The first step of the procedure would consist of a referral of the dispute to the Association Council, which has the task of addressing any dispute relating to the interpretation and application of the Agreement.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

In 2019 Algeria experienced major upheavals in the political system with massive anti-establishment demonstrations starting in February and leading to the resignation of President Bouteflika, the long-standing leader of the country. Eventually, after two failed attempts, presidential elections were held in mid-December 2019 and a new President was elected in the person of Abdelmadjid Tebboune. In light of this political context, no Sub-Committee meetings were held with Algeria in 2019.

The outcome of the last **Sub-Committee on Trade, Industry, and Services** held in October 2018, the **Sub-Committee on Agricultural and Fisheries Products** in October 2018 and **Sub-Committee on Customs Cooperation** in November 2018 were reported in the third Staff Working Document published in October 2019[131].

[131] The third edition of the staff working document published on 14 October 2019 can be consulted here : https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52019SC0370

4. SPECIFIC AREAS OF IMPORTANCE

The **Partnership Priorities** adopted by the EU and Algeria at the Association Council of 13 March 2017[132] mention cooperation for the socio-economic development of Algeria, including trade and access to the European single market. The EU and Algeria also conducted a **joint evaluation of the Association Agreement in 2016-17**. The evaluation concluded that, as regards cooperation in the trade, economic and investment areas, Algerian efforts and EU assistance should focus on the following areas: diversification and competitiveness of the Algerian economy, improvement of the business climate and facilitation of investments.

The **EU is providing support to Algeria through various trade-related assistance programmes** such as DIVECO I, II (*Programme d'appui à la diversification de l'économie*), P3A I and II (*Programme d'appui à la mise en oeuvre de l'Accord d'Association*), or PADICA (*Programme d'appui à la diversification industrielle et à l'amélioration du climat des affaires*), implemented in partnership with the Algerian authority for trade promotion (ALGEX)[133]. Such programmes aim to strengthen export competitiveness, to modernise the legal framework, to diversify the economy, and to improve the business climate in Algeria. This support will continue under the 2018-20 programming period. The EU also supports Algeria in preparation of negotiations on an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA), in sectors identified as key priorities by Algerian authorities such as construction materials, domestic appliances and low voltage electric goods. This work has been conducted since 2013 through TAIEX missions, resulting for instance in twinning programmes involving the Algerian authority for certification and accreditation (ALGERAC). Additional programmes, such as PASSEM (*Programme d'appui spécifique à la surveillance et à l'encadrement du marché*), focus on specific areas, such as market surveillance and consumer protection.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

With **oil accounting for 90% of exports and 60% of total income**, Algeria's economy is highly dependent on hydrocarbons, and on global oil and gas prices. The economic growth continued to be affected by the global fall in oil prices as well as by the uncertain political situation in the country. This led to a growth rate of only 0.9% in 2019, when compared to 1.5% in 2018 and well below both the forecast of the Algerian Government and the IMF's initial target of 4%.

The **inflation rate rose by 2.4%** in 2019 down from 2.7% the year before. Overall, the currency depreciation helped to adjust the economy to inflationary pressures. **Since 2014, the dinar has lost 48% of its value against the dollar.** Algeria continued to tap into its foreign currency reserves in 2019 to counterbalance global hydrocarbon price fluctuations, to which the country is exposed due to the lack of economic diversification. **Foreign reserves of the**

[132] They can be downloaded here: https://eeas.europa.eu/delegations/algeria/31985/les-nouvelles-priorites-du-partenariat-ue-algerie_en
[133] See DG DEVCO for more information https://ec.europa.eu/europeaid/home_en

country have thus been declining continuously and dropped to USD 76 billion at the end of 2019, which covers around 18 months of imports.

The budget deficit remained under pressure in 2019. Preliminary government data shows a **7% fiscal deficit at the end of the year** (around USD 11.5 billion, which could be finally higher given weak growth) due to the increase in operating expenditures and the reduction in petroleum taxes, despite a significant reduction in capital expenditure (which could lead to further reduction in production). Public debt rose markedly to 45.8 percent of GDP, from 37 percent in 2018. Algeria is now considering using foreign funding for economic projects.
In general the **business climate has not improved** in the country, given the long list of trade restrictive measures in place and new ones introduced. Often, these measures were introduced in an arbitrary way, without a clear legal basis, as was the case of the package of measures of September 2019 (new requirements of deferred payments for imports, preferential recourse to national maritime carriers and the mandatory use of FOB incoterm for import) by a simple circular issued by the Association of Algerian Banks under the instruction of the Cabinet of the Minister of Finance.

5.2 Trade in goods

The EU-27 was Algeria's **first partner for merchandise trade in 2019**, accounting for 46.7% of Algeria's total trade, before the United States and Turkey (4.9% and 4.5% respectively) and the United Kingdom (3.5%). The EU is Algeria's **first export market** with a share of 56.3%. The EU is also Algeria's **first source of imports**, accounting for 33.9% of total Algerian imports.

Algeria is the EU's first trading partner amongst all Euromed countries, ahead of Morocco and Israel: in 2019, taking into account the eight Euromed countries with which the EU has trade agreements, 30% of EU imports originated from Algeria and 18% of EU exports went to Algeria. This privileged position is mainly **due to the important share of hydrocarbons in EU-Algeria trade flows**.

Trade in goods between the EU and Algeria has intensified under free-trade area established by the Association Agreement: **in 2019, the total two-way trade amounted to €33.24 billion, an increase of about 40% from its 2004 value of €24.04 billion**, the year preceding the entry into force of the Association Agreement. **But the volume of bilateral trade peaked in 2012 at €50.9 billion.**

EU exports to Algeria grew by about 70% between 2004 and 2018, from €9.27 billion to €18.5 billion. However **the 2019 data (€16.9 billion) shows a significant drop of about 20% over 2018** and are a far from the peak of 2012 (€50.9 billion). In 2019, EU exports to Algeria were mainly by the machinery and transport equipment (37%), agricultural and food products (14%) and chemicals (12%) sectors. The four biggest EU exporters to Algeria were France, Spain, Italy and Germany.

EU imports from Algeria are dominated by trade in oil and gas (mineral fuels amount to 96% of the total exports[134] to the EU) which has a significant impact on overall volumes with possible important fluctuations from from one year to the other in function of price develop^ments on the international energy markets. **EU imports from Algeria rose by about 7% between 2004 and 2019** from €14.77 billion to €16.3 billion (with a remarkable peak of €30.2 billion in 2012). **Between 2018 and 2019 the EU imports decreased** (by about 20%) from €18.4 billion in 2018 to €16.3 billion in 2019. The three biggest EU importers in 2019 were Italy, Spain, and France.

Because of the absolute dominance of oil and gas in Algeria's exports, international energy prices have a direct impact on the value of Algerian exports and on the trade balance with the EU. Historically, **Algeria has mostly recorded a trade suplus with the EU**, but the decline in oil and gas prices led first to the shrinking of that surplus from 2012 to 2014 and later, in 2015 and 2016, to an EU's surplus for the first time. In 2017, with oil and gas prices rising again, Algeria's trade balance with the EU reached an equilibrium but became negative again in 2018 although with a small margin (minus €76 million). A further small deterioration was recorded again **in 2019, with a relatively small negative trade balance for Algeria** of € 0.62 billion.

5.3 Trade in agricultural products

Total trade in agricultural products between the EU and Algeria increased by 92% between 2002 (€1.311 billion) and 2019 (€2.524 billion). Between 2018 and 2019, EU agricultural exports decreased by 5%, going from €2.645 billion to €2.524 billion. EU imports, on the other hand, increased by 23%, from €74 million to €91 million. In 2019, among our Euromed partners, Algeria was the EU's most important destination for exports of agri-food products (23% of total agri-food exports in the region). The main product categories the EU exported to Algeria were cereals (37%), dairy produce (13%), live animals (9%), other cereals, flour, starch (6%) and animal and vegetable fats & oils (5%). EU agricultural imports from Algeria were dominated by tropical fruit, fresh or dried, and nuts (46%) and beet and cane sugar (14%).

TRQs granted by the EU to Algeria

Regarding agricultural tariff rate quotas (TRQ), Algeria's 2019 fill rate was low for a limited number of products such as olive oil (7%). It remained nil or close to zero for the majority of products, such as tomato juice, wine or dairy.

[134] Despite what the above graph suggests, mineral fuels continuously accounted for more than 90% of Algerian exports since the entry into force of the Agreement. The discrepancy between the lines 'EU imports' and 'EU imports of mineral fuels' prior to 2009 is presumably due to a change in the reporting methods.

Utilisation rate of TRQs opened by the EU to Algeria						
		TRQ		Utilisation in TRQ period ending in:		
Sector	**TRQ description**	**Quantity**	**Unit**	**2017**	**2018**	**2019**
Dairy	Yogurt, flavoured	1.500	t	0%	0%	0%
Honey	Honey	100	t	0%	0%	0%
Flowers	Cut flowers	100	t	0%	0%	0%
Flowers	Foliage, branches & other parts of plants	100	t	0%	0%	0%
F&V	New potatoes	5.000	t	5%	5%	11%
F&V	Apricots	1.000	t	0%	0%	0%
F&V	Strawberries	500	t	0%	0%	0%
Oils	Olive oil	1.000	t	4%	7%	6%
Oils	Refined sunflower-seed oil	25.000	t	0%	0%	0%
Preparations	Pasta, other	2.000	t	0%	3%	9%
Preparations	Couscous	2.000	t	26%	33%	26%
F&V	Tomatoes, prepared or preserved, peeled	300	t	0%	0%	0%
F&V	Tomatoes, prepared or preserved, min. dry matter 12%	300	t	0%	0%	12%
F&V	Tomato juice	200	t	0%	0%	0%
F&V	Apricot juice	200	t	0%	0%	0%
Wine	Wine	224.000	hl	1%	1%	0%
Wine	Wine, local PDO, ≤ 15% vol, ≤ 2L	224.000	hl	0%	0%	0%

Information on the utilisation of TRQs granted by Algeria to the EU was not readily available at the time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

Foreign investment in Algeria suffers from a persistent reluctance to relax long-standing restrictions. **Numerous obstacles to foreign investment thus remain**, most notably the horizontal '49/51' **foreign equity cap** that applies across the board, to all sectors. Although the 2016 **Investment Code** no longer features the foreign equity cap, the rule remains applicable by virtue of the Budget Laws 2009 (as amended in 2012), which is still in force. Such a blanket foreign equity cap discourages potential investors and hampers Algeria's prospects of accession to the WTO. The EU has routinely raised the issue with Algerian authorities, suggesting a more limited scope of application of the rule.

The total **trade in services** between the EU and Algeria remained relatively stable in past years with a persistent negative balance on the Algerian side. In 2017 the volume of bilateral tade in services amounted to €4.4 billion with an EU exporting €3 billion and importing €1.4 billion worth of services. In 2018 the volume nof bilateral trade in services declined to € 4 billion with EU exporting €2.7 billion while importing €1.3 billion.

According to Eurostat data **FDI** flows between the EU and Algeria remained volatile between 2013 and 2018 with the **vast majority of investments coming from the EU** to Algeria (€1.6 billion in 2018 increasing the total stock of EU FDI in the country to €14.4 billion). It is estimated that EU companies based in Algeria employ approximately 60.000 employees. Algerian investments in the EU are relatively low, its stock levelling at €1.3 billion and with a mere 0.1 billion FDI flow in 2018. As to other partner countries in 2018 the stock of FDI by US amounted to almost USD7 billion, by China USD 850 million, by UEA USD 617 million and by Turkey USD 322 million. The main reason of these low FDI flows is mainly the legitimate concerns by investors regarding the **business climate** in the Algeria. According to the Wold Bank's Doing Business Index 2020, **Algeria's performance remains poor and is**

below even regional best practices. As a matter of fact, according to 2019 data, the country kept the same rank as in 2018, reaching 157th out of 190 (it was 166th in 2017), with a distance to frontier (DTF)[135] score of 48.6 out of 100 (down from 49.6 in 2018).

6. CONCLUSIONS

There has been a positive overall trend in EU-Algeria trade since the entry into force of the Association Agreement, although **Algeria's heavy dependency on hydro-carbons** and **lack of structural reforms have held back any significant diversification of its exports**. The country registered a **small negative trade balance with the EU in 2019** due to low energy prices and despite the Algerian policy of restricting trade through erecting barriers. The EU remains committed to its support of the Algerian government's effort to diversify its economy. However, in the light of the **numerous and significant trade barriers introduced since 2015**, the EU expects that pragmatic solutions will be shortly found to ensure full compliance with the EU-Algeria Association Agreement. For the EU side this is of paramount economic and systemic interest.

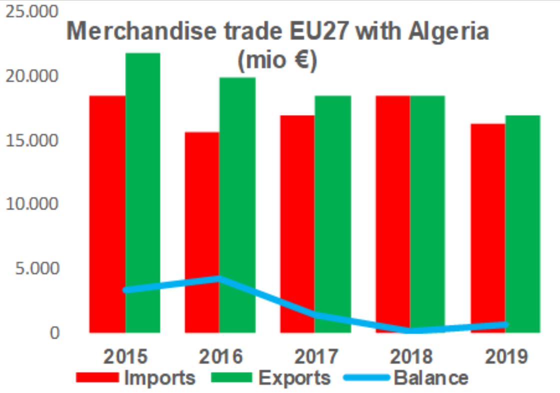
[135] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time. The higher the score, the better.

7. STATISTICS

ALGERIA

Merchandise trade EU27 2014-2018	2015	2016	2017	2018	2019
Merchandise trade EU27 with Algeria (mio €)					
Imports	18.450	15.698	16.977	18.436	16.313
Exports	21.802	19.897	18.451	18.512	16.926
Balance	3.352	4.199	1.474	76	613
Share Algeria in EU27 trade with Extra-EU27					
Imports	1,1%	1,0%	1,0%	1,0%	0,8%
Exports	1,2%	1,1%	0,9%	0,9%	0,8%
Total (I+E)	1,1%	1,0%	0,9%	0,9%	0,8%
Share EU27 in trade Algeria with world					
Imports	47,9%	44,8%	32,6%	32,5%	33,9%
Exports	57,9%	55,1%	53,3%	50,7%	56,3%
Total (I+E)	52,0%	48,7%	41,1%	40,8%	46,7%

Source Trade G2 Statistics/ISDB 18-mars-20
Trade EU27: Eurostat COMEXT; Trade Algeria: IMF Dots



Total merchandise trade EU27 with Algeria (mio €)

Algeria	2018	2019	Growth mio €	Growth annual %
Imports	18.436	16.313	-2.123	-11,5%
Exports	18.512	16.926	-1.586	-8,6%
Balance	76	613	537	
Total trade	36.948	33.239	-3.709	-10,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU28 (mio €)

Extra-EU28	2018	2019	Growth mio €	Growth annual %
Imports	1.907.565	1.934.944	27.379	1,4%
Exports	2.059.882	2.132.015	72.133	3,5%
Balance	152.317	197.071	44.754	
Total trade	3.967.447	4.066.959	99.512	2,5%

Agrifood trade EU27 with Algeria (mio €)

Algeria	2018	2019	Growth mio €	Growth annual %
Imports	70	86	15	21,8%
Exports	2.634	2.493	-141	-5,3%
Balance	2.564	2.408	-156	
Total trade	2.704	2.579	-125	-4,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118.891	121.644	2.753	2,3%
Exports	169.000	181.825	12.825	7,6%
Balance	50.109	60.181	10.072	
Total trade	287.891	303.469	15.578	5,4%

Definition AMA UR AoA

NAMA trade EU27 with Algeria (mio €)

Algeria	2018	2019	Growth mio €	Growth annual %
EU27 imports	18.365	16.227	-2.138	-11,6%
EU27 exports	15.878	14.433	-1.445	-9,1%
Balance	-2.487	-1.795	693	
Total trade	34.243	30.660	-3.584	-10,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1.788.674	1.813.300	24.626	1,4%
EU27 exports	1.890.882	1.950.190	59.309	3,1%
Balance	102.208	136.890	34.682	
Total trade	3.679.556	3.763.491	83.935	2,3%

Definition NAMA UR

Services trade EU27 with Algeria (mio €)

Algeria	2017	2018	Growth mio €	Growth annual %
Imports	1.395	1.329	-66	-4,7%
Exports	3.011	2.671	-341	-11,3%
Balance	1.617	1.342	-275	
Total trade	4.406	4.000	-406	-9,2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824.543	824.015	-528	-0,1%
Exports	928.420	968.648	40.228	4,3%
Balance	103.877	144.633	40.756	
Total trade	1.752.963	1.792.662	39.700	2,3%

Services trade EU27 with Algeria (mio €)

	2014	2015	2016	2017	2018
Imports	1.537	1.580	1.411	1.395	1.329
Exports	3.038	3.363	3.582	3.011	2.671
Balance	1.501	1.783	2.171	1.617	1.342
Total trade	4.575	4.944	4.993	4.406	4.000

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642.682	776.924	784.743	824.543	824.015
Exports	750.713	849.023	855.477	928.420	968.648
Balance	108.031	72.099	70.734	103.877	144.633
Total trade	1.393.395	1.625.948	1.640.220	1.752.963	1.792.662

FDI EU27 with Algeria (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward			1.242		1.287
Outward					14.403
FDI Flows					
Inward			26.556		105
Outward					1.648

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5.402.531	6.647.447	7.199.779	7.275.893	7.196.848
Outward	7.050.096	8.511.837	9.145.353	8.833.606	8.750.004
FDI Flows					
Inward	143.012	803.285	328.703	209.462	-67.421
Outward	203.711	1.016.490	449.657	180.796	-103.421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-EGYPT ASSOCIATION AGREEMENT

1. INTRODUCTION

The EU and Egypt established a free trade area (FTA) as part of the **EU-Egypt Association Agreement**, signed in 2001 (hereinafter referred to as 'the Agreement'). The Agreement was provisionally applied from 21 December 2003 and officially entered into force on 1 June 2004. It provides for reciprocal liberalisation of trade in goods, with elements of asymmetry in favour of Egypt: Egypt was able to export to the EU all industrial products covered by the Agreement tariff-free from the day of entry into force of the Agreement, while it benefited from a transitional period of 3 to 15 years, depending on the product, to dismantle tariffs on EU imports. **Egypt finalized the process of fully dismantling tariffs applied to industrial goods on 1 January 2019.**

In October 2008, the EU and Egypt signed an **Agreement providing for liberalisation in agricultural, processed agricultural and fisheries goods**; the latter entered into force on 1 June 2010 and extended the list of agricultural products covered by the original Agreement. **Today, 80% of trade in agricultural goods is covered by duty-free treatment.**

In November 2010, the EU and Egypt signed a **Protocol establishing a Dispute Settlement Mechanism** (DSM), for which the ratification process is still pending.

In November 2011, the Commission received a Council **mandate authorising it to negotiate a Deep and Comprehensive Free Trade Area (DCFTA)** with Egypt.Egypt while intersted to explore the possibilities modernise the Free Trade Agreement, it has shown limited interest in a full-fledged DCFTA so far

Egypt also signed the **Regional Convention on pan-Euro-Mediterranean preferential rules of origin** on 9 October 2013 and notified it on 1 June 2014. The main objective of the Convention is to provide a more unified framework for origin protocols.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

The EU-Egypt Association Agreement provides a framework for a close bilateral EU-Egypt cooperation. Dialogue on the implementation of the trade related provisions of the Agreement is pursued within the Association Council, the Association Committee, and the various sub-committees, including the Sub-Committee on Industry, Trade, Services, and Investment (hereinafter referred to as 'the Trade Sub-Committee'). The last meeting of the **Trade Sub-Committee** was held in June 2019.

In 2019, the government of **Egypt expressed interest in enhancing trade and investment relations with the EU**, mainly focused on the attraction of EU investment. Egypt informed the EU that it had been undertaking economic reforms and improving industrial infrastructure as well as business legislation. In January 2019, **Egypt fully liberalised its tariffs on imports of EU passenger vehicles, in line with the commitments of the Association Agreement**.

In this context, both partners engaged in an active dialogue, at the political and technical level, to **further remove barriers to trade** affecting businesses and investors, **with some progress in 2019.** Thanks to coordinated efforts of the EU, EU Member States, and like-minded countries as well as the cooperation of the Egyptian authorities, some further trade facilitation was achieved for the main trade irritants, especially as regards Egypt's procedure for the compulsory registration of exporters, where a number of EU export applications was advanced. Following a visit of EU Commissioner for Agriculture to Cairo in January 2019 and a series of technical meetings between EU agricultural experts and Egyptian authorities in June 2019, veterinary checks of animals destined for exportation to Egypt, performed by Egyptian veterinarians in the EU territory, were abolished. Moreover, Egypt partially facilitated the procedure of importing infant formula from EU Member States classified as "non-reference" countries.

Nevertheless, **major Egyptian market access barriers persist** (in particular the **registration scheme** and **pre-shipment inspections** imposed on entities exporting certain goods to Egypt), constituting a substantial hindrance for EU investors and businesses. These measures apply to 25 categories of manufactured goods since the beginning of 2016 and have been extended to 4 further product categories in January 2019. The measures have been raised in the WTO and bilaterally at political and technical level repetadely including in 2019 insisting on removing these barriers but also more transparency, rapidity, and streamlining of the administrative processes, in order to facilitate the registration from a practical point of view. The **creation of a special Registration Committee in Egypt's Ministry of Trade and Industry** in April 2019 was a step forward as it **allowed for advancing the registration of some EU exporters**; however, it did not resolve all pending application requests nor the structural problems related to the scheme. The EU and Egypt will continue an enhanced dialogue in order to establish long-term structural solutions addressing the lack of transparency of the registration process, the absence of a clear appeal procedure, and the non-existence of clear deadlines for processing the requests.

The EU and Egypt are engaged in an active dialogue to address also **other trade irritants**: arbitrary customs valuations methods, problems with acceptance of origin declarations, restrictive labelling requirements, and sanitary and phtosanitary issues mainly affecting cereals, cheese, infant milk, and importers of beef/live cattle and ducklings. Compliance with obligations in the field of competition and public aid, including transparency on the latter, has to be further enhanced. The EU is also closely following the drafting of **Egypt's future tax incentives scheme targeting the automobile sector**. Egypt **still has to ratify the protocol establishing a Dispute Settlement Mechanism signed in November 2010**.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **Sub-Committee on Industry, Trade, Services, and Investment** met in June 2019 in Cairo (no meeting had take place in 2018). Bilateral issues discussed included Egypt's technical barriers to trade and the draft tax incentive scheme targeting the automotive industry, which in 2019 is still under review by Egypt. Egypt was invited to ratify the Protocol on the Dispute Settlement Mechanism. The EU recognized the active participation of Egypt in the European Enterprise Network, highlighting the role played by Egypt in organizing multiple business events. Other issues discussed included progress on a potential Agreement on Conformity Assessment and Acceptance of industrial products (ACAA), the need for time to adapt Egyptian SPS legislation to EU requirements, as well as the continued possibility of enhancing the current trade partnership.

Additionally, a **technical meeting on SPS** took place in Cairo in June 2019 to address the outstanding SPS issues. The meeting allowed for detailed discussions and progress on several points of interest from both sides, including from the EU side on conditions for export of meat and live animals to Egypt (pre-shipment monitoring of cattle by Egyptian officials will no longer be required and BSE-related conditions for meat will be aligned with OIE recommendations), seed potatoes (EU standards will be accepted for most of the requirements), and standards for cheese (in February 2020, Egypt issued new standards for cheese that should remove irritants related to imports of Feta cheese). These developments are likely to facilitate the existing significant exports from the EU to Egypt in the above sectors.

During the 2019 **Sub-Committee on Agricultural and Fisheries products**, the following issues were discussed, among others: agri-food trade developments with the recent increase of Egyptian agri-food exports to the EU market, the latest developments in the agricultural policies of both EU and Egypt, possible future cooperation on organic farming and GIs, and a review of the impact of the EU technical assistance provided to Egypt in the sector of agriculture and rural development.

The last **Sub-Committee on Customs Cooperation** was held in Cairo in June 2019. The EU and Egypt agreed to reinforce their cooperation through organisation of a TAIEX workshop on rules of origin and a workshop dedicated to tackle fraud (value, customs, forged documents).

4. SPECIFIC AREAS OF IMPORTANCE

The EU-Egypt Association Council of 25 June 2017 endorsed the **EU-Egypt Partnership Priorities** to guide the bilateral relations for the period 2017-2020. The Partnership Priorities reflect shared interests and focus on three interlinked areas where co-operation between the EU and Egypt is of mutual benefit. In particular:

- Priorities related to **"Egypt's sustainable modern economy and social development"** focus on advancing socio-economic goals set out in Egypt's "Sustainable Development Strategy – Vision 2030" with a view to building a stable and prosperous Egypt through economic modernisation and entrepreneurship; trade and investment; social development and justice; energy security, environment and climate action. In the area of trade and investment, the EU and Egypt committed themselves to strengthening the existing relations and to ensuring that the provisions of the bilateral FTA are implemented in a manner that enables the agreement to reach its full potential. While the EU has previously put forward the idea of a comprehensive Deep and Comprehensive Free Trade Agreement (DCFTA), the EU and Egypt will also jointly identify other suitable approaches to enhanced trade relations.

- Priorities related to **"partners in foreign policy"** focus on stabilising the common neighbourhood and beyond, and cooperating in crisis management and humanitarian assistance;

- The third priority area focuses on **enhancing stability**. Therein focus is on: establishing a modern, democratic state that delivers benefits equitably to all people; promotion of human rights, security and combating terrorism; and managing migratory flows for mutual benefit.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

To lift the economy after internal political crisis and revolutionary uprising in 2011, Egypt began a USD 12 billion **IMF-supported reform programme**. The programme was completed in November 2019 and is widely seen as having successfully contributed to the economy's recovery, as growth has strengthened, inflation and unemployment have fallen, and fiscal and current account deficits have narrowed.

Growth reached 5.6% in 2019 (with an increase from 5.3% a year earlier) **which is one of the highest rates in the region.** The strong and stable growth was mainly driven by public consumption, investment, and net exports. Growth also continued to rely on the extraction and gas sectors, expanding by 9.8% and 20.2% respectively, as well as tourism that enjoyed a 32.7% increase in arrivals during the first nine months of 2019, as compared to the same period in 2018. In spite of economic diversification efforts, the **country continues to depend on the oil sector for a large part of its foreign income**. Egypt aims to become an energy-hub for the European continent, which is why in 2019 it launched EGYPS 2021 (the largest oil & gas conference and exhibition across Egypt, North Africa and the Mediterranean) to expand its energy industry by attracting investments from international oil companies.

Inflation, which had risen to near record highs against a backdrop of a political turmoil and loss in the value of the Egyptian pound, **averaged 8.9% in 2019**, from 13.8% the previous year. **The unemployment rate fell to around 8.0%** at the end of 2019, down from 8.9% a year earlier and 13.5% in 2013. Nevertheless, it is estimated that three-quarters of all employees are paid as unofficial workers and 32.5% of the population lives below the poverty line. Moreover, as the **population continues to grow at a fast pace** (+2% in 2019, with population reaching 100 million in early 2020), the participation rate has also seen a decline.

Fiscal consolidation measures, a VAT increase, and a hike in custom duties led to a gradual **reduction in the government deficit** (8.2% of GDP in FY[136] 18/19, down from 9.7% the previous year), which resulted in a primary balance surplus of 1.9% of GDP, close to the government's 2% medium-term target. The current account deficit deteriorated from 2.4% to 3.6% of GDP between FY17/18 and FY18/19 (the FY covering period from 1 June till 31 May of the respective year) due to foreign petroleum companies repatriating large profits. However, **during the first half of FY19/20, Egypt's current account deficit narrowed slightly** compared to previous year thanks to improved non-oil trade balance and a rebound in remittances.

Foreign reserves have continued to rise. Standing at USD 45.5 billion in February 2020, official gross reserves had grown by 3.3% year on year and are sufficient to cover around 7

[136] Fiscal years in Egypt cover the period from 1 June till 31 May of the following year

months of projected imports of goods and services. Prior to the IMF-supported programme, reserves were below USD 20 billion.

5.2 Trade in goods

In 2019, the **EU27 remained Egypt's main trading partner**, accounting for 25.3% of the total Egyptian trade, before China (6.6%), the United Arab Emirates (6.5%), and the United States (6.2%). Egypt is the **fourth most important trading partner of the EU in the Euromed region.** Total trade in goods between the **EU and Egypt has tripled over the period since the FTA entered into force growing by +214% in 17 years**, from €8.7 billion in 2002 (the year preceding the provisional entry into force of the Agreement) to €27.4 billion in 2019. The level of total **EU-Egypt trade in 2019, compared to 2018, increased by 6.6%**, from 25.7€ billion to 27.4€ billion. The increase of trade in the last four years (from 2015 to 2019) was 7.3%.

EU exports to Egypt tripled since the FTA: increased by 216% between 2002 and 2019, from €6.0 billion to €19.0 billion. **Between 2018 and 2019, they rose by 5.8%,** from €18.0 billion to €19.0 billion. In 2019, the EU mainly exported to Egypt goods in the sectors of: machinery and transport equipment (35%), chemicals (16%), manufactured goods (12%), mineral fuels and agricultural products (each representing 9%). The three biggest EU exporters to Egypt were Germany (19%), France (15%) and Italy (13%).

EU imports also tripled in the same period: increased by 211% between 2002 and 2019, from €2.7 billion to €8.3 billion. **Between 2018 and 2019, they augmented by 8.7%**, from €7.6 billion to €8.3 billion. In 2018, EU imports were principally in the sectors of: mineral fuels (41%), chemicals (15%), manufactured products (14%), and agricultural goods (11%). The three biggest importers of Egyptian products in the EU were: Italy (23%), Germany (16%) and Spain (10%).

An **upward trend in Egyptian exports between 2015 and 2019 (increase by 29.3%), coupled with stable imports from the EU** (only decreased by 0.1%), has resulted in a **decreasing trade imbalance between the EU and Egypt.**

5.3 Trade in agricultural products

Total trade in agri-food products between the EU27 and Egypt increased by 238% between 2002 and 2019, from €0.9 billion in 2002 to €2.9 billion in 2019. Year-on-year, EU agri-food exports considerably increased (+30%), going from €1.4 billion in 2018 to €1.9 billion in 2019. EU imports also rose significantly (+22%), from €0.8 billion in 2018 to €1 billion in 2019.

An upward trend in Egyptian exports of agricultural products between 2015 and 2019 (increase by 45%), coupled with a decrease of imports from the EU (-12%), has resulted in the **reduction of Egypt's deficit in the agricultural trade with the EU.**

In 2019, **Egypt was the EU's second biggest supplier of agri-food products among Euromed countries**. The EU imported from Egypt mainly fruit (€426 million, 41%), including citrus fruit, and vegetables (€291 million, 28%). EU agri-food exports to Egypt were dominated by wheat (€224 million, 15%), vegetables (€176 million, 12%) and sugar (€153 million, 10%).

TRQs openend by the EU to Egypt

Regarding agri-food tariff rate quotas (TRQs), Egypt's 2019 fill rate was high for a limited number of products, such as garlic (99%) or strawberries (110%) or oranges (69%), but remained nil or close to zero for the majority of products, such as cereal preparations or sugar products.

Utilisation rate of TRQs opened by the EU to Egypt						
		TRQ		Utilisation in TRQ period ending in:		
Sector	TRQ description	Quantity	Unit	2017	2018	2019
F&V	Garlic	5.219	t	89%	87%	99%
F&V	Cucumbers	3.914	t	4%	3%	3%
F&V	Oranges	36.300	t	14%	93%	69%
F&V	Strawberries	11.687	t	82%	89%	100%
Cereals	Rice, husked	23.185	t	0%	0%	0%
Cereals	Rice, semi/wholly milled	81.149	t	0%	0%	0%
Cereals	Rice, broken	92.742	t	0%	0%	0%
Sugar	Chemically pure fructose	1.000	t	0%	0%	0%
Sugar products	Other sugar confectionery, not containing cocoa, >70% of sucrose	1.611	t	1%	2%	4%
Sugar products	Sweetened cacao powder, 70% to 80% of sucrose	638	t	0%	0%	0%
Sugar products	Sweetened cacao powder, >80% of sucrose	638	t	0%	0%	0%
Sugar products	Chocolate & other preparations containing cocoa	638	t	0%	0%	0%
Preparations	Other food preparations of flour, groats, meal, starch or malt extract	1.611	t	0%	0%	0%
Preparations	Preparations with a basis of coffee, >70% of sucrose/isoglucose	1.611	t	0%	0%	0%
Preparations	Preparations with a basis of tea or mate, > 70% of sucrose/isoglucose	638	t	0%	0%	0%
Preparations	Sugar syrups, >70% of sucrose/isoglucose	638	t	0%	0%	0%
Preparations	Preparations used in drink industries, >70% of sucrose/isoglucose	1.611	t	0%	0%	1%
Sugar products	Odoriferous substancies for bevarages, >70% of sucrose/isoglucose	1.611	t	0%	0%	0%

Information on the utilisation of TRQs granted by Egypt to the EU was not readily available at the time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

Total **trade in services** between the EU27 and Egypt increased by 44% between 2014 and 2018, from € 6.7 billion to € 9.7 billion, mainly thanks to the strong performance of the tourism and transport sectors. EU exports of services to Egypt increased by 29% over the same time period, while Egypt's exports of services to the EU augmented by 52%. In 2018, the EU exported € 6.2 billion in services to Egypt, compared to € 5.2 billion in 2017 (increase of 19%), and Egypt exported € 3.6 billion in services to the EU in 2018, compared to € 3.4 billion in 2017 (increase of 6%).

As regards **Foreign Direct Investment (FDI), EU27 is the second foreign investor in Egypt accounting for ca. 21% of FDI inflows** (data for FY18/19), after UK with ca. 39%, and with the total EU investment stock amounting to €38.2 billion in 2018. EU FDI inflows remained relatively volatile between 2014 and 2018.

In 2019, the **country saw a 6 position improvement in the World Bank's Ease of Doing Business Index 2020 ranking**, reaching 114th out of 190, with a distance to frontier (DTF)[137] score of 60.1 out of 100 - an increase of 1.6 in DTF score compared to 2018. This improvement is due to the simplification and reinforcement of some business regulations, such as making starting a business easier, providing an online tax payment platform to businesses, increasing the reliability of electrcitiy supply, strenghtening the protection of minority investors, etc.

6. CONCLUSIONS

Bilateral trade has grown significantly since the entry into force of the FTA, although a mix of political and economic factors have impeded Egyptian exporters from fully benefitting from the opportunities the agreement created. The EU is therefore engaged in several trade-related assistance projects in Egypt in order to create conditions under which the FTA could deliver more significant results. In effect, in 2018 and 2019 Egypt's exports to the EU increased, resulting in a decrease of Egypt's trade deficit in trade with the EU.

Upgrading bilateral trade and investment relations remains a medium-term objective to be followed once Egypt is ready for it. Meanwhile, discussions on the implementation of the current FTA focus on trade irritants.

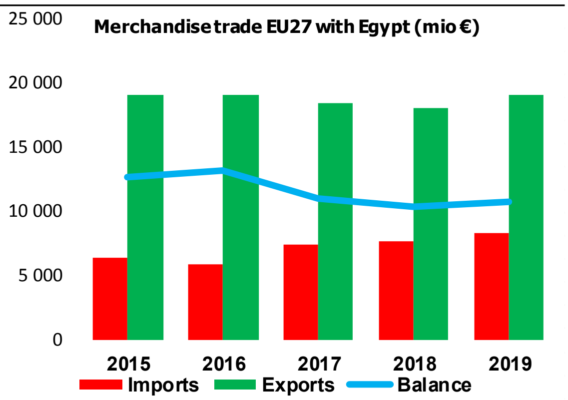
[137] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time.

7. Statistics

EGYPT

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Egypt (mio €)					
Imports	6 426	5 941	7 398	7 647	8 304
Exports	19 075	19 142	18 418	18 020	19 060
Balance	12 649	13 201	11 020	10 373	10 756
Share Egypt in EU27 trade with Extra-EU27					
Imports	0.4%	0.4%	0.4%	0.4%	0.4%
Exports	1.0%	1.0%	0.9%	0.9%	0.9%
Total (I+E)	0.7%	0.7%	0.7%	0.6%	0.7%
Share EU27 in trade Egypt with world					
Imports	30.7%	26.1%	23.5%	22.9%	22.9%
Exports	23.3%	24.0%	28.1%	29.0%	30.7%
Total (I+E)	29.0%	25.6%	24.8%	24.7%	25.3%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Egypt: IMF Dots



Total merchandise trade EU27 with Egypt (mio €)

Egypt	2018	2019	Growth mio €	Growth annual %
Imports	7 647	8 304	657	8.6%
Exports	18 020	19 060	1 040	5.8%
Balance	10 373	10 756	383	
Total trade	25 667	27 363	1 697	6.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Egypt (mio €)

Egypt	2018	2019	Growth mio €	Growth annual %
Imports	861	1 055	193	22.4%
Exports	1 442	1 879	436	30.2%
Balance	581	824	243	
Total trade	2 304	2 933	629	27.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Egypt (mio €)

Egypt	2018	2019	Growth mio €	Growth annual %
EU27 imports	6 786	7 249	464	6.8%
EU27 exports	16 577	17 181	604	3.6%
Balance	9 792	9 932	140	
Total trade	23 363	24 430	1 067	4.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Egypt (mio €)

Egypt	2017	2018	Growth mio €	Growth annual %
Imports	5 168	6 152	983	19.0%
Exports	3 413	3 572	159	4.7%
Balance	-1 755	-2 579	-824	
Total trade	8 581	9 724	1 142	13.3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Egypt (mio €)

	2014	2015	2016	2017	2018
Imports	4 054	4 510	4 170	5 168	6 152
Exports	2 726	4 238	3 519	3 413	3 572
Balance	-1 328	-272	-651	-1 755	-2 579
Total trade	6 780	8 748	7 688	8 581	9 724

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Egypt (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		219	855	924	1 116
Outward	41 933				38 171
FDI Flows					
Inward		451	5	12	63
Outward	867	-1 724	3 334	2 508	-477

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-ISRAEL ASSOCIATION AGREEMENT

1. INTRODUCTION

The EU and Israel relations are governed by an **Association Agreement** (hereafter named "Agreement" or "AA") that has been provisionally applied since 1996 and fully entered into force in 2000. The terms of the Agreement provided for full elimination of customs duties applicable to industrial products and partial one for agricultural products creating a **Free Trade Area (FTA).** The EU and Israel had already signed an FTA in 1970, subsequently extended in 1975, eliminating duties on industrial products and over 80% of agricultural tariff lines.[138] The AA improved the provisions on rules of origin and included a series of further reciprocal agricultural concessions (selected arrangements on agri-food trade). However the FTA is still "old generation" as it does not include commitments on services and investments, regulatory convergence or modern trade rules.

The EU and Israel subsequently **upgraded the free trade area by signing an agreement in 2008, which amended the AA and thus further liberalised trade in agricultural products, notably in processed agricultural products and fish and fishery products**, in force since 2010. This amendment further increased reciprocal market access on agro-food products and is based on the "negative list approach" (i.e. all agro-food trade is liberalised on both sides apart from a limited number of sensitive lines on either side). For the sensitive agricultural products such as fruit and vegetables, sugar, etc., market access on both sides is provided in the form of duty free quotas. Moreover, the EU maintains its entry price system, but with ad valorem duty component set at 0%.

Discussions for a **Dispute settlement protocol** under the FTA took place in December 2016 on the occasion of the EU-Israel trade-subcommittee, but have not been finalised.

Israel is a member of the **Regional Convention on Pan-Euro-Mediterranean preferential rules of origin** (PEM Convention) which it signed in 2013 and notified the EU its ratification and entry into force in 2014.

The EU and Israel signed in 1999 a **"Good Laboratory Practice" (GLP) agreement**, ensuring the high quality, validity and reliability of health and environmental data generated during the testing of cosmetics, industrial chemicals, pharmaceuticals, food additives, animal feed additives, pesticides by means of mutual recognition of OECD principles of good laboratory practice (GLP) and compliance monitoring programmes. The EU and Israel also have **an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA) on pharmaceuticals**, in force since January 2013, which facilitates trade on both sides, as it recognises each partner's certification of conformity of pharmaceutical products without the need for re-testing at import.

In June 2013, the EU and Israel signed an **EU-Israeli Aviation Agreement** (called Open Sky Agreement), opened up the air transport market , after a five-year implementation period which ended in March 2018. The Agreement, which has entered into force in August 2020, allows all EU airlines to operate direct flights to Israel from anywhere in the EU and Israeli

[138] https://ec.europa.eu/commission/presscorner/detail/en/MEMO_93_38

carriers to operate flights to all airports throughout the EU. The EU-Israeli air transport market has been opened gradually and, as of spring 2018, the market is now fully open with no restrictions on the number of flights. On 26 June 2020, the Council adopted a decision authorising the conclusion of the Agreement.

2. Main open implementation issues, progress and follow-up actions

No significant roll back of commitments in the Agreement has been recorded; however there are a **number of persistent trade irritants**. These include the discriminatory treatment of EU Member States, who have joined since 2004 and of Luxembourg, with particular reference to restrictions on import authorization of medical devices, the lack of data protection on biological medicines and the rigid regime of kosher certification of meat as well as restrictions to the import of live animals from certain Member States. Israel continues imposing local content requirements in government procurement contracts, in particular in the transport sector. In line with its commitments under the Government Procurement Agreement in the WTO, as of 2020 Israel will need to start phasing out from the exceptions regarding local content. A number of official and technical meetings have taken place to look into these issues.

On trade defence policy, an anti-dumping (AD) investigation on imports of cement from Greece took longer than the WTO ceiling of 18 months. The EU has drawn Israel's attention to this issue and asked that no duty would be imposed, however Israel imposed a minimal 0.25% duty. The investigation has nevertheless been reopened, and in April 2020 a recommendation to impose an almost 30% AD duty on imports from Greece has been submitted by the investigating authorities. The EU submitted written comments on the proceedings, as well as participated in an official hearing held on 12 May.

In the context of the Conformity Assessment and Agreement (ACAA), Israel has expressed interest in **expanding the Good Manufacturing Practice annex** by adding *medicinal products derived from human blood and plasma*. The EU indicated in the Trade Sub-committee of May 2018 that a full assessment of Israel's legislation (currently in process) could take place only when the legislative process has been finalized.

Israel has also raised the possibility of an ACAA on **cosmetics**, but the EU position is that such an agreement is not the appropriate tool with regard to the cosmetic sector. Indeed, in this sector there is no third party conformity assessment procedure that would justify an ACAA or a Mutual Recognition Agreement, thus in the cosmetics sector the EU has not signed any similar agreement with any trade partner. However, Israel's recent efforts to amend its regulations on imports of cosmetics could in principle help aligning its legislation with EU regulations in this sector. This could also facilitate bilateral trade and the EU is fully engaged to support such regulatory approximation.

3. Activities of the implementation bodies

The EU-Israeli **Sub-committees on Industry, Trade and Services** met on 10 September 2019 in Brussels. A range of bilateral issues were discussed, including the state of EU-Israeli trade under the Association Agreement. Regarding trade barriers, the EU stressed the need to resolve the distinction between 'new' and 'old' Member States (pre and post-2004) for imports of medical devices, as well as the situation of the EU's request for granting IPR protection to biological pharmaceuticals and the EU's comments regarding the legislation on cosmetics in Israel. Furthermore, the EU addressed a long-standing issue of local content requirements in government contracts, in particular Israel's schedule for phasing out these provisions, in line with the country's commitment undertaken during accession to GPA. Parties also exchanged information regarding the implementation of the so-called "Technical Arrangement" on zip codes. Both parties provided an update on their ongoing bilateral and multilateral trade negotiations. Israel expressed interest in closer cooperation with the EU on a range of issues, including on cosmetics.

A meeting of the **EU-Israel sub-committee on Agriculture and Fisheries** took place in Brussels on 9 September 2019. The main SPS-related market access issues discussed in that meeting were the growing opposition in Israel to imports of live animals due to animal welfare concerns, and also the increasing problems of certain Member States to have fresh meat and its products certified for exports to Israel due to certain regulatory differences e.g. on ingredients in animal feed and the frequency of official inspections. The EU reminded Israel about its international trade commitments and about its position on the animal welfare issue. Both sides also agreed to work toward harmonised conditions for the export of meat and live animals from the EU to Israel. Finally, discussions included flexibility on kosher certification in the EU and the possibility to agree on a single EU certificate for exports of live animals, meat, table eggs and products of animal origin (flour, pet feed, fertilizers, etc.) from EU Member States to Israel. The Israeli delegation also confirmed the interest of Israel to initiate negotiations on a bilateral agreement on organics.

The EU-Israel **Customs Cooperation and Taxation** Sub-committee took place on 19 June 2019 in Jerusalem. Both Parties discussed methods for enhancing bilateral customs cooperation in the framework of the Association Agreement. The need to maintaining contacts for promoting items of mutual interest and to strengthening cooperation in customs and taxation matters was stressed such as the IPR border enforcement, the Authorized Economic Operators, the mutual administrative assistance. The review of the regional Convention on pan euro-Mediterranean rules of origin and the possible early application of the revised rules on a bilateral basis were also discussed.

4. SPECIFIC AREAS OF IMPORTANCE

Regulatory cooperation - In the context of the Israeli government's intention to fight the high cost of living and enhance competitiveness on the market, the EU is supporting Israel's ongoing market reforms by sharing its best practices on issues such as food safety, standards, import procedures, conformity assessments, agricultural support policy, competition, etc. normally through TAIEX workshops, Twinning projects and study visits (among others, on Individual Vehicle Approval, Hollistic Approach for Offshore Pipeline Planning, Market Surveillance in Energy Products and Assessment of Advanced Therapies in Medicinal Products Aplications). In November 2019 the EU organised a study visit for Israeli officials from the food health and security authority to the Italian food safety agency (Rome) the EU food safety agency (Parma) and the European Commission (DG SANTE and DG TRADE). The purpose of the visit was to share the EU framework and exchange best practices, with a view to also facilitate trade.

Government procurement – as mentioned above (see point 3), there is an ongoing discussion between the EU, the European Investment Bank and the Israeli government regarding local content requirements in government contracts. In line with the EIB Guide to Procurement, projects with local content requirements are not eligible for funding. In order to avoid allegations of breach of the EIB Guide to Procurement, Israeli authorities often rebrand local content requirements as “industrial cooperation”. The position of both the EU and the EIB on this matter is clear and well known to Israel.

Settlement products – in its judgment of 12 November 2019 the European Court of Justice[139] ruled that as said in the Commission's interpretative notice of 2015, foodstuffs originating in territories occupied by the State of Israel must bear the indication of their territory of origin, accompanied, where those foodstuffs come from a locality or a group of localities constituting an Israeli settlement within that territory, by the indication of that provenance. The control and enforcement of the correct implementation of EU rules regarding indication of origin is the task of the Member States.

Investment - In 2019 the Commission started preparations on launching a project under the Partnership Instrument aimed at strengthening EU investment in Israel in three sectors: start-ups, clean tech and agri food.

Dispute settlement - Discussions between the EU and Israel on a Dispute Settlement Agreement under the Association Agreement are still to be resumed.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

The Israeli economy has recorded one of the best performances of OECD countries in the last 15 years, with is GDP growth averaging 3.7% mainly due to the increase in the working age population and the participation rate. After achieving 3.4% of GDP in 2018, growth increased slightly to **3.5% of GDP in 2019**, despite the global slowdown dampening exports and political instability eroding consumer and business confidence. Private consumption continued to support growth by means of a low inflation rate, a favourable employment conditions, an accommodative monetary policy, and an expansionary fiscal policy.

Inflation increased by 0.6% in 2019, compared to 0.8% in the year before, and remained below the lower bound of the central bank’s target range (1 to 3%) for the sixth consecutive year. Yet, the **price level in Israel remains much higher than in other developed economies**. In 2019, the price level was roughly 19% above the OECD average in 2019, with imported products being particularly costly. Israel has one of the highest living standards in the region, with average salaries similar to EU countries. The **shekel continued its long-term strengthening in 2019**, appreciating by 6.3% against the EUR and 0.9% against the USD. This trend is generally explained by several factors, such as the strong high-tech exports and sound fiscal situation and economic fundamentals.

The **unemployment rate decreased further to an average of 3.8% in 2019**, compared to 4% in 2018. However, important **challenges remain with respect to the labour market participation of some parts of the society**, especially ultra-orthodox men and Arab women. For men, average labour market participation was 68% in 2019, but only 50% of ultra-orthodox men participate in the labour force. The low participation rate is typically related to

[139] Judgment in Case C-363/18 of 12 Nov. 2019.

comparatively poor education levels and generous state pay-outs. For women, average labour market participation was 60% in 2019, but only 38% for Arab women.

Israel has a **diversified and technologically advanced economy**. **In 2019, Israel started exporting gas to neighbouring countries**, Jordan and Egypt. Furthermore, it signed a deal with Greece and Cyprus to build an **undersea pipeline *EastMed* to carry gas from new offshore deposits to Europe.** The energy deals are considered milestones for Israel, not only for economic reasons, but also for political considerations. The exploitation of these gas fields has wide political implications for Israel and its relations with its neighbours, as now it is exporting gas to Jordan and Egypt.

5.2 Trade in goods

In 2019 the **EU was Israel's first trading partner**, representing 27.5% of Israeli trade, followed by the US (21%) and China (8.4%). Israel is the EU's 27th largest trading partner (representing 0.8% of the EU's total trade) and the 3rd largest in the Euro-Mediterranean region, behind Algeria and Morocco. The **EU was the largest exporter to Israel,** holding a 42% market share, ahead of the US (16%) and Switzerland (10.6%). The **EU was Israel's second export market in 2019**, receiving 21% of Israeli exports, preceded by the USA with 28%.

Since the Association Agreement came into force, the value of imports and exports between the EU and Israel has been increasing in both directions. In 2002, the first year in which data is available, the value of trade in goods was €19.5 billion and in 2019 it was €33.1 billion, thus representing an increase by 70%. In the same period, the **EU's trade surplus has almost doubled** from €3.8 billion in 2002 to €7.1 billion in 2019.

The value of EU exports to Israel has risen by over 70% from €11.7 billion in 2002 to €20.1 billion in 2019. Though, **EU exports between 2018 and 2019 contracted** going from €20.7 billion in 2018 to €20.1 billion in 2019. Nevertheless, with the exception of 2009 (financial crash), EU exports to Israel have shown a fairly consistent growth. In 2019, the most important export items by value were machinery and appliances (25%), transport equipment (16%), and chemical products (15.6%).

The value of EU imports from Israel has risen from €7.8 billion in 2002 to €13 billion in 2019, representing almost 70% rise. Nevertheless, **EU imports between 2018 and 2019 decreased** from €13.6 billion to €13 billion. In 2019 the most important groups for import by value were chemicals (40%), machinery and appliances (17.5%) and plastics (7%).

5.3 Trade in agricultural products

Total trade in agri-food products between the EU and Israel has almost doubled between 2002 and 2018, from €1.3 billion in 2002 to €2.8 billion in 2019. **EU agri-food exports increased by 9.2%** from €0 billion in 2018 to €2 billion **in 2019**. Over the same time period, EU imports increased by 9.7% from €0.75 billion to €0.83 billion. In 2019, Israel was the EU's second most important destination for exports of agri-food products in the region and the EU's third largest supplier of agri-food products in the region. Among the EU's agricultural imports from Israel 53% were fruit, vegetables and nuts, including citrus fruit while the EU mainly exported beverages, spirits and vinegar (11%), preparations of cereals, flour and starch (11%), followed by live animals (9%).

TRQs openend by the EU to Israel

Regarding agricultural Tariff Rate Quotas (TRQ), Israel's 2019 fill rate was 100% for some products (new potatoes or wine). Other products with a relatively higher share of used quota were sweet peppers (83%), and starches (63%). Fill rates were below 5% for other products, including fresh oranges, tomatoes or chewing gum (sugar products).

Utilisation rate of TRQs opened by the EU to Israel						
Sector	TRQ description	TRQ Quantity	Unit	Utilisation in TRQ period ending in: 2017	2018	2019
Poultry	Turkeys (< 185 g, live)	129.920	Number of items	5%	0%	0%
Poultry	Turkey cuts, frozen	4.000	t	0%	0%	13%
Poultry	Ducks	560	t	0%	0%	0%
Dairy	Whey	1.300	t	2%	18%	6%
Flowers	Cut flowers	22.196	t	23%	20%	15%
Flowers	Cut flowers (Lilies & Other)	7.840	t	32%	34%	47%
F&V	New potatoes	33.936	t	100%	100%	100%
F&V	Cherry tomatoes	28.000	t	0%	0%	0%
F&V	Tomatoes, other than cherry	5.000	t	20%	11%	2%
F&V	Cucumbers	1.000	t	18%	19%	8%
F&V	Sweet peppers	17.248	t	100%	100%	83%
F&V	Sweetcorn, frozen	10.600	t	0%	0%	0%
F&V	Sweetcorn, provisionally preserved	5.400	t	0%	0%	0%
F&V	Dried tomatoes	1.200	t	20%	24%	22%
F&V	Oranges	224.000	t	1%	1%	1%
F&V	Clementines, mandarins & wilkings	40.000	t	100%	100%	100%
F&V	Clementines, mandarins & wilkings	15.680	t	100%	35%	100%
F&V	Melons	30.000	t	2%	1%	0%
F&V	Strawberries	5.000	t	0%	0%	0%
Poultry	Turkey, prepared /preserved, offal or blood	5.000	t	18%	17%	17%
Poultry	Chicken, prepared	2.000	t	30%	25%	26%
Sugar products	Chewing gum, >60 % of sucrose	100	t	2%	4%	3%
Sugar products	Cocoa powder; Other preparations containing cocoa	2.500	t	0%	0%	0%
Preparations	Gingerbread & the like, >30 %of sucrose	3.200	t	0%	0%	0%
F&V	Tomatoes, prepared or preserved, min. dry matter 30%	784	t	2%	6%	15%
F&V	Slices of peaches, fried in oil	112	t	0%	0%	0%
F&V	Orange juice, ≤2L	21.280	t	1%	0%	0%
F&V	Orange juice, >2L	35.000	t	17%	21%	16%
F&V	Mixtures of citrus juices	19.656	t	1%	0%	0%
Wine	Wine & grape must	6.212	hl	100%	100%	100%
Starches	Glues	250	t	100%	48%	63%

TRQs opened by Israel to the EU

EU quotas were fully used in 2019 for a number of products including pears ad honey and next to fully used for apples, garlic and onions. Lower use could be observed for mushrooms (21%) and prunes (18%). More than 140 million eggs were imported from the EU to Israel within non-mandatory WTO TRQs.

Description	Tones	Allocation Method	Allocation of Quata (Tones)	of Quota %	Import (Tones)	of Quota %
Garlic	230	F.C.F.S	230	100%	220,5	96%
Apples	3.280	Initial Allocation	3.280	100%	3.259	99%
Pears	2.140	Initial Allocation	2140	100%	2139	100%
Quinces	380	F.C.F.S	380	100%	343	90%
Onion	2.300	Initial Allocation	2300	100%	2245	98%
Honey (Under (Kg 1.5	180	F.C.F.S	180	100%	178	99%
Honey (Over (Kg 50	300	According to market share	300	100%	300	100%
Raisins	120	F.C.F.S	120	100%	80	67%
Eggs	8.000.000	According to market share	8000000	100%	6900000	86%
Potatoes	6.380	To industry according to production volume	6.380	100%	5.810	91%
Prune	730	F.C.F.S	200	27%	132	18%
Pet food	1.610	F.C.F.S	1.610	100%	1.139	71%
'Dogs and cats food	1.150	F.C.F.S	1150	100%	1132	98%
Mushrooms	200	F.C.F.S	200	100%	41	21%
Hatching eggs	50.000	F.C.F.S	50000	100%	0	0%

5.4 Trade in services and Foreign Direct Investments

In **2018 trade in services between the EU and Israel was worth €12.2 billion**. Between 2010 and 2018, there has been an overall increase in the value of services imported from Israel from €3.2 billion to €5.2 billion. Over the same period there has been an increase in EU exports of services to Israel from €3.8 billion to €7 billion.

On FDI flows there is no consistent image on volume or partner country. Figures show fluctuations every year and no trend can be identified. **EU FDI in both stocks and flows both in and out of Israel have grown continuously since 2001.** Between 2017 and 2018 inward stocks increased from €49 bilion to €69 billion while outward stocks remained at the stable level and noted only a small increase from €27 billion in 2017 to €28 billion in 2018.

According to data from the Israeli Central Bureau of Statistics in 2018, FDI in Israel were led, the U.S. (31.5%) and the Europe (not just EU but also including Switzerland etc) (22.8%). The biggest EU investor in Israel is the Netherlands.

Although both outward and inward FDI stocks have been growing relative to GDP since 2008, inward FDI stocks have been growing faster so that FDI is inward orientated. In 2015, Israel's share of the OECD total inward FDI stock (0.64%) was slightly higher its share of GDP (0.57%), but its share in outward stock was 0.46% of the OECD total, lower than its share of GDP.140

According to The **World Bank Doing Business** Index 2020 which ranks 190 countries, Israel, an OECD member, was ranked **35th in the world (up from the 49th position of 2018)** with a distance to frontrier (DTF)[141] score of 76.7 out of 100 – **an improvement from the value of 2018** (73.23).

6. CONCLUSIONS

Overall the value of trade between the EU and Israel has increased during the period of implementation of the Agreement and this is true in both directions. Goods continue to account for the majority of trade, although the relevance of exchanges in services is growing. The stock of foreign investments is noteworthy and increasing.

Both sides are trying to deepen bilateral relations through a continuous dialogue in many areas, such as in the regulatory field, where Israel considers the EU as an international reference. Israel has expressed some limited interest in using the Agreement's review clause on services. The EU and Israel also continue cooperating in plurilateral and multilateral trade talks.

The EU will continue supporting Israel's ongoing market reforms and will continue in 2020 working with Israel on cosmetics, medical devices, food and other areas, advocating for rules that are aligned with international and, where possible, EU standards.

[140] http://www.oecd.org/investment/ISRAEL-trade-investment-statistical-country-note.pdf

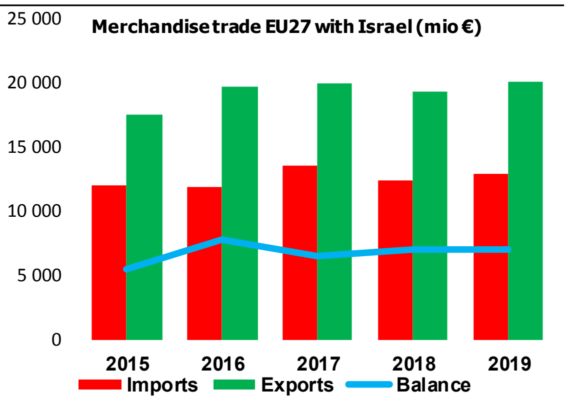
[141] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time. The higher the score, the better.

7 STATISTICS

ISRAEL

Merchandise trade EU27 2015-2019					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Israel (mio €)					
Imports	12 100	11 986	13 571	12 404	12 992
Exports	17 621	19 797	20 055	19 424	20 101
Balance	5 521	7 811	6 484	7 020	7 109
Share Israel in EU27 trade with Extra-EU27					
Imports	0.7%	0.7%	0.8%	0.7%	0.7%
Exports	0.9%	1.1%	1.0%	0.9%	0.9%
Total (I+E)	0.8%	0.9%	0.9%	0.8%	0.8%
Share EU27 in trade Israel with world					
Imports	32.7%	35.6%	35.0%	33.2%	32.2%
Exports	18.3%	19.6%	21.5%	21.2%	21.1%
Total (I+E)	25.3%	28.0%	28.7%	27.9%	27.5%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Israel: IMF Dots



Total merchandise trade EU27 with Israel (mio €)

Israel	2018	2019	Growth mio €	Growth annual %
Imports	12 404	12 992	587	4.7%
Exports	19 424	20 101	677	3.5%
Balance	7 020	7 109	89	
Total trade	31 829	33 092	1 264	4.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Israel (mio €)

Israel	2018	2019	Growth mio €	Growth annual %
Imports	756	830	74	9.7%
Exports	1 844	2 014	170	9.2%
Balance	1 088	1 184	96	
Total trade	2 600	2 844	243	9.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Israel (mio €)

Israel	2018	2019	Growth mio €	Growth annual %
EU27 imports	11 648	12 161	514	4.4%
EU27 exports	17 580	18 087	507	2.9%
Balance	5 932	5 926	-7	
Total trade	29 228	30 249	1 020	3.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Israel (mio €)

Israel	2017	2018	Growth mio €	Growth annual %
Imports	4 878	5 244	367	7.5%
Exports	6 142	6 950	808	13.1%
Balance	1 264	1 705	441	
Total trade	11 020	12 194	1 174	10.7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Israel (mio €)

	2014	2015	2016	2017	2018
Imports	3 442	3 902	4 444	4 878	5 244
Exports	4 050	5 799	5 651	6 142	6 950
Balance	607	1 897	1 207	1 264	1 705
Total trade	7 492	9 701	10 095	11 020	12 194

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Israel (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	40 294		44 863	49 189	69 086
Outward	15 407	16 776		27 125	28 028
FDI Flows					
Inward		2 361	13 890	597	-609
Outward	1 724	1 181	920	1 964	2 141

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-JORDAN ASSOCIATION AGREEMENT

1. INTRODUCTION

The **Association Agreement** (AA) creating a **free trade area** (FTA) between the EU and Jordan (hereinafter referred to as 'the Agreement') was signed on 24 November 1997 and entered into force on 1 May 2002. It **liberalised two-way trade in goods**, with asymmetrical transition periods in favour of Jordan. This allowed Jordan to phase in tariff reductions over a 12 year period. Tariff dismantling has now been **completed.**

The EU and Jordan upgraded the Agreement in 2006 concluding an **additional Agreement on trade in agricultural and processed agricultural products**. Today all Jordanian agricultural products can enter the EU duty free with the exception of virgin olive oil and cut flowers, which are under tariff rate quotas (TRQs), while agricultural liberalisation on the Jordanian side is substantial, but not complete.

A Protocol establishing a bilateral **Dispute Settlement Mechanism was added** to the Agreement in 2011.

Jordan is a member of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention), which it signed in 2011 and notified the EU of its ratification in 2013. The EU and Jordan also agreed to a specific iniative in July 2016, later modifie din December 2018, granting **Jordanian further rules of origin flexibiltities linked to employent of syrian refugees.**

In 2011 the Council of the European Union adopted **negotiating directives** to further enhance the trade relationship through a **Deep and Comprehensive Free Trade Area (DCFTA)** with Jordan, but Jordan has shown limited interest so far.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

In general there are relatively a low number of trade barriers by Jordan vis-à-vis the EU, however **in 2019 the country has enacted some new trade restrictive measures**. The latter translates into ad-hoc, unpredictable and unjustified quantitative and time restrictions for imports of some agro-food products (oils, fruits and vegetables, dairy). The barriers are not technical regulations or sanitary and phytosanitary requirements but punctual administrative decisions without consumer saftery or legal foundation. Discussions on these between the EU side and the relevant authorities are ongoing.

In 2019, Jordan informed the WTO of the launch of an investigation and possible import restrictions on potato chips. The investigation is based on a petition filed by the domestic industry, in which it alleged that the increase of imports had caused serious injury to the domestic industry producing like and directly competitive products. The outcome of the investigation is still outsnading.

Furthermore, there are a **number of structural issues on the side of Jordan, which prevent the country from taking full advantage of the Agreement**, such as a lack of clear trade and development policies and administrative weaknesses. There is a lack of interest from the Jordanian private sector, which still prefers to focus on neighbouring markets as the EU is seen as a highly competitive and demanding market with high regulatory requirements. In addition, production costs in Jordan are high due to water shortages, high electricity prices, certification and transportation costs, which tend to reduce the international competitiveness of goods made in Jordan.

Most significantly, the **protracted Syrian crisis** has had serious consequences for the Jordanian economy and its trade. The closure of traditional trade routes resulted in significant losses and downscaling of production for the export market, which in turn has made it more difficult for the country to take full advantage of the FTA. The presence of over 650,000 Syrian refugees in Jordan has compounded existing economic grievances. In order to address the problems caused by the Syrian crisis, the EU provided Jordan with a package of support, including the simplification of the Rules of Origin applicable to Jordanian exports to the EU and trade related assistace programs (See section 4).

Trade policy featured prominently in both the government's Renaissance ("Nahda" in Arabic) Plan (which translates the government's priorities for 2019-2020 about enhancing productivity, the state of law and solidarity) and in the five-year growth plan presented during the London Conference of February 2019 (a major international donor conference organised by the governments of Jordan and the United Kingdom to support investment, growth and jobs for Jordan). The government identified trade as one of the engines for growth, with the aim to grow exports by 5% annually and reduce imports by 15% by the end of 2020. In the coming 3 years the government plans to work towards the following objectives: i) providing technical assistance and financial incentives for companies that export utilising Jordanian workers; ii) establishing a company that is concerned with export promotion; iii) rehabilitating border crossings with Syria, Iraq and Palestine[142]; establishing a Jordanian–Iraqi joint free zone close to both borders; and iv) expanding the scope of insurance coverage for Jordanian exporters within the export credit guarantee program to reach 100 million Dinars annually by the end of 2020. The government is also requesting support in its efforts to reform the national quality infrastructure and attract FDI.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

There were no sub-committee meetings in 2019. The latest committee meeting took place in 2017 and were reported in the 2018 Staff Working Document (SWD (2018)454 Final) attached to the 2018 Report on the implementation of Free Trade Agreements.

4. SPECIFIC AREAS OF IMPORTANCE

In order to address the problems caused by the Syrian crisis, the EU provided Jordan with a package of support, including the simplification of the Rules of Origin (RoO) applicable to Jordanian exports to the EU and trade support programs. The initiative to simplify Rules of Origin was agreed in July 2016 and, based on Jordan’s request for additional flexibility,

[142] This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

further reviewed in December 2018. Under the initiative, Jordanian exporters to the EU can now benefit from the same rules of origin for manufactured products as those applied by the EU for the Least Developed Countries, provided that certain conditions are met. These rules are simpler than those that would otherwise apply under the Agreement. The simplification applies to 52 product groups. To qualify to use the simpler rules, production must take place in the territory of Jordan and Syrian refugees must also account for no less than 15% of a manufacturer’s workforce. The parties have also foreseen a possibility to extend the scheme to all companies operating in Jordan (without the 15% requirement as above) once Jordan reaches a target of 60,000 legal and active jobs for Syrian refugees. The scheme will apply until 2030. The government of Jordan has also agreed to put in place specific monitoring procedures to ensure companies who benefit comply with all the requirements of the scheme. Monitoring and capacity building for the Ministry of Labour is being carried out by the International Labour Organisation (ILO) through a specific EU funded programme. There is interest on both sides to further incentivise economic operators to use the simplified RoO scheme. It has been expanded in scope and duration during 2019 and has seen increases in the number of firms and volume of exports, though these remain small in the context of overall trade. Employment overall in factories eligible for the scheme rose by 13% in 2019 over 2018 to 1,150, and employment of Syrians rose 26% to 355. One major challenge is the difficulty in advocating for employers to hire more Syrian workers on their production lines, when the benefits of the scheme are not fully visible. Exports under the scheme increased threefold in 2019 to €56.4 million (more than double of the trade figures of 2018), which is a significant achievement, and reflects the extended time periods required for initiatives such as this to have an impact.

However, the simplified Rules of Origin scheme has not yet translated into further investments in the sectors benefiting from the new scheme except for the textile and garment industry that benefits from an estalished infrastructure and networks under the US-Jordan FTA.

On trade-related assistance, the EU continued to provide direct and indirect assistance. The EU is also providing one million euros to the Jordan Standards and Metrology Organisation for capacity-building for accreditation and market surveillance. Progress is being made in 2019 on regulatory approximation in preparation of the possible launch of an Agreement on Conformity Assessment and Acceptance (ACAA). In this sense, the Jordan Standard and Metrology Organisation (JSMO) has received support for further alignment of the Jordan legislation on product safety and market surveillance to the legislative framework of the EU, enhancement of the testing capacities of the JSMO laboratories (in concrete for banned and restricted chemical substances, the testing of gas appliances and electrical appliances), and the extension of the accreditation scope in new defined areas. The market surveillance competencies have been strengthened by training of the market surveillance inspectors in rules and procedures of the European market surveillance system (same product groups as mentioned above).

In addition, to support the government's objectives, the EU has signed a programme with the International Finance Cooperation/World Bank Group for technical assistance which is aimed at contributing to the overall improvement of the National Quality Infrastructure in Jordan, including the development of the National Quality Policy (NQP) and related regulations, especifically for agrofood and pharmaceuticals products.

Trade-related assistance projects to improve the trade and investment climate also include a €65 million Private Sector Development programme comprising a budget support component, technical assistance to the Government and company-level assistance for the private sector. There is a further project to support entrepreneurship in the north of Jordan, the region most strongly affected by the influx of refugees. It aims at stimulating innovation, increasing the competitiveness of Jordanian exports and supporting the Rules of Origin initiative.

In addition, 2016, Jordan agreed with the International Monetary Fund on a three-year programme foreseeing long-delayed structural reforms. The latter was reviewed and renogiated at the end of 2019. Additionally, Jordan continued to benefit from Macro-Financial Assistance (MFA II) operation from the EU aimed at strengthening its foreign exchange reserve position and meeting its balance of payments and budgetary financing needs. The country requested additional **MFA which was adopted by the European Commission in September 2019 and endorsed by the Council in December to provide up to €500 million**.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Jordan's GDP grew by 2% in 2019, the **economy remaining stable and inflation low.** Macroeconomic and financial stability has been maintained and headline inflation has remained broadly contained, decreasing to 0.6% in 2019 from 3.5% in 2018.

Low private and public investment, high unemployment, and high public debt remain critical challenges. While buoyant tourism and exports gave some impetus to economic activity in 2019, **the improvement in the business climate has not yet translated into higher domestic or foreign investment**. In fact, gross capital formation has declined considerably in the last 10 years. Per capita income has continued to decline due to rapid population growth and was in 2019 about 10 percent below its 2010 level. Economic growth was insufficient to alleviate pressures on the domestic labor market. As a result, unemployment continued to rise, reaching 19.1% in 2019 compared to 18.6% in 2018. Weak fiscal performance, together with lackluster economic growth, resulted in elevated public debt-to-GDP levels, with central government debt reaching 99.1% of GDP in 2019.

External imbalances have improved significantly. The current account deficit has narrowed markedly since 2017, due to a strong recovery in exports and tourism and to lower imports. Exports have been supported by favourable trends in world prices of potash and phosphates and preferential access to the U.S. and EU markets. Data from the Ministry of Finance shows that in the first three quarters of 2019, **the current account deficit narrowed to 3.4% of GDP** from 9.3% of GDP in the same period in 2018, driven largely by the favourable development of the goods trade balance thus, achieving a comfortable international reserves.

The **financial sector is sound**, due to the banking system remaining well capitalized, liquid, and profitable. Private sector credit grew by about 5% in 2019, compared with around 10 percent during 2016–17, but SME access to credit continues increasing. The non-performing loan ratio is also relatively low, around 5.2% (although up from 4.2% in 2018).

In 2019, even with fiscal consolidation policies, **the government general budget deficit (including grants) widened to 3.4% of GDP** in 2019 from 2.4% of GDP in 2018 due to a 1.1% decrease in total revenues (including grants) together with a 2.9% increase in total expenditure. Although, tax revenues outweighed the decline in non-tax revenues and in taxes on financial transaction, the marginal increase in domestic revenues was offset by a 11.9% fall in foreign grants in 2019, compared to 2018. External debt remains vulnerable to current account and real exchange rate shocks. Despite efforts, **fiscal consolidation proved difficult** to maintain. Yields from efforts to broaden the tax base and mobilize revenues, particularly from the removal of sales tax exemptions, fell short of expectations, reflecting marked weaknesses in tax administration, tax arbitrage opportunities from special economic zones, and delays in implementation. Significant wage and pension increase for public sector workers, agreed in 2019 and reflected in the 2020 budget, will add to expenditure pressures.

5.2 Trade in goods

In 2019, the EU remains **Jordan's fourth main trading partner**, accounting for 14.2% of the total trade in goods, after Saudi Arabia (14.3%) and before the United States (13.4%) and China (12.2%). In 2002, the year the Association Agreement entered into force, the value of trade in goods was €2.3 billion and by 2019 it reached € 3,7 billion, hence an increase by almost 65% over this period. **Total trade in goods between the EU and Jordan increased by 5% from € 3.5 billion in 2018 to € 3,7 billion in 2019.**

The **value of EU exports to Jordan almost doubled between 2002 and 2019**, from € 1,7 billion in 2002 to € 3.4 billion in 2019. After contracting in 2018 (-11.2%), **EU exports have picked up again in 2019** by 4,4% compared to previous year. EU exported mainly machinery and appliances (20%), products of the chemical or allied industries (16%), transport equipment (14.3%) and foodstuffs, beverages, tobacco (8.5%) without major changes compared to 2018. Three main EU MS exporters to Jordan are Germany (22%), Italy (15%) and The Netherlands (11%), representing all together 48% of EU exports. The EU is the first source of Jordanian imports (18%), followed by China and Saudi Arabia (15.6% each) and the USA (8.5%).

Overall, **since 2002, the value of EU imports from Jordan has risen by 76%**. Over the last five years, imports from Jordan have experienced ups & downs with an average value of € 272 million. **Year-to-year, imports have increased by 17% from 2018 reaching a total amount of € 287 million in 2019.** The three main importing EU Member States are the Netherlands (15.5%), Spain (15%) and Italy (13.8%). The main categories of imported products are products of the chemical or allied industries (41%), textiles and textile articles (16%) and base metals and articles thereof (9.6%). The EU is the seventh destination for Jordanian exports (3%), significantly after the USA (27%), Saudi Arabia (11%) and India (10.4%).

There is a substantial trade deficit between Jordan and the EU with an average of €3.2 billion over the last five years. Jordan's trade balance with all its partners was negative in 2019, except with the USA. Its global trade deficit amounted to €10,7 billion. The EU' share of the trade deficit was 28%, while China and Saudi Arabia followed with 24% and 19% respectively.

5.3 Trade in agricultural products

Total **trade in agri-food products between the EU and Jordan continued its downward trend to reach € 722 million in 2019** which represents a decrease by 11.7% from 2016. Between 2018 and 2019, **EU agri-food exports decreased by 4%.** Over the same period, EU agri-food imports increased by 16%. In 2019, the EU mainly exported wheat, live animals, preparations of vegetables, fruit or nuts and infant food and other cereals, flour, starch or milk preparations. The EU's main agri-food imports included vegetables, fresh, chilled and dried, tobacco & tobacco products.

5.4 Trade in services and Foreign Direct Investments

Total **trade in services** between the EU27 and Jordan stagnated between 2014 and 2018, from € 1.34 billion to € 1.35 billion. EU exports of services to Jordan decreased by 7% over the same time period, while Jordan's exports of services to the EU augmented by 12%. In 2018, the EU exported € 753 million in services to Jordan, compared to € 769 million in 2017 (decrease by 2%), and Jordan exported € 600 million in services to the EU in 2018, compared to € 507 million in 2017 (increase of 18%).

The total EU direct investment stock amounting to € 2.9 billion in 2018 with France and Spain as major EU investors in terms of number of projects. EU direct investment inflows remained relatively volatile between 2014 and 2018. Overall, Foreign Direct Investments (FDI) have declined since the 2008 global economic crisis, followed by geopolitical instability, and have since remained stable. According to data from UNCTAD, FDI inflows totalled to USD 950 million in 2018, showing a decrease compared to the previous year (US$ 2.0 billion). Estimated at US$ 35 billion, the total stock of FDI represents 82.9% of the country's GDP (UNCTAD's 2019 World Investment Report).

Jordan authorities continue focusing on attracting investments to boost the economy and stimulate job creation. Investments so far are mainly concentrated in the field of real estate (residential and commercial), financial services and large tourism projects. In order to boost FDI flows, the **Government has planned large-scale infrastructure projects** (water, transportation, nuclear energy) for which it needs foreign and private funds. A project linking the Dead Sea to the Red Sea was expected to start in 2018, but was postponed as Jordan could not reach an agreement with Israel on how to construct the canal. The project faced further delays in 2019 as Israel-Jordan relations soured over Palestine. **Jordan is also seeking to become a regional logistics hub,** notably for electric and transport networks.

The authorities have also taken some important steps to improve Jordan's business climate. Key measures include: passing amendments to the insolvency, inspections, and secured lending laws; revamping the PIM/PPP[143] framework; launching a private credit bureau; opening previously-restricted economic activities to FDI; eliminating and merging multiple licenses; implementing electronic filing and payment for labour taxes and other mandatory contributions; and automating business registration. In 2019, the Government proposed amendments to the investment legislative framework, which included an investor

[143] Public Investment Management/Public Private Partnership

grievances by law No.163 to implement a mechanism to solving disputes at an early stage and creating an institutional mechanism for dispute management and maintaining incentives granted to investments for a period of no less than 10 years following the date of its establishment. These improvements have been reflected in recent business environment assessments, including Jordan's ranking among the top improvers in the World Bank's 2020 Doing Business Report.

According to the **World Bank 2020 "Ease of Doing Business" index** which ranks 190 countries, Jordan ranked 75th in the world for overall ease of doing business, a big improvement compared to the 2018 where it ranked 104th. Jordan scored a distance to frontier (DTF)[144] of 69.0 out of 100 – an increase of 8.02 in DTF score compared to 2018. **The country was among the top 10 improvers in 2019.** This significant jump, marking a contrast with years of decline, was mainly a result of considerable improvement with regards to the access of private firms to credit. At the same time, Jordan continues to lag behind top-performing regional peers in a number of areas, including resolving insolvency, enforcing contracts, and protecting minority investors.

6. CONCLUSIONS

Overall the **value of trade between the EU and Jordan has increased** since the Association Agreement has come into force. Goods continue to account for the majority of trade, although services and foreign investment are also present. In 2019, EU exports have experienced an increased by 5% compared to previous year while EU imports from Jordan have also increased by 17% in comparison to 2018. The EU maintains a trade surplus of EUR 3.4 billion with Jordan.

The Syria crisis has closed many traditional trade routes used by Jordan. The Decision on **relaxation of Rules of Origin**, adopted in July 2016 and revised in 2018, was designed to boost Jordanian exports to the EU and to support formal integration of Syrian refugees into the Jordanian economy though the results can only be evaluated in the medium term. Further actions are planned to raise awareness of this initiative and to promote the business opportunities it provides.

DCFTA negotiations have not yet started, however, the importance of the DCFTA to improve the resilience of the Jordanian economy was formally recognised in the Partnership Priorities[145]. On the other hand, both Jordanian public and private sector have expressed their reservations on a future DCFTA claiming that trade figures between the EU and Jordan do not support a further extension of the ongoing FTA. Jordan's Government and private sector community have shared their aspiration to see further access of Jordanian produce into the EU market before enaging in new negotiations. At the ame time, Jordan's significant progress in inproving its business climate should further EU investments and provides an opporunity to modernis ethe FTA to also include services and investments.

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144 The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time. The higher score the better.

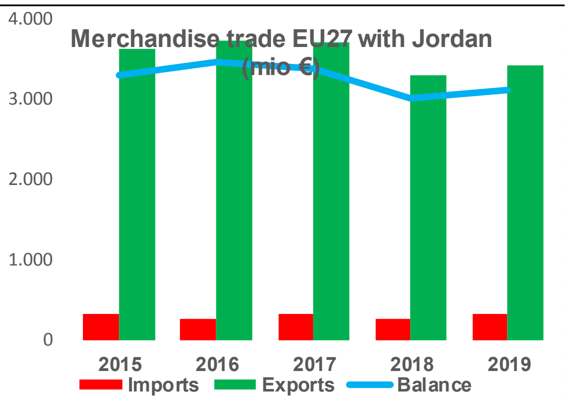
145 See http://data.consilium.europa.eu/doc/document/ST-12384-2016-ADD-1/en/pdf

7 STATISTICS

JORDAN

Merchandise trade EU27 2014-2018					
	2015	2016	2017	2018	2019
Merchandise trade EU27 with Jordan (mio €)					
Imports	319	277	324	273	321
Exports	3.630	3.740	3.711	3.294	3.436
Balance	3.311	3.464	3.388	3.021	3.115
Share Jordan in EU27 trade with Extra-EU27					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,2%	0,2%	0,2%	0,2%	0,2%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU27 in trade Jordan with world					
Imports	20,3%	23,0%	20,2%	20,4%	18,2%
Exports	2,2%	2,4%	2,4%	2,7%	3,0%
Total (I+E)	15,8%	17,9%	16,0%	16,1%	14,2%

Source Trade G2 Statistics/ISDB 18-mars-20
Trade EU27: Eurostat COMEXT; Trade Jordan: IMF Dots



Total merchandise trade EU27 with Jordan (mio €)

Jordan	2018	2019	Growth mio €	Growth annual %
Imports	273	321	47	17,2%
Exports	3.294	3.436	142	4,3%
Balance	3.021	3.115	95	
Total trade	3.567	3.757	189	5,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU28 (mio €)

Extra-EU28	2018	2019	Growth mio €	Growth annual %
Imports	1.907.565	1.934.944	27.379	1,4%
Exports	2.059.882	2.132.015	72.133	3,5%
Balance	152.317	197.071	44.754	
Total trade	3.967.447	4.066.959	99.512	2,5%

Agrifood trade EU27 with Jordan (mio €)

Jordan	2018	2019	Growth mio €	Growth annual %
Imports	29	34	5	16,5%
Exports	720	691	-29	-4,1%
Balance	691	657	-34	
Total trade	749	725	-25	-3,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118.891	121.644	2.753	2,3%
Exports	169.000	181.825	12.825	7,6%
Balance	50.109	60.181	10.072	
Total trade	287.891	303.469	15.578	5,4%

Definition AMA UR AoA

NAMA trade EU27 with Jordan (mio €)

Jordan	2018	2019	Growth mio €	Growth annual %
EU27 imports	244	287	42	17,3%
EU27 exports	2.574	2.745	171	6,7%
Balance	2.329	2.459	129	
Total trade	2.818	3.032	214	7,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1.788.674	1.813.300	24.626	1,4%
EU27 exports	1.890.882	1.950.190	59.309	3,1%
Balance	102.208	136.890	34.682	
Total trade	3.679.556	3.763.491	83.935	2,3%

Definition NAMA UR

Services trade EU27 with Jordan (mio €)

Jordan	2017	2018	Growth mio €	Growth annual %
Imports	507	600	94	18,5%
Exports	769	753	-16	-2,1%
Balance	262	153	-109	
Total trade	1.275	1.353	78	6,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824.543	824.015	-528	-0,1%
Exports	928.420	968.648	40.228	4,3%
Balance	103.877	144.633	40.756	
Total trade	1.752.963	1.792.662	39.700	2,3%

Services trade EU27 with Jordan (mio €)

	2014	2015	2016	2017	2018
Imports	535	472	486	507	600
Exports	809	737	709	769	753
Balance	274	265	223	262	153
Total trade	1.344	1.209	1.195	1.275	1.353

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642.682	776.924	784.743	824.543	824.015
Exports	750.713	849.023	855.477	928.420	968.648
Balance	108.031	72.099	70.734	103.877	144.633
Total trade	1.393.395	1.625.948	1.640.220	1.752.963	1.792.662

FDI EU27 with Jordan (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward					814
Outward	2.035				2.942
FDI Flows					
Inward			-387	13	4
Outward		130			156

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5.402.531	6.647.447	7.199.779	7.275.893	7.196.848
Outward	7.050.096	8.511.837	9.145.353	8.833.606	8.750.004
FDI Flows					
Inward	143.012	803.285	328.703	209.462	-67.421
Outward	203.711	1.016.490	449.657	180.796	-103.421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-LEBANON ASSOCIATION AGREEMENT

1. INTRODUCTION

The EU and Lebanon signed on 17 June 2002 an **Association Agreement**[146] creating a Free Trade Area (FTA). Its economic and trade provisions were provisionally applied as from 2003, based on an Interim Agreement which entered into force on 1 March 2003. The Association Agreement (hereinafter referred to as 'the Agreement') fully entered into force on 1 April 2006. The Agreement **liberalised two-way trade in industrial goods** with an asymmetrical transition period of 12 years in favour of Lebanon. The phased-in liberalisation of industrial products by Lebanon started in 2008 and was completed in 2015.

In regard to agri-food trade, the Agreement as of its provisional application, **granted tariff-free access of most Lebanese agricultural and processed agricultural products to the EU market** (i.e. 89% of products enter tariff and quota free) with only 27 agricultural products facing a specific tariff treatment, mostly Tariff Rate Quotas (TRQs). On the other hand, agricultural liberalisation by Lebanon has been more limited.

In 2010, the EU and Lebanon signed an additional protocol on a **Dispute Settlement Mechanism** which entered into force on 1 September 2018.

In 2014, Lebanon signed the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (PEM Convention). The country notified its ratification in October 2017 and formally joined on 1 December 2017[147].

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

In 2019, an intense dialogue took place on **rules of origin**: EU and Lebanon agreed to bilaterally modernise the applicable rules of origins between EU and Lebanon in the context of the Pan-Euromed-Convention on rules of origin.

New **trade barriers** were raised in 2019, notably the temporary additional duty of 3% on most imports and the additional duties on imports of some selected products. These issues were discussed in the Joint Working Group and raised several times at the highets level vis-à-vis the Lebanese authorities. Some trade barriers introduced in 2019 were discussed and subsequently solved: the mandatory requirement of registration of factories for certain products, which is not being implemented by Lebanon, and the double certification requirement for imports, which was removed.

Lebanon is still in the process of applying to join the **WTO**, wich the EU continue to support, including by technical assistance if requested by the Goverment.

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[146] https://ec.europa.eu/world/agreements/downloadFile.do?fullText=yes&treatyTransId=3121

[147] For more information see https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/paneuromediterranean-cumulation-pem-convention_en

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The EU-Lebanon **Sub-Committee on “Industry, Trade and Services, Customs”** last met on 7 March 2018 and was already reported on in the 2019 FTA Implementation Report.

The EU-Lebanon **Joint Working Group on Trade and Investment** is a informal forum set up in 2017 for frequent technical level discussions, with a focus to help Lebanon take more advantage from their free access to the EU market, while also addressing barriers EU operators face when exportng to Lebanon. It aims at improving economic cooperation and trade dialogue and at informing the Sub-Committees. In 2019, the Joint Working Group was convened three times. The main topics addressed were the EU support to Lebanese export capacity in particular in the the agri-food or pharmaceutical sectors, support to joining the Entreprise Europe Network, modernising the existing Rules of Origins to benefit both sides as well as the trade restrictive measures taken by Lebanon in form of import duties and new customs procedures.

4. SPECIFIC AREAS OF IMPORTANCE

Lebanon is suffering from what most experts describe as the **worse economic and financial crisis in decades,** with a public debt estimated at more than 150% of GDP, a negative balance of payment of -7,4%, and growing unemployment (around 20% in 2019), compounded by very weak growth since 2011, with the **country entering into recession in 2019** (according to recent figures by Central Administration of Statistics). The lack of liquidity has provoked a **hard currency crisis** and severe restrictions being imposed by the banks on access to private bank deposits as well as credit for SMEs. The impact of the crisis, together with systemic governance issues, **prompted massive demonstrations in October 2019**, which brought the country to a halt and provoked the government to stand down. Currently, all imports are severily restricted due to the unavailability of credit facilities in hard currency for most companies, while some measures are being put in place to facilitate the importation of essential items. The situation hits particularly SMEs, and according to several studies **more than 100,000 jobs have been lost** since the beginning of the demonstrations in October 2019. [148]

A **new government was appointed in February 2020** which has the major task of redressing the dire socio-economic and financial crisis and is under pressure, domestic and internationally, to deliver on a set of urgent reforms in order to regain the trust of the domestic and international community. It is in this tense social, political and economic context that the EU and Lebanon will have to **ensure that trade dialogue remains open and bilateral trade dynamic**. It is to be noted that they are some critical voices against the free trade agreement with the EU and in particular the trade deficit of Lebanon towards the EU, held accountable of the balance of payments crisis.

The EU and Lebanon adopted **Partnership Priorities** in November 2016 for the period 2016-2020 as well as an annexed EU-Lebanon Compact identifying the most important reforms and development priorities and outlining mutual commitments and actions to address the impact of Syria crisis. For the period 2017-2020, the EU's **bilateral assistance to Lebanon under the European Neighbourhood Instrument** has an indicative allocation of €186.5 million-

[148] See notably http://www.businessnews.com.lb/cms/Story/StoryDetails/7358/160,000-jobs-lost-Businesses:-10-percent-closed

€227.9 million. Lebanon is eligible under the EU External Investment Plan and, through the EU blending mechanism "Neighbourhood Investment Platform", has benefitted from EU grants (€50 million) that have leveraged total investments of €530 million, mainly via loans from the European Investment Bank and the Agence Francaise de Développement, in the sectors of water, roads and local urban development. Under the EU twinning tool, the Lebanese public administration is partnering with European administrations for mutual learning and capacity building through sharing of EU best practices. On-going twinning projects take place and Lebanese public administrations also benefits from the Technical Assistance and Information Exchange (TAIEX) tool[149].

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Since 2011, following the Arab springs, the Syrian conflict and internal political tensions, the Lebanese economic growth had slowed down. In 2019, it suffered a sharp decline amid economic difficulties, political turmoil and pressing social demands. Estimated at -1.9% in 2018, **GDP contracted by -6.9% in 2019**, driven by downturns in private consumption and investment.

The Lebanese **state has become over-indebted and lacks liquidity.** Lebanon is the **third most indebted country in the world** after Japan and Greece**. Public debt increased to 178% of GDP in 2019** compared to 155% of GDP in 2018, with 37% of public debt denominated in foreign currency. The **current account deficit represented -20.6% of GDP in 2019** compared to 24.3% of GDP in 2018.

The **traditional engines of growth in Lebanon (real estate, construction and tourism) are at a standstill.** As for the resilient banking sector, it has shown to bevulnerable, revealing worrying prospects for growth. The seasonally-adjusted Purchasing Managers' Index (PMI) plummeted as low as 37 points in November 2019, which indicates the country is still deep in contractionary territory (below 50 points). To respond to the liquidity squeeze, **banks have imposed informal capital controls**, limiting withdrawals and transfers abroad.

Inflation fell from 4.0% in 2018 to 2.9% in 2019. However, as consumption goods are largely imported, the Lebanese currency LBP depreciation in parallel markets will fuel consumer prices in the country. **Unemployment increased to 11.4% in 2019** compared to 6.1% in 2018.

5.2 Trade in goods

In 2019, the **EU remains Lebanon's main trading partner**, accounting for 32% of the total trade in goods, before the United States and China (7%), Switzerland, Russia, the United Arab Emirates and Turkey (around 5% each). However, the relative share of Switzerland and Russia doubled from 2018 to 2019. In 2002, the year before the Agreement was provisionally applied, the value of trade in goods was €3.4 billion and **by 2019** it reached € 6,2 billion,

[149] https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/lebanon_en

hence **almost doubling over this period**. Lebanon is the 5th most important trading partner of the EU in the Euromed region. Total trade in goods between the EU and Lebanon decreased by 15 % from € 7,3 billion in 2018 to € 6,2 billion in 2019.
The value of **EU exports to Lebanon doubled between 2002 and 2019**, from €2,9 billion in 2002 to €5,8 billion in 2019. **In 2019 the EU exports shrank by 15,6%** compared to 2018. EU exported mainly mineral products (34%), products of the chemical or allied industries (14%), machinery and appliances (9%), foodstuffs, beverages, tobacco (7%) and live animals; animal products (6%) - without major changes compared to 2018. The biggest decreases between 2018 and 2019 can be observed in exports of transport equipment (- 41%) and animal or vegetable fats and oils (-38%). The only significant increase concerns vegetable products (+ 27%) and pearls, precious metals and art (+17%). The **EU is the first source of Lebanese imports** (37%), followed by the United States (9%), China (8%) and Russia (7%). The relative share of the EU decreased compared to 2018, where it represented 41%, while Russia's share increased significantly, where it accounted for less than 3%. The three main EU MS exporters to Lebanon are Italy, Greece followed by Germany, representing all together 50% of EU exports.

The value of **EU imports from Lebanon have also doubled from less than €0.2 billion in 2002 to more than €0.4 billion in 2019**. In **2019, EU imports shrank by 9% year-on-year**. **The EU is the third destination for Lebanon exports** (9%), after Switzerland (22%) and the United Arab Emirates (14%). This is an important change to 2018, where the United Arab Emirates ranked first (14%) , followed closely by the EU (13%), then Syria (6%). The main categories of imported products are base metals and articles thereof (32%), foodstuffs, beverages, tobacco (15%), plastics, rubber and articles thereof (12%). The three main importing EU Member States are the Netherlands (16%), France (14%) and Greece (12%).

There is a **trade deficit** between Lebanon and the EU over the last 5 years, with, however, a noteworthy diminution of the deficit in 2019 (€ 5,3 billion) compared to the previous year (€ 6,3 billion), where EU exports (- 16%) shrank more than EU imports (- 9%). Lebanon's trade balance with all its partners is negative since 2015. In 2019, it amounted to € 13,2 billion. The EU' share is 40%, while the United States and China account each for approximately 10%.

5.3 Trade in agricultural products

Total trade in agri-food products between the EU and Lebanon remained stable around € 1 billion between 2015 and 2019. **Between 2018 and 2019, EU agri-food exports decreased by almost 7%** from € 979 million to 914 million. Over the same period, **EU agri-food imports increased by 8%,** from €90 to €98 million. In 2019, the EU mainly exported dairy produce, live animals and cereals. The EU's main agri-food imports were preparations of vegetables, fruits and nuts and tobacco and tobacco products.

TRQs granted by the EU to Lebanon

Regarding agricultural tariff rate quotas (TRQs), the fill rate by Lebanon was very low in 2019. The country only used 6% of its olive oil quota, 5% of its quota for table grapes and only 2% of its quota for preserved and prepared tomatoes. All other quotas remained unused.

Utilisation rate of TRQs opened by the EU to Lebanon						
		TRQ		Utilisation in TRQ period ending in:		
Sector	TRQ description	Quantity	Unit	2017	2018	2019
F&V	New potatoes	26.000	t	0%	0%	0%
F&V	New potatoes & so-called 'new potatoes'	52.000	t	0%	0%	0%
F&V	So-called 'new potatoes'	52.000	t	0%	0%	0%
F&V	Tomatoes	21.000	t	0%	0%	0%
F&V	Garlic	3.000	t	0%	0%	0%
F&V	Garlic	5.000	t	0%	0%	0%
F&V	Olives	1.000	t	0%	0%	0%
F&V	Olives, provisionally preserved	1.000	t	0%	0%	0%
F&V	Table grapes (tariff 0%)	6.000	t	11%	8%	5%
F&V	Table grapes (tariff 4.6%)	4.000	t	1%	0%	0%
F&V	Apples	10.000	t	0%	0%	0%
F&V	Apricots	5.000	t	0%	0%	0%
F&V	Cherries	5.000	t	0%	0%	0%
F&V	Peaches, including nectarines	10.000	t	0%	0%	0%
F&V	Plums & sloes	5.000	t	0%	0%	0%
Oils	Olive oil	1.000	t	4%	8%	6%
F&V	Tomatoes, prepared or preserved	1.000	t	1%	1%	2%

Information on the utilisation of the TRQ granted by Lebanon to the EU was not available at the time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

Total **trade in services** between the EU and Lebanon is relatively stable around €2 billion since 2014. There has, however, been a decrease of 13% in the value of services exchanged between 2017 and 2018. Lebanon's provision of services to the EU increased between 2014 and 2019, from € 0,7 billion to € 1 billion. EU exports of service to Lebanon fluctuated in the same period around € 1,2 billion. The EU has a small surplus when it comes to services.

In 2018, EU **FDI** stocks in Lebanon amounted to €2,2 billion, while inward FDI stocks from Lebanon to the EU accounting for €4,8 billion. In 2018, EU FDI flows accounted for € 106 million, while flow of Lebanese FDI reached € 363 million.

According to The World Bank Doing Business Index 2020 ranking 190 countries, in 2019 Lebanon ranked 143rd in the world on the ease of doing business (it ranked 142nd in 2018), with a distance to frontier (DTF)[150] score of 54.3 out of 100 – stable if compared to 2018, when the value was 54.4.

[150] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time. The higher the score, the better.

6. CONCLUSIONS

Overall the **value of trade between the EU and Lebanon has increased in both directions** since the Agreement entered into force. EU exports have grown more strongly than Lebanese exports and consequently the EU trade surplus has widened. Goods continue to account for the majority of trade.

The private sector, in particular SMEs, forms the cornerstone of the Lebanese economy and remains the main source of job creation in Lebanon. It continues to suffer from an inadequate business environment, weak infrastructure and a lack of structural reforms. This situation is aggravated by the severe liquidity crisis and consequent unavailability of credits for private companies, particularly SMEs, which is already provoking a substantial reduction of trade volumes, particularly imports, likely to aggravate during 2020. Urgent trade financing measures would be essential to reverse this negative trend. There is also untapped potential in the services sector. Enhancing the competitiveness of the Lebanese service sector could lead to economic growth in selected sectors of strategic importance for the country.

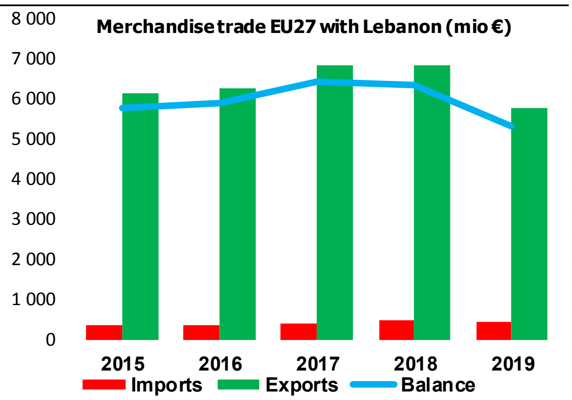
The main challenges for 2020 will be to re-establish a good strategic partnership around the Association Agreement with the newly appointed Lebanese Government, strengthening Lebanon's confidence in the potential benefits of the Agreement and addressing satisfactorily the ongoing issues restricting trade and investment in Lebanon. The EU as a major partner of Lebanon stands ready to assist.

7. STATISTICS

LEBANON

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Lebanon (mio €)					
Imports	370	371	411	477	433
Exports	6 176	6 261	6 842	6 844	5 776
Balance	5 807	5 890	6 431	6 367	5 344
Share Lebanon in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.3%	0.3%	0.3%	0.3%	0.3%
Total (I+E)	0.2%	0.2%	0.2%	0.2%	0.2%
Share EU27 in trade Lebanon with world					
Imports	39.3%	37.8%	40.0%	39.1%	37.4%
Exports	10.8%	9.7%	7.9%	12.1%	8.8%
Total (I+E)	34.3%	33.1%	34.6%	34.8%	31.8%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Lebanon: IMF Dots



Total merchandise trade EU27 with Lebanon (mio €)

Lebanon	2018	2019	Growth mio €	Growth annual %
Imports	477	433	-44	-9.3%
Exports	6 844	5 776	-1 068	-15.6%
Balance	6 367	5 344	-1 023	
Total trade	7 321	6 209	-1 112	-15.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Lebanon (mio €)

Lebanon	2018	2019	Growth mio €	Growth annual %
Imports	90	98	7	8.0%
Exports	979	914	-65	-6.6%
Balance	889	817	-72	
Total trade	1 069	1 012	-57	-5.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Lebanon (mio €)

Lebanon	2018	2019	Growth mio €	Growth annual %
EU27 imports	387	335	-52	-13.4%
EU27 exports	5 865	4 862	-1 003	-17.1%
Balance	5 478	4 527	-951	
Total trade	6 252	5 197	-1 055	-16.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Lebanon (mio €)

Lebanon	2017	2018	Growth mio €	Growth annual %
Imports	1 091	968	-123	-11.3%
Exports	1 336	1 148	-188	-14.1%
Balance	245	180	-65	
Total trade	2 428	2 117	-311	-12.8%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Lebanon (mio €)

	2014	2015	2016	2017	2018
Imports	755	813	735	1 091	968
Exports	1 186	1 357	1 235	1 336	1 148
Balance	431	544	500	245	180
Total trade	1 940	2 170	1 969	2 428	2 117

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Lebanon (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	3 646	2 558	4 213	4 739	4 846
Outward		1 778	2 374	2 194	2 264
FDI Flows					
Inward		1 234	15	1 052	363
Outward		22			106

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-MOROCCO ASSOCIATION AGREEMENT

1. INTRODUCTION

The EU and Morocco established a **Free Trade Area** (FTA) as part of the **EU-Morocco Association Agreement** (the "Agreement"), signed in 1996, which entered into force on 1 March 2000. Trade for industrial products is now entirely liberalised, while market opening for agricultural products is also substantial. The Agreement provides for a **reciprocal liberalisation of trade in goods**, with elements of asymmetry in favour of Morocco: since the day of entry into force of the Agreement, all industrial products covered could be exported by Morocco to the EU tariff-free, while Morocco benefited from a transitional period of 12 years. The transitional period for Morocco to reduce its tariffs on industrial products to zero ended in March 2012.

The EU and Morocco also signed an **agreement on additional liberalisation of trade in agricultural products,** processed agricultural products, fish and fisheries products, which entered into force in October 2012. While the dismantling of remaining tariffs on the EU exports to Morocco covered by eventual liberalisation is due to be completed by 1 October 2020, a number of products will remain subject to tariff rate quotas when exported to Morocco. Only a few Moroccan products remain subject to tariff rate quotas when imported into the EU.

A protocol establishing a **Dispute Settlement Mechanism** was agreed upon by the EU and Morocco and entered into force in 2012. Morocco also signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) on 18 April 2012 and ratified it in May 2019. Negotiations in view of an **Agreement for the Protection of Geographical Indications (GIs)** were concluded in 2015, and ratification is pending on both the EU and Morocco's sides.

Negotiations for a **Deep and Comprehensive Free Trade Agreement** started in 2013. The last round took place in April 2014 and negotiations were put on hold at the request of Morocco. The Joint Statement [151]of the EU –Morocco Association Council that took place in June 2019, after several years, refers to the aim of creating an area of economic convergence and social cohesion. It specifically points to the need of *"making better use of the possibilities offered by the bilateral trade relationship, the relaunching of negotiations for a Deep and Comprehensive Free Trade Agreement (DCFTA) on the basis of the expected benefits for both parties, the gradual move towards regulatory convergence, close bilateral cooperation regarding customs, good fiscal governance, the protection of personal data and a strengthening of the connectivity of physical and digital infrastructures"*. Negotiations for a Deep and Comprehensive Free Trade Agreement are hence expected to resume.

[151] https://www.consilium.europa.eu/en/press/press-releases/2019/06/27/joint-declaration-by-the-european-union-and-the-kingdom-of-morocco-for-the-fourteenth-meeting-of-the-association-council/

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

The reinvigorating of the EU-Morocco trade relation overall and the perspective of relauching sub-committee meetings and Deep and Comprehensive Free Trade Agreement negotiations led to increased technical exchanges on trade policy issues in 2019, which have to be taken forward in 2020. A **technical seminar** was organised in Rabat in October 2019 to review trade policy developments that took place in the EU and in Morocco since the suspension of contacts in 2015.

In terms of **market access**, two new barriers appeared. One case concerns the **Cmim marking**, which since February 2019 needs to be affixed on products subject to specific technical regulation (currently electrical products and toys, but the system will be extended to further families of products). Although the Cmim marking is largely equivalent to the European CE marking, the latter does no longer suffice on products imported into Morocco. Constructive dialogue took place between the EU and Moroccan authorities who clarified the application of the Cmim requirements for EU operators. The other case concerns **exports of pharmaceutical products** to Morocco, notably the requirement to localise the production of drugs in order to obtain marketing authorisations. One older **barrier linked to the implementation of the 2016 Foreign Trade Law was removed** after initial concerns about the possible impact of the Law did not materialise. Other long-standing market access issues await the organisation of trade subcommittees to provide a forum for raising them.

Morocco is a user of **trade defence measures**, some of which affect imports from the EU. In 2019, Morocco imposed **safeguard measures** on the imports of **hot rolled steel plates** as well as steel and iron tubes and pipes via additional ad valorem duties of 25%. The EU participated actively in the public hearing and submitted written observations. These new measures come on top of the already existing safeguard measures targeting imports of wire rods and reinforcing bars, as well as cold-rolled steel sheets, neither plated nor coated, and plated or coated sheets. Beyond the steel sector, Morocco also imposed in 2019 safeguard measures on **imported coated wood boards**. Following intensive contacts with the local authorities, the EU obtained 80% of the tariff quota of 26,460 tonnes exempted from the additional duties. In 2019, following a mid-term review investigation on the implementation of the safeguard measure on imports of **paper reels and reams**, the tariff rate quota for duty free imports was increased to 23,500 tonnes in 2019 and 25,500 tonnes in 2020. Still in 2019, Morocco launched an **antidumping investigation** on imports of insuline from a Danish company.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The last Sub-Committees on “Industry, Trade, and Services” and “Internal Market” were held in December 2013 and both the last Sub-Committee on Agricultural and Fisheries Products and the last Sub-Committee on Customs Cooperation took place in 2015. Committees did not meet in 2019 the Trade committee met in June 2020 and the AGRI committee met on 1st July 2020.

4. Specific Areas of Importance

On 16 January 2019 the European Parliament approved the amendment of the protocols of the EU-Morocco Association Agreement, **extending the tariff preferences laid down in the Association Agreement to products originating in Western Sahara**. Following the ratification by the Moroccan Parliament, the amendment entered in force on 19 July 2019[152]. Products from Western Sahara – in areas as diverse as fishery and agricultural products and phosphates and its derivate products – are thus imported into the EU under trade preference.The European Parliament on 12 February 2019 also approved the new **Sustainable Fisheries Partnership Agreement** with Morocco, which also covers the waters of Western Sahara. The EU ratified it in early 2019 and Morocco did so on 18 July 2019 allowing for the entry into force[153].The entry into force of these agreements paved the way for the relaunch of political dialogue in 2019 and was followed by technical cooperation between the two parties to ensure the implementation of these agreements. It is to be noted that there are some Court cases pending in the EU on these agreements.

5. Evolution of bilateral trade

5.1 Economic environment

Still **highly reliant on a volatile agricultural sector**, Morocco's economic **growth decelerated to 2.3% in 2019** (compared to 3% in 2018), marking one of the weakest growth rates since 2007, after that of 2016. **Inflation remained** low in 2019, averaging 1.2%, as a result of a slowdown in domestic demand and a fall in international commodity prices.

Morocco's **foreign trade accounts for 88% of GDP** (World Bank, 2018). Propped up by the signature of over fifty FTAs, Morocco’s trade in goods quadrupled in the past two decades, to reach € 72 bn in 2019 (of which € 26bn worth of exports and € 46bn of imports) (Morocco's Exchange Office).

Morocco’s industrial development strategy, based on the emergence of **ecosystems revolving around large foreign investors, notably from the EU,** has supported the diversification of Moroccan exports and the increase in value added as a result of a more active insertion in global value chains. Notably, **the establishment of leading European car manufacturers in Morocco led to the emergence of the automotive sector as the leading export sector since 2014.** In 2019, according to the Moroccan Exchange Office, automotive sector sales represented 27% of Moroccan total exports, followed by agriculture and agrifood (22%), phosphates and derivatives (17%), textile and leather (13%) and aeronautics (6%). On the import side, capital goods accounted for the largest share of imports (26%), followed by

[152] https://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2018036&DocLanguage=en

[153] https://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2018051&DocLanguage=en

finished consumer goods (23%), semi-finished products (21%), energy products (15%) and food products (10%).

Morocco’s external position, while sustainable, has some vulnerabilities deriving from a **structurally negative trade balance** driven by the still relatively limited export base and dependence on energy imports. After narrowing until 2015, the trade in goods deficit widened again to reach around €20bn in 2019, representing 18.5% of GDP. The FTA signed between Morocco and Turkey in 2004 came under increased criticism in 2019 owing to the large and increasing deficit faced by Morocco, and is currently under review as both countries agreed to discuss new measures to ensure more balanced bilateral trade relations. The inverse trend is reported for trade in services. **Morocco has tripled its balance of services surplus since 2004** (earliest data available) to € 8bn in 2019. Morocco’s trade in services, which totalled € 26bn in 2019, consist mainly of travels and transports (61%).

5.2 Trade in goods

Total **trade in goods between the EU and Morocco more than tripled since 2002** (earliest data available) to reach € 39.6bn in 2019. EU-Morocco trade increased by 5% year - on -year and by 42% in the past 5 years. In 2019, the **EU is Morocco's main partner,** accounting for 56% of Morocco's total trade, before China (7%), the USA (6%), Turkey (4%) and India (3%). With a share of 24% in total trade in the Euromed region, **Morocco is the main EU trade partner in the region,** before Algeria and Israel (20% each).

With a market share of 63% of total Moroccan imports, the **EU is Morocco's main supplier. EU exports to Morocco more than tripled (3.2x) between 2002 and 2019**, up to €23.4 bn (+33% between 2014 and 2019, and +**4% between 2018 and 2019)**. In 2019, the EU mainly exported automobile products (12%), chemicals (10%), petroleum and petroleum products, non electrical machinery, electrical machinery (9% each), textile and food (7% each). Main EU exports to Morocco came from Spain (36%), France (21%), Germany and Italy (9% each).

The **EU is also Morocco's main client** : 51% of Morocco's total exports are destined to the EU. **EU imports from Morocco almost tripled (2.8x) since 2002**, totaling €16.3bn in 2019 (+58% since 2014 and **+6% compared to a year earlier)**. In 2019, the EU mainly imported electrical machinery (22%), food (21%), automobile products (17%) and clothing (16%) from Morocco. Spain (42%), France (31%) and Germany (5%) are the three main EU importers.

The **EU's trade surplus with Morocco is on an increasing trend**. In 2019, the trade surplus reached € 7billion (4.6x compared to 2002 and up by 1.2x in the past 5 years). Nevertheless, **Morocco's trade with the EU is more balanced than that with other trading partners.** Morocco's trade deficit with the EU represents 34% of Morocco's overall trade deficit, while bilateral trade accounts for 56% of the country's total trade. The coverage rate of imports by exports is of 72% with the EU (vs. only 31% for the USA, 24% for Turkey and 5% for China).

5.3 Trade in agricultural products

Total **trade in agricultural products between the EU and Morocco more than tripled (3.3x) between 2002 to 2019** to € 4bn, including an increase of 35% over the past 5 years and of 10% year-on-year (2019/18).

In 2019, **Morocco was the 15th EU agrifood trade partner worldwide** (21st client for EU exports and 12th supplier for EU imports). In details, Morocco was the EU's 2nd client in vegetable oils other than palm and olive oils, 4th in wheat, 9th in live animals and 10th in cereals other than wheat and rice. **Morocco was the EU 1st supplier in vegetables, 2nd in fruits and olive oil,** 4th in citrus fruit and 8th in preparation of vegetables, fruit or nuts. **Morocco has a trade surplus on agricultural products with the EU, while the EU has a surplus on processed agricultural products.**

EU agrifood exports to Morocco rose by 10% over the past 5 years to € 1.75bn in 2019, particularly as a result of an improvement in exports of food preparations (€ +110m) and vegetable oils other than palm & olive oils (€ +61m), which account for 18% and 12% respectively of total agrifood exports from Morocco. The **exports to Morocco increased by 20.4% since 2018,** but the **EU still has a trade deficit of € 543 mn**. In 2019 the EU exports to Morocco were dominated by wheat (21%, €361 million value) and vegetable oils other than palm & olive oil (12%, €214 million value).

Among the EU's Euromed partners, Morocco is the largest supplier of agricultural products. Year-on-year, in 2019 **EU agrifood imports from Morocco grew by 65% to €2.3bn**, owing mainly to a rise in imports of fruits (€ +358m) and vegetables (€ +257m), which represent 26% and 42% respectively of total agrifood imports from Morocco. Utilisation rates for Tariff Rate Quotas opened by the EU to Morocco are high for tomatoes (100%) and courgettes (70%).

TRQs granted by the EU to Morocco

Only the quotas for tomatoes were fully used by Morocco in 2019, the utilisation rate also remained relatively high for courgettes (70%) and increased for clementines (56%). Fill rates went up for garlic (9% as compared to 0% in 2018, but decreased for strawberries.

Utilisation rate of Tariff Rate Quotas opened by the EU to Morocco						
				Utilisation in TRQ period ending in:		
Sector	**TRQ description**	**TRQ Quantity**	**Unit**	**2017**	**2018**	**2019**
F&V	Tomatoes	257.000	t	100%	100%	100%
F&V	Tomatoes	28.000	t	100%	100%	100%
F&V	Garlic	1.500	t	1%	0%	9%
F&V	Cucumbers	16.800	t	49%	40%	38%
F&V	Courgettes	56.000	t	63%	72%	70%
F&V	Clementines	175.000	t	54%	52%	56%
F&V	Strawberries	3.600	t	23%	40%	30%
F&V	Strawberries	1.000	t	25%	17%	8%
Sugar	Chemically pure fructose	600	t	0%	0%	0%

Information on the utilisation of the TRQs granted by Morocco to the EU were not readiliy available at the time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

Total trade in services between the EU and Morocco increased by 24% between 2014 and 2018 to € 9.6bn, including a growth of 40% in exports and of 15% in imports. In 2018, the EU exported € 4 billion in services to Morocco (same level as in 2017) and imported € 5.6 bn from Morocco, slightly down (-1%) compared to a year earlier. More than 40% of EU-Morocco trade in services is with France, particularly in the sectors of travel and telecommunications, computer and information services.

Foreign Direct Investment flows exceptionally declined in 2017 before regaining momentum in 2018. With a stock of Foreign Direct Investment € 17.9bn at the end of 2018, the **EU remains the first foreign investor in Morocco, accounting for more than half of Foreign Direct Investments entering the country,** according to Morocco's Exchange Office, followed by the United Arab Emirates (21%), the USA (5%) and the United Kingdom (4%). More than 85.000 direct jobs were generated by the automotive sector between 2014 and 2018, associated with exports to the EU market (more than 80% of automotive exports), bringing total employment in the sector to 163.000 in 2018, according to the Moroccan Ministry of Economy and Finance.

Morocco ranked 53rd out of 190 in the World Bank 'Doing Business 2020', with a distance to frontier (DTF)[154] score of 73.4 out of 100 – this means an increase of 5.5 in DTF score compared to 2018. This **improvement is mainly due to easier trading across borders, access to construction permits and electricity**. Morocco has an ambition to join to the top 50 in the coming years.

6. CONCLUSIONS

EU-Morocco trade and investment relations are intense and should be further strengthened in view of the willingness on both sides to relaunch and reinvigorate all the dimensions of the EU-Morocco partnership - in line with the conclusions of the EU-Morocco Association Council of 27 June 2019.

The overall impact of the Free Trade Area on EU-Morocco trade has been positive, bringing both economies closer together and rapidly intensifying exchanges in goods. As a result, the EU is the leading trade partner of Morocco today, accounting for about 56% of total Moroccan trade. Morocco is number one exporter of vegetables to the EU and has a trade surplus with the EU in agri-food products, while at the same time the EU has a surplus in processed agricultural products. The EU is the first foreign investor in Morocco, accounting for more than half of the FDI stock in the country and generating a significant number of jobs.

[154] The DTF score is a measurement used by the World Bank to assess the absolute score of regulatory performance in economies over time.

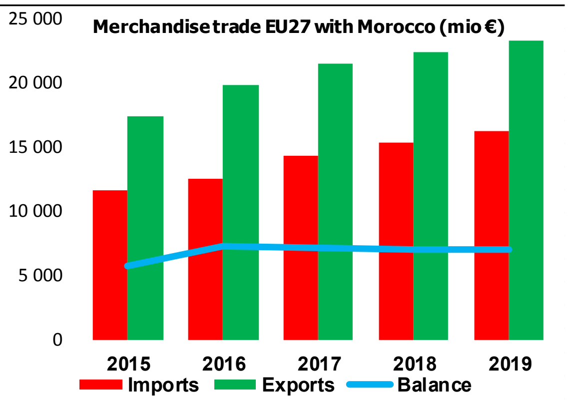
It will be important to capitalise on the technical work under the EU-Morocco trade sub-committees, which should be restarted in 2020, and ensure that Deep and Comprehensive Free Trade Agreement negotiations, expected to be resumed in 2020, bring benefits. Negotiations are meant to cover areas such as access to public procurement, disciplines on non-tariff measures, but also standards and regulatory issues, sanitary and phytosanitary measures, intellectual property rights, consumer protection, competition, investment, services and sustainable development.

7. STATISTICS

MOROCCO

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Morocco (mio €)					
Imports	11 673	12 624	14 354	15 362	16 293
Exports	17 493	19 926	21 485	22 481	23 359
Balance	5 820	7 302	7 130	7 118	7 066
Share Morocco in EU27 trade with Extra-EU27					
Imports	0.7%	0.8%	0.8%	0.8%	0.8%
Exports	0.9%	1.1%	1.1%	1.1%	1.1%
Total (I+E)	0.8%	0.9%	1.0%	1.0%	1.0%
Share EU27 in trade Morocco with world					
Imports	50.3%	53.7%	54.2%	51.8%	50.8%
Exports	58.6%	61.9%	62.5%	61.3%	62.7%
Total (I+E)	53.3%	56.6%	57.2%	55.2%	54.9%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Morocco: IMF Dots



Total merchandise trade EU27 with Morocco (mio €)

Morocco	2018	2019	Growth mio €	Growth annual %
Imports	15 362	16 293	930	6.1%
Exports	22 481	23 359	878	3.9%
Balance	7 118	7 066	-52	
Total trade	37 843	39 651	1 808	4.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Morocco (mio €)

Morocco	2018	2019	Growth mio €	Growth annual %
Imports	2 217	2 299	82	3.7%
Exports	1 459	1 756	298	20.4%
Balance	-758	-543	215	
Total trade	3 676	4 056	380	10.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Morocco (mio €)

Morocco	2018	2019	Growth mio €	Growth annual %
EU27 imports	13 145	13 993	848	6.5%
EU27 exports	21 022	21 602	580	2.8%
Balance	7 877	7 609	-268	
Total trade	34 168	35 596	1 428	4.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Morocco (mio €)

Morocco	2017	2018	Growth mio €	Growth annual %
Imports	5 658	5 591	-67	-1.2%
Exports	3 990	3 979	-11	-0.3%
Balance	-1 668	-1 612	56	
Total trade	9 647	9 570	-78	-0.8%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Morocco (mio €)

	2014	2015	2016	2017	2018
Imports	4 875	4 632	5 140	5 658	5 591
Exports	2 841	3 523	3 684	3 990	3 979
Balance	-2 034	-1 110	-1 456	-1 668	-1 612
Total trade	7 717	8 155	8 824	9 647	9 570

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Morocco (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		704	1 566	1 899	2 056
Outward	14 013	14 753	15 006	15 967	17 868
FDI Flows					
Inward		-17	-336	-75	279
Outward			662	-1 983	731

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-PALESTINE INTERIM ASSOCIATION AGREEMENT

1. INTRODUCTION

The **Interim Association Agreement** creating a Free Trade Area (FTA) between the EU and Palestine[155] (hereinafter called 'the Interim Agreement') was signed in 1997 and entered into force on 1 July 1997. The Interim Agreement **liberalised two-way trade in industrial goods** by providing duty-free and quota-free access for industrial goods traded in both directions, with some **limited liberalisation of agricultural products** by both parties. This was an asymmetrical liberalisation to the extent that the EU dismantled its tariffs on the first day of the agreement while Palestine had a phased reduction of tariffs.

The Agreement was first updated in 2005 before a more **significant update was signed in 2011 to further liberalise trade in agricultural**, processed agricultural products (PAPs), fish and fishery products. **The EU removed all tariffs and quotas on agricultural products and PAPs imported into the EU for a period of ten years, which is renewable**. Palestine continues to maintain a number of tariffs and quotas on selected agricultural and PAP imports from the EU.

Products from Israeli settlements in occupied Palestinian territory do not benefit from the preferential tariff preferences under the EU-Palestine Interim Agreement or the EU-Israel Association Agreement or any other trade agreement.

Palestine is a member of the **Regional Convention on pan-Euro-Mediterranean preferential rules of origin** (PEM Convention), which it signed in 2013 and notified the EU of its ratification in 2014.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

The ongoing situation with Israel remains a key factor in EU-Palestinian trade. The **Union for Mediterranean Trade Ministerial** in 2010 adopted a package of measures to facilitate trade in Palestinian products with other Euro-Mediterranean partners on a bilateral and regional basis and to be followed by an informal **Trade Trilateral Working Group** (EU, Israel and Palestine). The EU continues its efforts to help remove the obstacles to Palestinian trade and to promote the implementation of the Package of measures to facilitate trade of Palestinian products with the Euro-Mediterranean partners. In the follow up meeting of the UfM Trade Ministers in 2018 the European Commission presented a Technical Progress Report on the implementation of the Package[156] of which the Ministers took note in their Ministerial Declaration. Towards the end of 2019 trade relations with Israel deteriorated turning into a mutual escalation of restrictive measures, which has notably led to an imposition by Israel of a ban on export of agricultural products from Palestine to foreign markets, including to the EU. In February 2020, both sides reached an agreement and lifted their respective bans.

[155] This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

[156] https://trade.ec.europa.eu/doclib/docs/2018/june/tradoc_156946.pdf

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The most recent meeting of the **EU-Palestinian Sub-committee on Trade and Internal Market, Industry, Agriculture and Fisheries, and Customs** took place in October 2019. Discussions included the following issues: increase in trade in dates from Palestine to the EU and the prospects for increasing and diversification of Palestinian agri-food exports to the EU; the time that it is taking to finalise the process of Palestine's accession to the Agadir Agreement (an FTA between Egypt, Jordan, Morocco and Tunisia); Palestine's pending status as an observer to the WTO; the EU reiterated that it supports Palestine's role in both organisations, aiming to enhance regional/international cooperation; matters related to the Agreement on Conformity Assessment and Acceptance of industrial products, priority sectors for Palestine include construction, wood-working and furniture as well as pharmaceuticals sector; the possibility was discussed of organizing a TAIEX workshop regarding the construction sector and ways to strengthen the Palestinian laboratory capacity; agriculture and Sanitary and Phytosanitary measures, including the so called cluster concept to focus on agricultural areas where water is available and the EU funded PEGASE progamme to support agricultural activities in the West Bank and the Gaza Strip; customs matters covering the establishment of so called dry ports (bonded warehouses and clearance centers) and the transfer of customs procedures for imported goods to the Palestinian Authorities.

The **Joint Economy Committee** in charge of follow-up of the Paris Protocol (agreement dealing with trade related issues under the Oslo Accord) has not met since 2009. The Palestinian Authority undertook efforts with **limited results to re-activate the committee**, pending positive response from the Israeli side.

4. SPECIFIC AREAS OF IMPORTANCE

The expansion of Palestinian trade is largely influenced by its **relationship with Israel**. Several reports have identified a number of key trade barriers, including Israeli control over Palestinian trade routes, internal restrictions on the movement of people and goods by physical barriers, such as checkpoints, and the cost of bureaucratic process – including transaction costs imposed at Israeli checkpoints, fiscal leakages due to customs evasion, indirect imports that enter Palestine designated as Israeli but orginiate from elswhere or transaction fees charged by Israeli customs that lie at 3% and are decucted from the clearance revenues for purposes of handling costs.

With the aim to facilitate trade and support an increase in bilateral trade volumes, the EU has completed two studies in 2019 dedicated to bilateral trade, notably the penetration of Palestinian products on the EU market. The studies concluded that in exporting Palestinian products traders face challenges ranging from unfavourable business environment in Palestine, trade barriers and restrictions imposed by Israel as well as weak supply-side capacities. At the same time, Palestinian companies continue to make an effort to better penetrate the EU and international markets and statistical data shows that exports of some Palestinian products increased to the EU. Based on the studies the **EU plans to take further targeted support facilitating EU-Palestine trade in the coming period,** addressing key challenges faced by Palestinian exporters to EU markets such as strengthening standardisation and regulations related to quality control.

The EU has rolled out the first **Twinning programme in Palestine** in 2019 in the field of **customs**. The project focuses on strengthening the capacity of the Palestinian Authorities to improve customs revenue collection and border crossings control.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Despite **solid growth in the West Bank**, the **sharp drop in activity in Gaza** weighed on Palestine's economy. **Economic growth contracted throughout 2019 due to the fiscal crisis**. GDP growth was 0.9% compared to 1.2% in 2018. On the demand side, household consumption was the main driver of economic growth (+4.1% year on year).

The **fiscal crisis started in February 2019** when Israeli Defence Cabinet announced that it would withhold USD 138 million monthly from Palestine's tax revenues to enforce a Law aimed at preventing transfer of salaries by the PA to the families of Palestinians in Israeli prisons). Palestine reacted by refusing to accept the remaining clearance revenue, which amounted to 65% of its total budget revenues. With fiscal distress rising, Palestine decided to accept the funds again in August, which were then transferred retroactively in two lump sums in August and October. Clearance revenue transfers normalised by the end of the year to a level comparable with 2018. Government consumption (-6.1% yoy) and gross capital formation (-1.9% yoy) were both hit by the fiscal crisis in 2019.

Inflation rate increased to 1.3% in 2019 compared to 0.3% In 2018 and was higher in the West Bank (+1.8%) than in Gaza (+0.4%).

The **current account deficit improved to 10.8% of GDP** at the end of 2019 compared to 13.2%, mainly due to the deficit in trade in goods (-32%) and in services (-6%). The compensation of Palestinians employed in Israel (15% of GDP) mitigated the current account deficit. The financing of the current account deficit will continue to depend on informal private capital transfers and possibly further drawdowns of foreign exchange.

The humanitarian crisis has worsened, particularly in Gaza where the majority of residents depend on financial support. The latest report by World Bank of 2019 estimates that 24% of Palestinians live below the poverty line, 46% in Gaza compared to 9% in the West Bank. In the West Bank, poverty status is sensitive to even small shocks in household expenditures, while in Gaza any change in social assistance flows can considerably impact the population's wellbeing. **The unemployment rate continues to be very high at 25.4%,** slightly down from 26.2% in 2018. Unemployment disproportionately affects residents of Gaza, which struggle with a rate of 45.2% against the West Bank's more subdued predicament of 14.6%.

The **decline in international donor aid continued in 2019**. International budget support decreased from $516 million to $498 million. After the Arab Donors ($245 million), the **EU was the second-largest donor** via the PEGASE programme with $180 million. Roughly two thirds of this amount was used to pay the salary of civil servants, pensioners, civil police and civil defence. The rest of the amount was in support of vulnerable Palestinian families and hospitals in East Jerusalem.

5.2 Trade in goods

In 2019, the **EU was Palestine's second largest trading partner behind Israel**, representing 11% of its total trade. With a 12.2% share, the EU was the second largest exporter to Palestine behind Israel (55.6%). The EU was Palestine's ninth largest export destination (0.6%), with the first export destinations being Israel (84.3%), Jordan (5.9%) and the UAE (2.2%).

The value of **trade between the EU and Palestine has increased sevenfolds since the Association Agreement came into force**, in both directions. In 2002 the value of trade in goods was €40 million and in 2019 it was €284 million. It should be noted that the **value of EU exports to Palestine has increased more than in the other direction.** This has deepened Palestine's trade deficit with the EU over the same period. **Palestinian exports remained largely at that same level despite full preferential market access to the EU market**. This is largely due to obstacles facing Palestinian trade, as well as competitiveness issues and the difficulties on the Palestinian side to meet EU standards, in particular SPS and technical standards.

The value of **EU exports to Palestine has risen from €33 million in 2002 to €263 million in 2019 (an increase of nearly 700%)**. After an rare decline in 2018, EU exports increased (12%) again between 2018 and 2019, rising from €235 million to €263 million. The main export sectors in 2019 were machinery and transport equipment (46%), food and live animals (26%) and chemicals (13%).

The value of **EU imports from Palestine has risen from less than €7 million in 2002 to more than €21 million in 2019, which represents an increase of 200% but the volume is still far below potential**. Within the lifespan of the agreement, however, the value of imports has been fluctuating: Between **2018 and 2019, EU imports increased by 50%** from €14 million to €21 million. In 2019 the most important import sectors were agri-food products (90% out of which 61% are fruits and nuts) and industrial products (10%).

5.3 Trade in agricultural products

Total trade in agri-food products between the EU and Palestine increased by 950% between 2003 and 2019, from €8 million to €84 million in 2019. **EU exports increased by 20%, from €54 million 2018 to €65 million in 2019, while EU imports increased by 46% between 2018 and 2019, from €13 million to €19 million.**

In 2019, **agri-food products represented the majority of EU imports from Palestine,** accounting for €19 million (90%) of the EU's total imports. Palestine exports a limited number of agri-food products including: fruit, nuts and spices, olive oil, bulbs, roots, live plants, and vegetables. Overall the level of Palestinian agri-food exports has grown since the Agricultural Agreement of 2012, rising from €9 million in 2011 to its current value. **The biggest increase has been in olive oil,** which has risen from €1 million to €5 million in the same period, with year-on-year variations. Export levels of vegetables, bulbs, roots and live plants have remained relatively static over the same period and even fell slightly in the last couple of years; the **"star export item" more recently has been dates**. Due to the Israeli blockade exports from Gaza are restricted to Israel and selected sectors. Agricultural products make up some 80% of all Gazan exports and are thus under particular disstress. In December 2019 Israel allowed export of a limited number of strawberry shipments from Gaza to the EU market.

5.4 Trade in services and Foreign Direct Investments

In 2018 **trade in services** between the EU and Palestine was worth €163 million, which represents a 83% increase as compared to €89 million in 2014. There have been year-on-year fluctuations in the value of services imported from Palestine, which has declined slightly overall between 2011 and 2015. In 2016, EU imports from Palestine reached a high of €91 million, but declined to €34 million in 2017, to then increase to € 42 million in 2018. As for EU exports of services, they have been growing since 2014, with a slight fluctuation in 2016, to reach an all-time high of €121 million in 2018, an increase of 16% compared to 2017 (€104 million).

In 2018, EU **FDI stocks** in Palestine amounted to €28 million, an increase from €15 million in 2014. In 2016, EU FDI flows accounted for €20 million. Palestinian FDI stocks to the EU amounted to €25 million in 2018 compaed to €21 million in 2017. EU **FDI flows** totalled €242 million in 2018, compared to only €5 million 2016. Palestinian FDI flows increased by 100% in 2018, from €2 million in 2017 to €4 million.[157]

According to the World Bank Ease of Doing Business 2020 index which ranks 190 countries, in 2019 Palestine ranked 117th in the World for overall ease of doing business, slightly down from the 116th position held in 2018. The distance to frontier (DTF)[158] score is 60.0 out of 100 – a slight improvement from the value achieved in 2018 (59.1).

6. CONCLUSIONS

Overall the value of trade between the EU and Palestine has increased with the Agreement. The EU trade surplus continues to increase since the value of Palestinian exports to the EU remains negligible. The continuation of the trade restrictions applied by Israel remains a key issue in EU-Palestinian trade relations and continues to be addressed in the trade discussions with both parties. The absence of an effective mechanism to address issues of market access and distortion has manifested itself in an escalating trade confrontation. The EU thus promotes trilateral discussions on trade to facilitate progress and will continue to engage with both sides to remove the obstacles to Palestinian trade.

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[157] While these data suggest a noteworthy increase in EU investments in Palestine, statistics on FDIs often are not as precise as for trade in goods.

[158] The DTF score is a measurement used by the World Bank to assess the absolute score of regulatory performance in economies over time. The higher the score, the better.

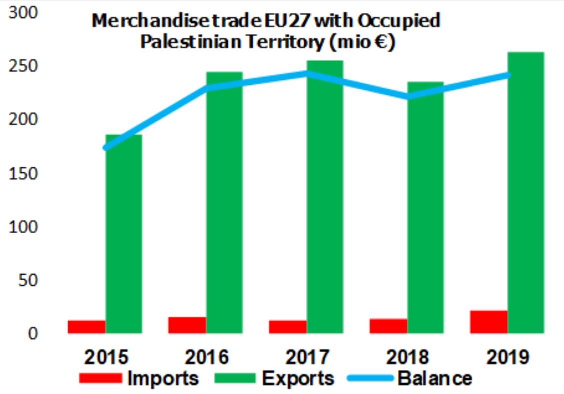
7. STATISTICS

OCCUPIED PALESTINIAN TERRITORY

Merchandise trade EU27 2015-2019

	2015	2016	2017	2018	2019
Merchandise trade EU27 with Occupied Palestinian Territory (mio €)					
Imports	13	15	12	14	21
Exports	187	245	255	235	263
Balance	174	230	243	221	242
Share Occupied Palestinian Territory in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.0%	0.0%	0.0%	0.0%	0.0%
Total (I+E)	0.0%	0.0%	0.0%	0.0%	0.0%
Share EU27 in trade Occupied Palestinian Territory with world					
Imports	10.9%	11.8%	13.1%	12.5%	12.2%
Exports	1.1%	1.3%	1.0%	0.6%	0.6%
Total (I+E)	9.4%	10.3%	11.3%	10.7%	11.1%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Occupied Palestinian Territory: IMF Dots



Total merchandise trade EU27 with Occupied Palestinian Territory (mio €)

Occupied Palestinian	2018	2019	Growth mio €	Growth annual %
Imports	14	21	7	52.2%
Exports	235	263	28	12.0%
Balance	221	242	21	
Total trade	249	284	35	14.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Occupied Palestinian Territory (mio €)

Occupied Palestinian Territory	2018	2019	Growth mio €	Growth annual %
Imports	13	19	6	51.3%
Exports	58	68	10	17.8%
Balance	45	49	4	
Total trade	70	87	17	23.8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Occupied Palestinian Territory (mio €)

Occupied Palestinian	2018	2019	Growth mio €	Growth annual %
EU27 imports	1	2	1	59.9%
EU27 exports	177	195	18	10.1%
Balance	176	193	17	
Total trade	179	197	19	10.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Occupied Palestinian Territory (mio €)

Occupied Palestinian	2017	2018	Growth mio €	Growth annual %
Imports	34	42	9	25.8%
Exports	104	121	16	15.8%
Balance	70	78	8	
Total trade	138	163	25	18.2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Occupied Palestinian Territory (mio €)

	2014	2015	2016	2017	2018
Imports	31	33	91	34	42
Exports	59	61	60	104	121
Balance	28	28	-31	70	78
Total trade	89	94	150	138	163

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Occupied Palestinian Territory (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		11	13	21	25
Outward	15	16	20		28
FDI Flows					
Inward	-0		2	2	4
Outward	-1	0	5		242

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE EU-TUNISIA ASSOCIATION AGREEMENT

1. INTRODUCTION

A **Free Trade Area** (FTA), as part of the **EU-Tunisia Association Agreement**, was signed on 17 July 1995 and entered into force on 1 March 1998. This provided for reciprocal liberalisation of trade in goods. Since the day of entry into force of the Agreement, Tunisia can export to the EU all industrial products covered by the Agreement tariff-free, while it benefited from a transitional period of 12 years, which ended in 2010. This Free Trade Area establishes the principle of **two-way trade free of any trade tariffs for industrial goods**.

As regards **agricultural, agri-food and fisheries products, the FTA foresees liberalisation for selected products**, with the EU granting tariff-free quotas for a number of products. Contrary to other countries in the region (e.g. Morocco or Egypt), the EU and Tunisia have not yet negotiated an agricultural top-up and hence market access on both sides is more limited that what is the case with most other Southern Mediterranean partners.

The EU and Tunisia signed a Bilateral Protocol in 2009 on the establishment of a **Dispute Settlement Mechanism** (which entered into force in September 2011), however it is not yet operational.

Tunisia also signed the **Regional Convention on pan-Euro-Mediterranean preferential rules of origin** on 16 January 2013. The main objective of the Convention is to provide a more unified framework for origin protocols.
Negotiations on a **modernised trade agreement**[159] started in 2015. The objective is to extend agricultural liberalisation, include services and investments, as well as a number of modern trade rules and regulatory convergence commitments, with a view to better integrate Tunisia into the EU market. Four rounds have taken place thus far, the most recent one in May 2019. Since then **negotiations are effectively on hold.** The standstill was initially due to the Tunisian legislative and Presidential elections held in autumn 2019 and the need to await the formation of a new government. The new government took office in late February 2020, just days before the Covid-19 crisis touched Tunisia.

2. MAIN OPEN IMPLEMENTATION ISSUES, PROGRESS AND FOLLOW-UP ACTIONS

There are several long-standing market access issues. Tunisia relies heavily on technical controls on imports (systematic and void of risk analysis) and on technical specifications that can impose restrictive conditions on the product and/or the importer. Other NTBs include customs measures such as the request for an export declaration by EU operators. There are also sectorial market access limitations on pharmaceuticals, cars, tyres and ceramic tiles.

On the other hand, **a major market access barrier in the form of *de facto* non-automatic licenses on products covering a wide range of sectors** (agricultural and agri-food products, textiles & clothing, cosmetics, leather products, shoes, toys, electrical goods) and affecting

[159] Deep and Comprehensive Free Trade Agreement

EU exports of €35 million (2017) was successfully removed in July 2019. Although import authorisations were in theory guided by objective technical specifications ("cahier des charges"), in reality these specifications were not defined and the Ministry of Trade decided on each importation request in an arbitraty manner. Quantitative restrictions were also applied. The measure appeared to be a clear violation of the FTA and of Tunisia's WTO obligations, which prohibit quantitative restrictions or measures of equivalent effect. The EU raised the issue repeatedly in bilateral meetings at both technical and political level (EU-Tunisia Trade Sub-Committee meeting in February, to the Association Committee in April and the Association Council meeting in May 2019). The EU also raised the matter in the WTO, especially as Tunisia never formally notified the measure. Following the extensive calls for the withdrawal of these measures, the Tunisian government cancelled the import restrictive authorisation measures as of 26 July 2019.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **Sub-Committee on Trade, Industries and Services** and the **Sub-Committee on Internal Market** met on 28 February 2019 in Tunis. These meetings allowed for an indepth discussion on the evolution of both parties' trade policy, as well as a discussion on regional trade initiatives aiming at promoting further trade integration, such as the implementation of the Agadir Agreement, the Union for Mediterranean and the revision of the PEM Convention on Rules of Origin. Both sides also discussed their respective position on multilateral and continental issues, such as various WTO iniatives and the African Continental Free Trade Area. On market access barriers, non-automatic import licences imposed by Tunisia in 2018 were successfully removed. The EU also expressed concern about persisting and new technical import controls, export declaration requests and concerns in specific sectors, such as pharmaceuticals, cars, tyres and ceramics and sanitary and phytho-sanitary (SPS) question. Other issues discussed were the evolution of recent trade flows during which Tunisia expressed the wish to further diversify its trade with EU Member States. Both sides also discussed the implementation of the provisions included in the Association Agreement, including the operationalisation of the Dispute Settlement Protocol. During the part of the meeting related to internal market, the parties discussed the recent company laws adopted in Tunisia as well as the EU regulation on government procurement.

The latest **Sub-Committee on Agricultural and Fisheries Products** met in December 2017 and the **Sub-Committee on Customs Cooperation and Taxation** in February 2017. For logistical and organisational reasons, no further meeting of these sub-committees has taken place since. The content of the two meetings held in 2017 was detailed in previous FTA implementation reports.

4. SPECIFIC AREAS OF IMPORTANCE

The 2011 revolution marked a turning point in EU-Tunisia relations, with the EU being a key partner in Tunisia's democratic and economic transition. Since 2012 the **'special relationship'** between Tunisia and the EU takes the shape of a '**Privileged Partnership'** detailed in an ambitious European Neighbourhood Policy Action Plan.

In 2016, a Joint Communication from the European Commission and the High Representative of the Union for Foreign Affairs and Security policy to the European Parliament and the Council, entitled 'Strengthening EU support for Tunisia'[160], outlined the areas in which EU support is to be provided, including a number of trade-related measures as well as the launch of a 'Partnership for growth' initiative.

The Joint Communication foresees a possible early entry into force of EU trade concessions on agricultural market access under a future modernised trade agreement, the possible advanced implementation of the modern Rules of Origin rules under the PEM Convention as well as temporary flexibilities for certain products, or the setting-up of a structured regulatory dialogue to facilitate and speed up the negotiation of an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA), which still needs key legislation to be adopted. These offers remain on the table and consultations are still ongoing.

Between 2011 and 2018, **EU assistance to Tunisia amounted to over €2.5 billion** (over €1.7 billion in grants and €800 million in macro-financial assistance). **Over the period 2017-2020**, EU bilateral assistance has provided Tunisia €300 million per year in grants on average. This support has focused on three priority sectors: (1) promoting good governance and the rule of law, (2) investing in the future: stimulating a sustainable economic growth generating employment, and (3) reinforcing social cohesion between generations and regions.

In addition, Tunisia has benefitted from two Macro-Financial Assistance (MFA) operation, a first one between 2014 and 2017 (€300 million) and a second one in 2018-2019 (€500 million), both linked to a series of policy measures intended to support the country's economic transition.

The **EU provides substantial trade-related assistance** to help Tunisia take better advantage of the existing FTA and to prepare and adapt to the possible impact of the DCFTA. Several EU projects provide assistance to a wide range of Tunisian companies in order to increase their competitiveness on the local and international markets, but also to favour reforms and to help upgrading the quality infrastructure, to the benefit of Tunisian consumers.

Overall, since the launch of negotiations for a modernised trade agreement in 2015 the EU has provided €250 million in grants to support the upgrading of the Tunisian economy and export promotion (€ 154 million on agriculture, €74 million on industry and €22 million on the services). An important pillar of the support to the industrial and agriculture sectors is the 90 million EUR "*Programme d'appui à la compétitivité et aux exportations (PACE)*" signed in November 2018, which complements the "*Programme d'Appui à la Compétitivité des Services (PACS)*" launched in 2016, which focused mainly on the services sector. Upon request by the Tunisian authorities, the EU also funds independent studies for Tunisian trade negotiators on specific subjects. These include legal monitoring of EU regulatory developments, public procurement, competition and state aid, postal services as well as sanitary and phytosanitary requirements.

[160] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52016JC0047

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Since the political, economic and geopolitical upheaval, which has affected the country since 2011, Tunisia's economy has continued experiencing subdued growth. The **GDP grew only 1% in 2019** at a slower pace than 2018 with 2.7%, falling short of the government's 3.1% growth target. This slow growth is mainly due to a downcast demand and drop in investment. Activity also suffered from **the slowdown in agriculture and contraction in industry** (sharp fall in oil and gas output). However, **growth in the service sector, particularly tourism** amounting to USD 2 billion, partially compensated the subdued growth. The number of tourists increased by 13.6% in 2019 to 9.5 million, a record level, underlining the vulnerability of growth to any potential crisis that could hit the industry.

After a peak in inflation between 2017 (6.2%) and 2018 (7.5%), the Tunisian Central Bank raised its key rate to 7.75% from 6.75% to combat high **inflation, which dropped to 6.7% in 2019**. Real interest rates are now positive.

Fiscal consolidation to offset the impact of the oil price shock continued in 2019 and the fiscal deficit eased to 3.5% against a 4.9% deficit in 2018. The Tunisian government aimed at strengthening collection efforts by merging all tax functions, including administrative, audit and recovery under the same umbrella structure. Moreover, the 2019 Budget Law harmonised the tax regime for all companies, **eliminating the preferential treatment of offshore ones,** albeit offshore companies already established benefit from a moratorium until 2021. Combined with a flexible exchange rate, this helped **reduce the current account deficit to 8.7% percent of GDP** against 11.1% of GDP in 2018, as well as **help stabilize public debt,** which stood at 71.9% of GDP in 2019 compared to 77.9% in 2018.

Unemployment remains high, even if it came down slightly to 15.2% at the end of 2019 compared to 15.4% in 2018. Unemployment continues to disproportionally affect **the youth (about 25%) and women (21.7%)** at the end of 2019 because the skill mismatching and the difficulty to start a business.

5.2 Trade in goods

The EU is Tunisia's largest trading partner, followed by China and the USA, accounting for 64% of its trade. Tunisia is the fifth most important trading partner of the EU in the Euromed region.

Total trade in goods between the UE and Tunisia has increased since the entry into force of the FTA. It rose by 55.7% between 2002 and 2019 from € 13.4 billion to €20.9. After a slight decline in 2009, the level of total UE-Tunisia trade resumed its uptrend and accelerated by 26.8% between 2009 and 2019. However, it decreased again between 2018 and 2019 by 2.1% from 21,4 € billion to 20,9 € billion because of the drop in exports owing to restrictive measures taken by Tunisia that has not been offset by an increase of imports from Tunisia.

EU exports to Tunisia increased by 46.8% between 2002 and 2019, from €7,4 billion to €10,9 billion. The EU remains by far Tunisia's main source of imports, even if EU exports decreased by 4.4% in 2019 compared to 2018 from 11,4 € billion to 10,9 € billion, owing, as indicated above, to some import restrictive measures taken by Tunisia in late 2018 until mid-2019. EU exports to Tunisia are dominated by machinery and transport equipment (€3,9 billion, 35,1%), followed by textiles and clothing (€1,3 billion, 12,3%), chemicals (€1,2 billion, 11,0%), and fuels and mining products (€1,2 billion, 11,6%). The three main EU exporters to Tunisia are France (14.2%), Germany (6.8%) and Italy (5.2%).

EU imports from Tunisia rose by 66,6% in the same period from €6 billion to €10 billion **and the EU continue to be the main destination for Tunisian products** . Between 2018 and 2019, they increased slightly by 0.6% from € 9.9 billion to €10 billion. EU imports from Tunisia are mostly made up of machinery and transport equipment (€3,8 billion, 41,3%), textiles and clothing (€2,2 billion, 23,7%) and agricultural products (€0,5 billion, 6,1%).

Overall, the agreement has proven mutually beneficial, with both imports and exports growing. Tunisia's trade deficit with the EU is relatively small when compared to the one Tunisia has with China, Russia or Turkey – three countries, which make up for a far smaller share of Tunisia's total trade. In 2019, Tunisia's trade deficit with the EU was as low as 1.4% of the country's total deficit while it reached 30.6% with China, 12,9% with Turkey and 7.3% with Russia.

5.3 Trade in agricultural products

In 2019, total trade in agricultural goods between the EU and Tunisia decreased by almost €0.2 billion compared to 2018, with a decrease of 9.7% of exports and of 18.7% of imports. The EU has a trade deficit in its agricultural trade with Tunisia (exports in 2019 totalled €494 million whereas imports totalled €534 million).

The decrease in imports from Tunisia is mainly due to a decrease of 32.4% in imports of olive oil (essentially due to a bad harvest and market developments), that represents more than 52% (and a value of €277 million) of total imports of agricultural goods from Tunisia. The import of tropical fruit is also quite relevant, representing with 20% of imports of agricultural goods from Tunisia with a value of €105 million.

EU exported to Tunisia mainly wheat (24.5% for a value of €121 million) and other cereals (11%, and a value of 53%). The export of cereals other than wheat and rice saw a decrease of 43.6% compared to 2018.

TRQs granted by the EU to Tunisia

The 56 700 tonne tariff rate quota (TRQ) for olive oil imports from Tunisia set out in the bilateral agreement was completely filled in 2019 (fill rate of 100%). Fill rates were extremely low for cut flowers and new potatoes (1% each) as well as wine (2%); the fill rate for oranges slightly increased (from 31% to 33%). The remaining quotas for Tunisian products were not utilised at all in 2019.

Utilisation rate of TRQs opened by the EU to Tunisia						
				Utilisation in TRQ period ending in:		
Sector	**TRQ description**	**TRQ Quantity**	**Unit**	**2017**	**2018**	**2019**
Honey	Honey	50	t	0%	0%	0%
Flowers	Cut flowers	1.120	t	0%	4%	1%
F&V	New potatoes	18.816	t	2%	0%	1%
F&V	Olives, provisionally preserved	10	t	0%	0%	0%
F&V	Oranges	39.338	t	41%	31%	33%
Oils	Olive oil, virgin	56.700	t	99%	100%	100%
F&V	Tomatoes, prepared or preserved, min. dry matter 12%	4.000	t	6%	12%	18%
F&V	Truffles, prepared or preserved	5	t	0%	0%	0%
F&V	Apricot pulp	5.160	t	0%	0%	0%
F&V	Mixtures of fruits	1.000	t	0%	0%	0%
Wine	Wine	179.200	hl	6%	4%	2%
Wine	Wine, local PDO, ≤ 15% vol, ≤ 2L	56.000	hl	0%	0%	0%

Information on the utilisation of TRQs granted by Tunisia to the EU was not readily available at the time of drafting of this staff working document.

5.4 Trade in services and Foreign Direct Investments

Two-way trade in **services** amounted to €3.6 billion in 2018 with EU imports of services representing €2.5 billion and exports €1.1 billion.

Total trade in services between the EU and Tunisia decreased between 2015 and 2018, from €4.2 billion to €3.6 billion, mainly owing to the weak performance of the tourism sector (accounting for 13.8% of Tunisian GDP) mostly due to security issues during a number of years. Both Tunisia and the EU suffered from this decrease, with Tunisian exports of services to the EU falling by 13.8% between 2015 and 2018 and EU exports of services to Tunisia falling by 15.4 % over the same period. In 2018, the EU exported €1.1 billion in services to Tunisia, compared to € 1.2 billion in 2017 but Tunisia increased slightly its exports in services to the EU from €2.4 billion to in 2017 to €2.5 billion in 2018 following the tourism sector recovery during this year. Thus, the service trade balance remains in deficit with Tunisia.

FDI flows remained relatively steady between 2013 and 2018, despite a slowdown of EU FDI in Tunisia, resulting in the total EU FDI stock of €4.0 billion in Tunisia at the end of 2018. Flows of foreign direct investment to Tunisia are concentrated on the development of the infrastructure network as well as of the textiles and clothing sectors. The EU remained the first foreign investor in Tunisia, accounting for over 85% of FDI entering the country as well as the first employer with 81% of the total employment generated by FDI. France continues to be the main foreign investor with 34.2% of FDI in 2018, followed by Italy (8.4%) and Germany (7.4%).

According to the World Bank Ease of Doing Business 2020 ranking, in 2019 Tunisia ranked 78th out of 190, up from the 80th place in 2018, with a distance to frontier (DTF)[161] score of 68.7 out of 100 – an improvement from the score of 2018 (66.1).

6. CONCLUSIONS

Overall, the FTA has had a **positive impact on EU-Tunisia trade,** especially for Tunisia, which has seen a gradual expansion and diversification of its trade to the EU. Despite persistent non-tariff barriers on the part of Tunisia, both Tunisia and the EU benefited from the phase-out of bilateral tariffs. In addition, 2019 saw some major trade barriers removed after active EU engagement. Nonetheless, the existing FTA between the EU and Tunisia has reached its limits and would need to be modernised to further boost and facilitate trade, allowing the Tunisian economy to further diversify and adapt to evolving regional value chains. This shows the importance of pursuing negotiations of a modernised trade agreement.

One of the main objectives of the latter is to support economic reforms in Tunisia and faciliate their ability to export by regulatory convergence towards international and EU standrads. The principles of asymmetry and progressiveness in favour of Tunisia guide both market access (especially in agriculture) and regulatory approximation. The negotiations have been carried out in a transparent manner with all EU initial proposals published and civil society consultations held in the margins of negotiating rounds, including jointly. Joint reports were also published after each round, including in Tunisia[162].

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[161] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time.

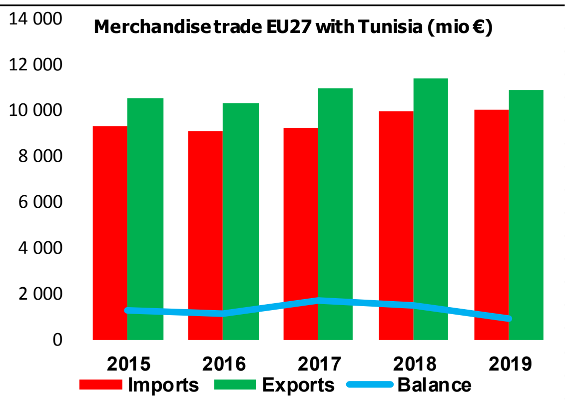
[162] https://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/

7. Statistics

TUNISIA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Tunisia (mio €)					
Imports	9 307	9 141	9 258	9 963	10 026
Exports	10 568	10 328	10 990	11 449	10 944
Balance	1 261	1 186	1 732	1 486	918
Share Tunisia in EU27 trade with Extra-EU27					
Imports	0.6%	0.6%	0.5%	0.5%	0.5%
Exports	0.6%	0.6%	0.6%	0.6%	0.5%
Total (I+E)	0.6%	0.6%	0.5%	0.5%	0.5%
Share EU27 in trade Tunisia with world					
Imports	53.8%	52.8%	52.7%	52.3%	52.1%
Exports	74.8%	75.7%	72.0%	71.6%	69.7%
Total (I+E)	62.2%	62.0%	60.6%	60.1%	59.5%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Tunisia: IMF Dots



Total merchandise trade EU27 with Tunisia (mio €)

Tunisia	2018	2019	Growth mio €	Growth annual %
Imports	9 963	10 026	63	0.6%
Exports	11 449	10 944	-505	-4.4%
Balance	1 486	918	-568	
Total trade	21 412	20 971	-442	-2.1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Tunisia (mio €)

Tunisia	2018	2019	Growth mio €	Growth annual %
Imports	657	534	-123	-18.7%
Exports	547	494	-53	-9.7%
Balance	-110	-40	70	
Total trade	1 204	1 028	-176	-14.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Tunisia (mio €)

Tunisia	2018	2019	Growth mio €	Growth annual %
EU27 imports	9 306	9 493	186	2.0%
EU27 exports	10 902	10 450	-452	-4.1%
Balance	1 596	957	-638	
Total trade	20 208	19 943	-266	-1.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Tunisia (mio €)

Tunisia	2017	2018	Growth mio €	Growth annual %
Imports	2 415	2 517	102	4.2%
Exports	1 199	1 138	-60	-5.0%
Balance	-1 216	-1 378	-162	
Total trade	3 614	3 655	41	1.1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Tunisia (mio €)

	2014	2015	2016	2017	2018
Imports	3 229	2 912	1 841	2 415	2 517
Exports	1 009	1 252	1 205	1 199	1 138
Balance	-2 220	-1 660	-636	-1 216	-1 378
Total trade	4 238	4 164	3 046	3 614	3 655

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Tunisia (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward		222	636		799
Outward		2 963	4 145	4 183	4 044
FDI Flows					
Inward		-40	33		-2
Outward		368	742	462	-127

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

PART IV: AFRICAN, CARRIBEAN AND PACIFIC COUNTRIES

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

1. INTRODUCTION

The EU-SADC European Partnership Agreement (EPA) is an agreement between the EU and six countries from the Southern African Development Community (SADC): Eswatini, Botswana, Lesotho, Mozambique, Namibia and South Africa . It was signed on 10 June 2016 and entered into provisional application on 10 October 2016 for all Parties to the Agreement except for Mozambique. It entered into provisional application for Mozambique on 4 February 2018. Hence 2019 was the second year in which all SADC EPA states fully implement the EU-SADC EPA ("the Agreement").

All SADC EPA States except South Africa receive duty free and quota free treatment for all their goods (except arms and ammunition) imported into the EU. South Africa receives such treatment for 96% of its exports to the EU and an additional 2.7% of exports from South Africa benefits from reduced tariffs or from preferential tariff rate quotas. The Southern African Customs Union (SACU), comprising Eswatini, Botswana, Lesotho, Namibia and South Africa, grants duty free and quota free treatment to 84.9% of products exported by the EU to the region. An additional 12.9% of EU exports benefits from partial liberalisation (reduced tariffs or tariff rate quotas). As a least developed country, Mozambique liberalises a smaller percentage of exports from the EU.

The EU-SADC EPA is the first and only regional EPA in Africa to be fully operational (all partners are implementing the tariff cuts foreseen by the EPA). The Agreement replaces all the trade provisions of the former bilateral Trade and Development Cooperation Agreement (TDCA) between the EU and South Africa .

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

Mozambique has started to apply the reduction in EPA customs duties for goods coming from the EU since the 1st of January 2019, as the last SADC EPA State to do so. Several EU Member States and EU companies confirmed that it is working in practice and that they are benefiting from preferential (reduced) EPA tariff for imports from the EU to Mozambique. Mozambique has also updated its tariff book (*pauta aduaneira*) to the Harmonized System nomenclature of 2017.[163]
In February 2019, the first meeting of the EU-SADC EPA Joint Council took place. At its first meeting, the Joint Council adopted the institutional framework of the EPA,for instance rules of procedures of the main bodies under the EPA and procedural rules on dispute

[163] The Harmonized System (HS/SH) is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes. Mozambique´s updated tariff book is published on Mcnet site.

settlement and avoidance. This allowed all the bodies set up under the EPA to become fully operational.

In 2019, the EU and the SADC EPA States had regular contact on trade irritants concerning in particular poultry (see section 2.3) and textile exports of the EU to SACU. In both cases the EU believes that the SACU States are not respecting the obligations under the EPA.

An outstanding implementation issue is the fact that the EPA foresees the possibility to 'cumulate origin': for instance, a SADC EPA State could import products from other SADC EPA States or another ACP country, carry out some processing, and export under the same preferential regime that applies to fully originating products (i.e. zero duties and zero quota). This provision could be key for integration within the SADC region but has not entered into force yet, in the absence of a confirmation by the SADC EPA States of the intention to start applying it. It has nevertheless be discussed between the EU and the SADC EPA States at several occasions.

2.2 Progress in the implementation of trade and sustainable development provisions

The EU-SADC EPA includes a chapter on Trade and Sustainable Development and parties have used it, for example, to engage in a debate on trade and climate change during the latest Trade and Development Committee meeting, in February 2020.

At the Joint Council meeting of 19 February 2019, EPA Parties committed to co-facilitate at least once per year the organisation of a meeting of non-state actors from both the EU and the SADC EPA States to discuss EPA-related issues and EPA implementation.

During the meeting, the SADC EPA States have committeed, by the next Trade and Development Committee, to send a proposal rerding non-state actors and how they should be engaged in the implementation of the EPA. To this date, this however remains substaintially outstanding (see section 3 below).

On the same date, the EU and African Farmers Association of South Africa hosted the Organic, Fair & Ethical Trade Event in Cape Town. The event was attended by more than 140 participants from industry, emerging farmers, academics and government. The event addressed market opportunities ino the European sustainable, fair and ethical market for farmers in South Africa, provided technical input and information on organic, fair and ethical trade and showcased successful case studies. Participants used the opportunity to deliberate on these matters with policy makers – high-level input was provided by the Deputy Minister of Agriculture Forestry and Fisheries in the Government of South Africa and the EU Trade Commissioner.

2.3 Legal enforcement – dispute settlement case

On 14 June 2019, the EU requested formal consultations with SACU regarding a safeguard measure imposed on 28 September 2018 on imports of frozen poultry from the EU, thereby triggering the dispute avoidance and settlement procedures foreseen under the EU-SADC agreement. Consultations, which are the first step in the dispute settlement process, took place in Gaborone (Botswana) on 13 September 2019. During the consultations, the EU focussed on three main aspects of the safeguard measure at stake, namely the legal basis used by SACU, the procedural aspects of the investigation, and the data and calculations used to determine the level of the safeguard.

By way of background, on 15 December 2016 a provisional safeguard measure of 13.9% was imposed on imports from the whole EU based on Article 34 of the EU-SADC EPA. On 28 September 2018, SACU adopted a final safeguard measure against imports of poultry from the EU. The safeguard measure takes the form of increased tariff duties, subject to progressive reduction over a period of four years. The safeguard was set at 35.3% for the first six months, which were reduced to 30% in March 2019. Yearly reductions will follow in March 2020 to 25% and in March 2021 to 15%. The safeguard will expire on 11 March 2022. However, it could be extended for a further 4 years thereafter.

The adoption of the safeguard in September 2018, should be seen in the context of South Africa's concerted effort to curb imports of poultry from the EU.

In 2015, South Africa imposed anti-dumping duties of 22%, 30% and 73% on imports respectively from Germany, the Netherlands and the UK, based on the South Africa's anti-dumping regulatory framework. These measures would normally expire after 5 years unless an interim investigation is opened based on new elements, or a sun-set investigation is granted at the end of the 5 years to renew the measures. The Southern African Poultry Association has made a submission to renew the measures for another five years and the administrative process to this effect has just started.

In addition, in October 2016, South Africa imposed SPS bans, due to avian influenza outbreaks, on poultry from eight EU Member. These bans are still in force for four EU Member States (Belgium France, Germany, and Hungary) despite the fact that the avian influenza outbreak was already contained back in 2017 and the World Organisation for Animal Health (OIE) declared them Avian Influenza free. Bans on imports from Poland and Spain were only lifted in 2019 (following field visits) and the Netherlands was readmitted only in February 2020.

As a consequence of the above measures, EU exports of frozen bone-in chicken cuts affected by the SACU safeguard measure dropped in 2017 to less than one third of the 2016 levels and have since stayed low. Because of the inability of the South African producers to meet demand, imports from EU were substituted by imports from US and Brazil. On 13 March 2020 SACU's MFN rate was increased from 37.5% to 62% impacting on imports from non-EU countries.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **6th meeting of the Trade and Development Committee (TDC),** the main implementing body under the Agreement, took place in February 2020, alongside a meeting on Trade in services, and technical committee meetings.

During the TDC, the committee agreed on a system for **monitoring and evaluating** the EPA. The Parties in particular agreed to a set of monitoring indicators and agreed to work towards adopting annual joint monitoring reports. Moreover, the Parties discussed a request from Angola to start negotiations on its accession to the EPA.

Parties endorsed a number of **draft decisions** for adoption by the Joint Council on the following matters: (i) updating the reference quantities for the application by the Southern African Customs Union (SACU) of the Agricultural safeguard under Article 35 of the EPA, (ii) allocation and reallocation of the tariff rate quotas (TRQs (pending the SACU-wide TRQ management system) for imports from the EU and on (iii) corrigendum to the SADC-EU EPA.

Following the formal consultations within the **trade dispute** on safeguard tariff imposed by the SACU on imports of frozen poultry from the EU (see section 2 above), the Parties exchanged views on the next steps of the dispute settlement procedure.

As the SADC-EU EPA approaches 4 years of its implementation, the Parties exchanged views on its **review** which should start in 2021 in accordance with the Agreement's provision.

The co-facilitation of engagement of **non-state-actors** representatives from both sides in the monitoring of EPA implementation was also discussed with a view of reaching agreement on key principles allowing organisation of a first joint meeting of non-state actors from both sides in October 2020.

In the context of implementation of the **Trade and Sustainable Development Chapter**, the SADC-EPA Party made presentation on climate change policies and the EU Party on the European Green Deal, the new EU's climate friendly growth strategy.

The SADC EPA States provided updates on their **National EPA Implementation Plans**, aiming at identifying the necessary steps and measures to fully implement the EPA and maximize the contribution of the Agreement to sustainable development.

In the margins, a **meeting on Trade in Services** took place between the EU and the 'participating SADC EPA States' (Eswatini, Botswana, Lesotho and Mozambique). It was a fruitful first discussion between the parties on trade in services since the last discussion in 2014.

During the same week, a **3rd meeting of the Special Committee on Trade Facilitation and Customs Cooperation** and a **4th meeting of the Special Committee on Geographical Indications and Trade in Wines and Spirits** and a second meeting of the **Agricultural Partnership** took place. SACU expressed its willingness to finally start applying diagonal cumulation[164] although some small administrative formalities still need to be met.

Previously, on **19 February 2019** the **first meeting of the EU-SADC EPA Joint Council** (at ministerial level) took place. This first meeting of the Joint Council allowed for the adoption of the 'institutional set-up' of the Agreement, notably the rules of procedure for the bodies under the agreement and the procedural rules for dispute settlement. Moreover, the Joint Council endorsed an update of the annex to the EPA on the agricultural safeguard that will render this provision operational. This update allows the Southern African Customs Union

[164] SADC EPA States have the possibility to use non-originating materials through the rules on cumulation of origin. This means that in certain circumstances, a factory in for example Botswana can use materials from another country and further process them. In calculating whether the final product can be considered to originate in Botswana within the meaning of the EPA, the materials from the other country are considered to be Botswana inputs and count towards the originating status of the final product. The SADC EPA allows SADC EPA States to cumulate with originating materials products from other countries party to the EPA, as well as many other countries (ACP and others).

(SACU) to impose a safeguard on imports of certain products from the EU, should these go beyond a pre-defined threshold level. Finally, at a meeting which took place on the day before, the Trade and Development Committee also adopted the list of arbitrators for dispute settlement.

4. TRADE AND DEVELOPMENT COOPERATION AND SPECIFIC AREAS OF IMPORTANCE

1. Regional programmes

Regional economic integration was a focal sector for the SADC region, both under the 10th and 11th European Development Fund (EDF). The following programmes are directly relevant to EPA implementation.

a) Under 10th EDF

EU-SADC Trade Related Facility (TRF) (€32 million) continued in 2019, supporting national administrations to better implement regional integration policies at national level, such as the SADC Trade Protocol. The Programme was granted an extension up to September 2021. All SADC EPA States have in the past benefitted from support under this Facility, for example:

- Botswana: Strengthening capacity of trade development institutions, SPS and TBT (€1.2 million) and development of a national e-commerce strategy for Botswana (€1.2 million);
- Eswatini: €2.6 million for trade facilitation, tourism policy, customs administration, with a focus on the Agriculture sector;
- Mozambique: €2.6m was approved in 2017 (until 2019) to support complementary aspects of the SADC Trade Protocol and EPA in Mozambique, managed by the Ministry of Industry and Trade.

The Tripartite Transport and Transit Facilitation Programme (TTTFP) (€18m) is assisting COMESA, EAC and SADC (Tripartite) member states to harmonize road transport laws, policies, regulations, standards and systems with the aim to facilitate increased trade. A Project Management Unit is hosted by SADC Secretariat on behalf of the Tripartite.

The **Regional Integration Support Programme** (€20 million) was completed in December 2018 and aimed at supporting the implementation of the regional trade agenda, the negotiation of the EU-SADC EPA and the SADC Finance and Investment Protocol.

b) Under 11th EDF:

The **EU-SADC Support to Improving the Investment and the Business Environment in the SADC region** (SIBE) programme (€14 million) will support the implementation of the SADC protocol on investment and finance by improving and harmonising the investment policy framework in the region to facilitate and enhanced integration of financial markets.

EU- SADC Support to Industrialisation and Productive Sectors in SADC Region (SIPS) (€18 million) will support the development of two regional value chains (leather and anti-retroviral) through the enhancement of the policy and regulatory environment along these two value chains and the improvement of the private sector participation.

EU-SADC Trade Facilitation Programme (TFP) (€15 million): aims at reducing the cost of intraregional trade by enhancing the efficiency of border posts. It will harness the benefits from the EU-SADC EPA and support implementation of trade facilitation measures at corridor level.

2. National programmes

In addition, each SADC EPA State has drawn up or is in the process of drawing up, jointly with the EU, National EPA Implementation Plans (NEIPs) The purpose is to identify necessary steps and measures to fully implement the EPA and maximize the contribution of the EPA to long-term sustainable development. Under the 11th EDF, the EU will support the operationalization of the NEIPs with **€30 million in Botswana, Eswatini, Lesotho, Mozambique and Namibia.** Under the Development Cooperation Instrument (DCI), €10 million have been allocated to South Africa for the same purpose.

A) BOTSWANA

The Government officially submitted the Botswana EPA Implementation Plan in October 2017. Key national stakeholders and the EU Delegation developed the Plan.

Current and future support programmes:

EU-Botswana Policy Dialogue Facility - €1.5 million. This programme will facilitate and strengthen the dialogue between Botswana counterparts and the EU in issues of common concern, such as the implementation of EU-SADC EPA and the strengthening of the private sector and the development of value chains in Botswana.

The EU–SADC Economic Partnership Agreement Support programme €6 million. The programme's main objective will be to support Botswana to effectively implement the EPA and reap the full benefits offered by the agreement. The programme was approved by the EDF Committee on 15 October 2019. Preparatory work is ongoing for the inception phase of the programme.

Trade and private sector development (TPSD) Facility. The objective of the two missions is to develop an Action Plan to address the capacity needs of the relevant stakeholders to implement the EPA National Implementation Plan and to assist in the preparation of the Terms of reference for the technical assistance programme.

Support to Job Creation and Investment Climate – Botswana Window (€5 million). The programme aims at supporting the implementation of the Doing Business reforms Roadmap and Action Plan, in particular through simplification of the regulatory framework and development of e-government services. It will also support ecotourism development, with a focus on community-based, economically-viable and effectively managed ecotourism enterprises, conservation and heritage areas. The programme was approved by the EDF Committee in September 2019. Work is ongoing to prepare the necessary documents for its implementation.

Short-term support was also provided by experts of the EU-funded **TradeCom Facility**: (1) Support to Botswana National Beef Producers' Union : In the context of the privatisation of the Botswana Meat Commission, the support aims at boosting the beef value chain in Botswana and the profitable participation of farmers to the new company. (2) Botswana Investment and Trade Centre: support market intelligence for organic fertilizer exports to the EU, guidelines and recommendations for active businesses in keeping with the EU import requirements.

B) ESWATINI

The Government completed the drafting of the National EPA implementation plan early 2019, which was approved by Cabinet in April 2019.

Current and future support programmes:

Under the **COMESA Regional Integration Support Mechanism (RISM)**, €1.1 million have been granted to Eswatini for private sector support: construction of trade hub and investment promotion.
Support to EPA implementation (€6 million). This programme (currently under formulation) will aim to: 1.Strengthen public-private dialogue on ease of doing business and MSME competitiveness.2. Increase value addition, productivity and competitiveness through environmentally and socially responsible producer-buyer alliances. 3.Enhance capacity of trade and investment promotion bodies and/or private sector associations so as to take advantage of EPA opportunities.

Support to Job Creation and Investment Climate – Eswatini Window (€5 million). The specific objectives of this programme are:
- The establishment and support to public-private partnerships in selected value chains (horticulture/livestock);
- Support to the participation of local micro, small and medium enterprises in export-oriented Special Economic Zones;
- Increasing the data and knowledge available on upgrading the targeted value chains and on designing bankable investment projects.

Livestock Value Chain Development Programme (€9.15 million). Its specific objectives are to improve smallholder livestock productivity through a more inclusive management of assets at community/household level, promoting inclusive, efficient and transparent markets for livestock products and the establishment of new SMEs along the value chain.

C) LESOTHO

The National EPA Implementation Plan was finalised and adopted in the first half of 2018. Lesotho confirmed the Coordinating Committee on Trade (LCCT) as an existing platform to monitor EPA implementation (the Committee is hosted by the Ministry of Trade and Industry and involves all relevant stakeholders).

Current and future support programmes:

A programme is under formulation to assist the government in **NEIP implementation and trade facilitation** (RIP, €6 million) that should be adopted mid-2020. The main objective of the programme is to contribute to Lesotho's inclusive economic development and sustainable regional and international trade. With a focus on selected value chains to be identified as part of the action, the specific objectives are to enhance the capacity of the Government to manage and implement trade agreements, supporting the upgrading of value chains and investment promotion.

D) MOZAMBIQUE

A National EPA Implementation Plan was formally adopted by the Government of Mozambique in April 2018. The EPA Implementation Plan addresses the priorities relating to EPA Compliance Measures, EPA related business environment actions and trade facilitation reforms in order to improve business environment and facilitate trade. Mozambique officially launched its National Trade Facilitation Committee (NTFC) in July 2018

Current and future support programmes:

The **Support Programme to Trade and Development** (€6m NIP + €6m RIP) will address trade facilitation issues (customs, trade safeguards, quality infrastructure) and aspects of the business environment agenda, with a focus on supporting the smooth implementation of the SADC EU EPA and of the WTO´s Trade Facilitation Agreement. The Financing Agreement was signed in December 2018 and implementation started on 4th November 2019 with the arrival of the Technical Assistance. In addition, the quality infrastructure component to be implemented by UNIDO will be contracted before the end of the year.

E) NAMIBIA

The EPA Implementation Plan was formulated with EU support. A validation workshop was organised on 21 August 2018. The plan remains quite large, although a few activities have been prioritized. The Ministry of Trade, Industrialisation and SMEs Development has officially adopted the Plan as National Working Document and will be shortly organising a launching event.

One of the Plan's priority actions is to strengthen the role and performance of the National Competent Authorities, with focus on SPS issues. To this end, the technical assistance was extended to provide the Namibian Standards Institute, who is the competent authority for fish and fishery products, with training and capacity building in the areas of a) delegation of authority and rules of origin, b) food safety and animal health and the importance of SPS agreements and c) access to the EU market and overview of the applicable EU legislation.

Current and future support programmes:

Namibia benefits from the 10 EDF RIP, Trade related facility, €2.6m: Optimisation of the **Industrial Upgrading and Modernisation Programme** (IUMP); trade facilitation and EPA implementation

11 EDF National Indicative Plan, – **Technical Cooperation Facility**, Technical Assistance to support the formulation of the EPA implementation Plan. The last phase of the project is envisaged to deliver some specific training and capacity building to the Namibia Standard Institute in the area of food safety and SPS requirements for Namibia exports to the EU of fish and fishery products.

11 EDF **Livestock Support Programme in the Northern Communal Areas** of Namibia: boosting the entire beef value chain, from production to processing and trade (investment climate driver: business environment reforms).

11 EDF RIP Cross-regional - **Support to EPA implementation** in Namibia, €6m was endorsed by the EDF Committee in October 2019. The programme has an innovative approach to EPA implementation including: i) supporting the EPA more private sector involvement (e.g. by associating them in value chain support, notably around SPS/TBT/quality); ii) peer to peer exchange .

F) SOUTH AFRICA

The South African Government has preprared an EPA implementationplan which aligned EPA implementation and support along the priorites of the National Development Plan.

The EU-funded €10 million 'Support Programme to the implementation of the EU–SADC Economic Partnership Agreement (EPA) in South Africa (SA)' seeks to unlock challenges related to quality infrastructure and technical capacity in agricultural value chains that are throttling exports to the EU and to support increased responsiveness to opportunities under the EU-SADC EPA, particularly for emerging exporters of agricultural products and those with recognised geographical indications. €8.5 million will be provided through budget support and €1.5 million in technical assistance.Implementation will start in April 2021.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Over the last few years, a number of factors (from drought and cyclones, to energy infrastructure failures, as well as unfavourable commodities cycles) have held back economic growth and jobs creation in the region. South Africa, the regional economic powerhouse, remains in a state of economic stagnation, with growth rates well below 1%. The economies Namibia has even contracted.

Besides persistent structural problems in South Africa, events such as cyclones Idai and Kenneth in Mozambique in 2019 have further weighed heavily on the whole region.

In 2019, South Africa only grew by 0.2%[165], formally entering technical recession by the end of the year. According to available sources, Lesotho grew by 2.6%[166], Eswatini by 1.4%[167], Mozambique by 1.9% [168], Namibia contracted by 1%. Only Botswana maintained a higher growth rate of 3.5%[169]. In such a difficult environment[170], the continued growth of South

[165] http://www.statssa.gov.za/?p=13049
[166] https://www.afdb.org/en/countries/southern-africa/lesotho
[167] https://www.afdb.org/en/countries/southern-africa/eswatini
[168] https://www.afdb.org/en/countries/southern-africa/mozambique/mozambique-economic-outlook
[169] https://www.afdb.org/en/countries/southern-africa/botswana
[170] See also IMF data at https://www.imf.org/en/Publications/REO/SSA/Issues/2019/04/01/sreo0419 page 58 onwards

African exports to the EU thanks to the EPA are important to note, providing much needed support to the economic locomotive of the region.

South Africa recorded a good performance in the WEF Competitiveness Global ranking 2019, gaining 7 positions, up to number 60 thereby narrowing the gap with Muritius, Africa's top performer at 52[171]. That was mainly thanks to improvements in public sector governance and re-inforcement in the judiciary system. Namibia at 94 improved its ranking by 6 positions. Botswana (at 91), Eswatini (at 121) and Lesotho (at 131) dropped by one notch compared the previous year, while Mozambique, (the lowest ranking in the region at 136) lost four positions.

The COVID pandemic in 2020 is expected to lead the region into a state of quasi economic paralysis as most manufacturing (automotive and textile in particular) and mining activities have been brought to a halt. The agricultural sector may prove more resilient but will still be hit by a large number of constraints (from collapse of demand for some producs to trade restrictions and logistics deterioration).

5.2 Trade in goods

The EU, even at 27, remains the **main trading partner** for the six SADC EPA States, accounting for 23.4% of their exports (ahead of China with 11.75%, the US with 7.6% and the UK with 7.5%) and 26.1% of their imports (ahead of China with 18% and USA with 6.57%).

Main destination for SADC EPA States' exports within the EU are Germany (37%), Belgium (20.5%) and the Netherlands (14.1%), followed by Italy (8.8%) and Spain (6.6%). EU exports to SADC EPA States come from Germany (39%), the Netherlands (9.9%), Italy (8.1%) and France (7.7%).

Total trade between the EU27 and SADC EPA States has been increasing since implementation of the EPA in 2016. In particular, EU imports from SADC EPA states have increased continuously over the past five years, while EU exports have evolved irregularly to bounce to a new peak in 2019. While the overall balance of trade is positive for the EU, SADC EPA States record a surplus in agricultural trade with the EU. South Africa accounts for 82% of EU imports from and 93% of EU exports to SADC EPA States. The trade balance with South Africa is positive for the EU but the surplus has been shrinking (down to €4 billion in 2019).

In 2019 (and in line with previous growth), EU imports from SADC EPA States increased by €1.1 billion or 5.4% to €23 billion, while EU exports to SADC EPA increased by €1.45 billion or 6.2% to €24.5 billion.

The increase in **EU27 imports** was driven exclusively by **South Africa**, and mostly by increases of imports of motor vehicles and ores, slag and ash (predominantely iron ore). Overall EU imports from South Africa increased by €1.5 billion or 9% to a new record total of €19 billion. Main imports in 2019 were motor vehicles (€5.9 billion, +26.4%), precious stones and metals (€3.4 billion, +5.8%), ores, slag and ash (€2.1 billion, +63.4%), edible fruits

[171] http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

and nuts (€1.2 billion, -3.2%), machinery and mechanical appliances (€1.2 billion, +11%) and iron and steel (€0.8 billion, 15.6%).

Imports from **Botswana** decreased by €136 million (-10.8%) to €912 million billion due to a decrease in raw diamond exports (-€354 million or -31.7%), offset only slightly by increases in exports of the only other significant export to EU, namely fresh or frozen beef, which leaped from €9.6 million to €17 million.

EU imports from **Mozambique** decreased by €83 million (-4.7%) to €1.66 billion, mostly due to slowing raw material exports, such as aluminium (-3.7%) and coal (-32%), having both registered record highs last year. This was partially compensated by significant increases in exports of tobacco (+12%) and cane sugar (+562.4%). Other agri-food exports in 2019 included frozen shrimps (€27 million, -10%), and cashew nuts (€11.9 million, +24%).

EU imports from **Namibia** decreased, halting the positive trend of the last few years (from €987 million in 2014 to €1.26 billion in 2018), levelling at €1.1 bn in 2019. This is mainly due to a drop in export of unrefined and refined copper (-€137 million, or -26%). Other important exports in 2019 included hake fillets (€228.7 million, - 1.6%), diamonds (€117 million, +12%), zinc (€55 million, -42%) and grapes (€53 million, +10.7%%).

Both Lesotho and Eswatini trade mostly with South Africa. EU imports of diamonds from **Lesotho** fell by €54 million (or -16%) to € 292 million in 2019 – accounting for 98% of Lesotho's total exports to the EU. The portion of processed diamonds, however, increases (from less than 2% to nearly 10%).The remaining exports are mostly apparel and clothing, and some tropical fruits.

EU imports of sugar from **Eswatini** (accounting for some 80% of total imports) rebounced dramatically to €85 million in 2019 (+ 269%) after a string of negative years, boosting Eswatini trade surplus to €72 million. Exports of alcoholic beverages and derivatives kept increasing (by 32%, from €5.3 to €7 million). However, exports of prepared or preserved fruits and nuts, including fruit juices went down by 25% (from €4 to €3 million).

Exports of SADC EPA States to the EU are still **little diversified**. The share of mining products and precious stones and metals in total SADC exports to the EU has slightly decreased since implementation of the EPA but nevertheless remains dominant for most countries. Exports are largely concentrated in few products: the share of the top 10 export products in their total exports to the EU is extremely high for Eswatini (96.6%), Botswana (99.9%), Lesotho (99.9%) and Mozambique (94.4%). Namibia (83.3%) may be showing some early signs of diversification. South Africa (46.9%) is the exception, as the country has a diversified export base including manufactured goods (cars in particular) and agricultural products.

Preference utilization rates (PUR) for exports to the EU for the region is 88.8%, averaging around 98-99% range for Botswana, Mozambique and Namibia. They were a bit lower for Eswatini, Lesotho and South Africa in 2019 where they stood at about 87.5%.

In 2019, total **EU exports to SADC EPA States** were €24.5 billion. EU exports to Botswana, Eswatini, Lesotho, Mozambique and Namibia increased by €144 million (10.3%) to €1.53 billion, while EU exports to South Africa rebounced by €1.3 billion to €23 billion. Main exports to SADC EPA States were machinery and mechanical appliances (€7.5 billion,

+7.3%), motor vehicles (€4.7 billion, +15.9%) and pharmaceutical products (€1.1 billion, +7.73%).

Main increases in exports to SADC EPA States in absolute terms: machinery and mechanical appliances (+€400 million, +9.5%), motor vehicles (+368 million, +9.4%), electrical machinery and equipment (+110 million, +4.9%), medical instruments. Main increases in relative terms: zinc and articles thereof (+279.2%); aircraft, spacecraft and parts thereof (+267.7%), cereals (+67%) and products of animal origin (+26%).

Exports of mineral fuels and oils (-€359 million, -35.7%), allumium (-€46 million, -25.8%), plastics (-€21 million, -2.2%) and sugar (-€13 million, -38.2%) have shown the largest absolute losses in 2019. In relative terms, exports of sugar (-38.2%), mineral fuels (-35.7%), live trees (-34.9%) and alluminium (-25.8%) decreased the most.

According to South African statistics, preference utilization rates (PUR) for EU exports to South Africa (hence to SACU overall) stood at around 64.5% in 2018 (latest year for which data is available). For Mozambique, no data is available.

5.3 Trade in agricultural products

Agricultural imports from the SADC EPA region to the EU have kept increasing since the entry into force of the EU-SADC EPA, moving from €2,1 billion in 2016 to €2,4 million in 2019. In 2019, edible of fruits and nuts accounted 56% of total agri-food imports, despite decreasing slightly by 2.4% to €1,342 million. Sugar imports bounced back to €175 million (+€105 million, +152%), imports raw tobacco increased to €132 million (+€14 million, +12%), while wine imports decreased to €244 million (-€28.5 million, -10%) and imports of fruit and vegetable prepatations decreased to €109 million (-€2 million, -2%).

Main **agri-food imports from South Africa** in 2019 were citrus (€ 536 million, -1%) and other fruits, excluding tropical (€575 million, -7%), wine (€244 million, - 10%) and tropical fruits (€168 million, +3%). Wool and silk (+€10 million), fatty acids and waxes (+€5 million), vegetables (+€5 million) and tropical fruit (+€5 million) saw the strongest increases in absolute values.

Tariff rate quotas opened by the EU to South Africa

The usage of the TRQs granted by the EU to imports from South Africa has decreased for apple juice, sugar and tropical canned fruit and increased slightly for canned fruit. Global weighted average of EU TRQ usage went down from 74% in 2018 to 69% in 2019.

Utilisation rate of TRQs opened by the EU to South Africa						
				Utilisation in TRQ period ending in:		
Sector	**TRQ description**	**TRQ Quantity**	**Unit**	**2017**	**2018**	**2019**
Dairy	SMP	500	t	0%	0%	0%
Dairy	Butter	500	t	0%	0%	0%
F&V	Strawberries, frozen	400	t	0%	0%	0%
Sugar	Sugar	50,000	t	84%	99%	91%
Sugar	Sugar, for refining	100,000	t	100%	100%	99%
Sugar	White crystalline powder	500	t	0%	0%	0%
F&V	Citrus fruit jams	100	t	0%	0%	0%
F&V	Canned fruit, non-tropical	57,156	t	55%	44%	47%
F&V	Mixtures of tropical fruit	3,140	t	0%	8%	0%
F&V	Orange juice, frozen	1,099	t	100%	100%	100%
F&V	Apple juice	3,829	t	25%	86%	4%
Preparations	Yeast, active	350	t	24%	21%	18%
Wine	Wine	792,239	hl	77%	98%	84%
Wine	Wine	339,531	hl	100%	100%	100%
Ethanol	Ethanol	80,000	t	14%	17%	15%

EU agri-food exports to SADC EPA states increased by €280 million or 18% in 2019 and accounted for 7.6% of total exports to SADC EPA states in 2019.

Main **agri-food exports to South Africa** in 2019 were wheat (€261 million, +63%), vegetables oils excluding olive oil (€172 million, +8%), poultry meat ((€125 million, +42%) and spirits (€99 million, +0.5%). Export increases in absolute values were highest for wheat (+€101 million), poultry (+€37 million[172]), beer (+€28 million) and milk powders and whey (+€26 million). Export decreases in absolute terms were highest for cane sugar (-€15 million, -86%), pork meat (-€6 million, -12%), olive oil (-€3 million, -15%), and cheese (-€3 million, -10%).

Tariff rate quotas opened by the SACU to the EU

In 2019, **SACU TRQs** for cereals-based food preparations and Mortadella Bologna were used for the first time. Except for the TRQ on barley (which was not used because out-of-quota tariff rate is 0%), all other SACU TRQs were used in 2019. Average weighted TRQ usage in 2019 was 83%, almost unchanged from the 2018 level of 84%.

[172] Mainly thanks to record low figures in previous two years and the provisional readmission of imports from Poland, subsequently foreclosed in 2020 due to a new outbreak of avian influenza.

Utilisation of SACU TRQs opened for imports from the EU (t)						
TRQ	**Quota 2017**	**Balance 1.9.2017**	**Quota 2018**	**Balance 1.9.2018**	**Quota 2019**	**Balance 1.9.2019**
Pork	1,500	260	1,500	225	1,500	807
Pig fat	200	77	200	60	200	150
Butter	500	479	500	150	500	181
Cheese	7,550	1,783	7,700	5,323	7,850	4,060
Wheat	300,000	10,936	300,000	35,505	300,000	33,073
Barley	10,000	10,000	10,000	10,000	10,000	10,000
Cereal Based Food Preparations	2,300	2,300	2,300	2,300	2,300	2,138
Ice Cream	150	150	150	70	150	49
Mortadella Bologna	100	100	100	100	100	96

5.4 Trade in services and Foreign Direct Investments

Trade in services in 2018 (the most recent year for which data ia available) show that important gains for both sides made in 2017 could be broadly sustained. EU exports increased to €7.6 billion from €6.9 billion in 2017 (+10%), with gains in respect of all SADC EPA countries. SADC exports grew from most countries, to the exception of Mozambique and Botswana. SADC services exports totalled €5.1 billion, up from €4.7 billion in 2017 (+8%). While South Africa exports still dominate the export and the import market (to the tune of 90%) across a wide range of services to the EU, exports from other countries in the region are particularly significant in the tourism sector.

FDI flows from the EU to the SADC EPA region contracted in 2018. EU FDI flows amounted to a negative €-840 million (mostly driven by negative flows with South Africa). EU FDI stocks were at €50 billion, further to a contraction of nearly €6 billion in South Africa. Mozambique and Botwana recorded positive increases.

According to UNCTAD, **South Africa** received inflows of USD 5 billion in 2018. In addition to intra-company transfers by investors, investment into SA was led by mergers and acquisitions in business services and petroleum refining.

Ramaphosa announced in 2018 that South Africa was aiming to attract direct investment of USD 100bn over the 5 year period to 2023 (aprox R1.2 trillion). In 2019 investment commitments worth R363 billion were made by domestic and foreign firms at the second SA Investment Conference, 17% more than commitments made in 2018.

Nevertheless, the slow pace of reform in the energy, water, transport and telecommunications sectors, together with uncertainty in the tourism and mining sectors and serious governance and financial problems across most of the country's SOE is undermining higher levels of investment.

Foreign Direct Investment in **Namibia** decreased in the second quarter of 2019, confirming an overall stagnant trend.

According to UNCTAD, FDI inflows in **Botswana** rose from USD 177 million in 2017 to USD 229 million in 2018. The total stock of FDI in Botswana reached USD 4.82 billion in 2018, estimated at 25.4% of the country's GDP (World Investment Report 2019, UNCTAD). In general terms, inflows of FDI have declined to less than 1% of GDP in 2016-18, compared to inflows of consistently over 4% of GDP during the 2000s. The mining sector (diamonds) attracts most of the FDI; however, investments in the services industry (banking and insurance) have been growing in recent years. FDI primarily comes from the EU, SACU, Canada and Zimbabwe.

Mozambique is an important destination country for FDI in South-East Africa. The country recorded historically high FDI inflows levels in 2013, reaching more than USD 6 billion, and over USD 4.9 billion in 2014. After a decrease of FDI in 2017 (USD 2.2 billion) due to the difficulties faced by the major investor countries and global oil price fall, FDI influx in 2018 increased to USD 2.7 billion. The stock of FDI was about USD 40 billion in 2018, representing 281% of the GDP (2019 World Investment Report, UNCTAD). While the oil sector captured more than half of the influx (USD 1.33 billion), other industries failed to capture foreign investors' interest. The evolution of influx will depend on liquefied natural gas potential. Foreign investors are primarily interested in the country's mining, hydrocarbon, energy, logistics, retail and real estate sectors. There is a growing interest on the coal industry. In 2017, Mozambique's leading foreign investors were, in order, the United Arab Emirates, Mauritius, China, Italy, the United States, South Africa, Portugal and Turkey.

6. CONCLUSIONS

The succesful holding of the first Joint Council in February 2019, allowed for sustained implementation throughout the year up to the the 6th meeting of the Trade and Development Committee in February 2021.

Most of the main trends in bilateral trade were confirmed in 2019 with imporant gains from both sides showing that the SADC EU EPA operates as an important buffer against a negative economic environment. While trade in 2020 is being seriously disrupted by the pandemic, it appears that fully exploiting opportunities offered by the SADC EU EPA can provide a solid reference for the recovery process. While the pandemic impact in certain sectors (such as the automotive) will impact signifcantly on trade flows, efforts will be required to ensure that trade is increasingly aligned with broader sustainability objectives, whether in agriculture or non agriculture trade. From this perspewctive, strenghtening regional linkages and value chains should be seen as part of a strategy to increase sustainability, through optimasiation of production, innovation and wider inclusion. In this context, the co-operation activties supported through EU funding may prove particularly important, as illustated by the example below.

Example 1: White asparagus from Namibia thanks to Spanish investment

In September 2019, thanks to a twining agreement between the Omusati Regional Council in northern Namibia and the Spanish Industrias Alimentarias de Navara, SAU, the Spanish Asparagus Agro-Processing Factory – the first of its kind in Namibia – was officially inaugurated.

Located in Ruacana, in the region of Omusati, the factory is part of an agro-industrial complex for the production, processing and export of white asparagus to local and international markets, particularly Spain and other European countries. In the EU, imports of white asparagus face a standard tariff of 10.2% (or 6.7% for countries benefitting from the Generalised Scheme of Preferences) but, thanks to the EPA, asparagus from Namibia enters duty-free.

The asparagus for processing is supplied by the Otjimbele Agricultural PTY, a 60-hectare, drip-irrigated farming scheme in Etunda, near Ruacana. White asparagus farming started in 2017, after two years of trials carried out in collaboration with Namibia's Ministry of Agriculture. The current plot is expected to produce 460 tons of asparagus a year. Plans are underway to expand and increase the production area to 300 hectares.

400 people work in the factory and 200 on the farm, mainly women from the local communities. When in full production, the project will create up to 800 jobs in the factory and 1,000 jobs during harvesting.

Namibia's Government sees the project as a great contribution for developing the agricultural sector and adding more value locally. The project could serve as a catalyst for commodity-based industrialisation, which is one of the key elements for economic transformation and growth.

"Namibian asparagus is of excellent quality. The impact of this project on the community is very significant. Sustainability is being ensured through a cutting-edge technology that minimises water consumption. Thanks to the SADC EPA, we could import all the capital goods and inputs duty-free and secure long-term, unfettered access to the EU market."

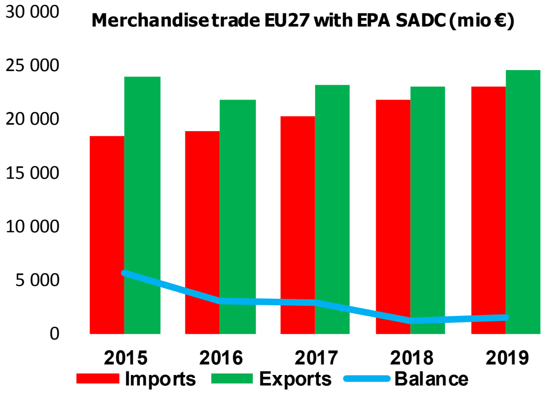
Carlos Lertxundi Aretxaga, General Manager, Asparagus Agro-Processing Project representing Otjimbele Agriculture PTY

7. STATISTICS

EPA SADC

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with EPA SADC (mio €)					
Imports	18 406	18 872	20 384	21 889	23 080
Exports	24 035	21 928	23 266	23 111	24 561
Balance	5 629	3 056	2 881	1 222	1 481
Share EPA SADC in EU27 trade with Extra-EU27					
Imports	1.1%	1.2%	1.2%	1.1%	1.2%
Exports	1.3%	1.2%	1.2%	1.1%	1.2%
Total (I+E)	1.2%	1.2%	1.2%	1.1%	1.2%
Share EU27 in trade EPA SADC with world					
Imports					
Exports					
Total (I+E)					

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade EPA SADC: IMF Dots



Total merchandise trade EU27 with EPA SADC (mio €)

EPA SADC	2018	2019	Growth mio €	Growth annual %
Imports	21 889	23 080	1 191	5.4%
Exports	23 111	24 561	1 450	6.3%
Balance	1 222	1 481	259	
Total trade	45 000	47 641	2 641	5.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with EPA SADC (mio €)

EPA SADC	2018	2019	Growth mio €	Growth annual %
Imports	2 345	2 417	71	3.0%
Exports	1 583	1 863	280	17.7%
Balance	-762	-554	208	
Total trade	3 928	4 279	351	8.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with EPA SADC (mio €)

EPA SADC	2018	2019	Growth mio €	Growth annual %
EU27 imports	19 544	20 663	1 120	5.7%
EU27 exports	21 528	22 698	1 170	5.4%
Balance	1 984	2 035	51	
Total trade	41 071	43 361	2 290	5.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with EPA SADC (mio €)

EPA SADC	2017	2018	Growth mio €	Growth annual %
Imports	4 768	5 161	392	8.2%
Exports	6 905	7 649	744	10.8%
Balance	2 136	2 488	352	
Total trade	11 673	12 809	1 136	9.7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with EPA SADC (mio €)

	2014	2015	2016	2017	2018
Imports	3 994	4 100	4 073	4 768	5 161
Exports	5 333	7 021	6 509	6 905	7 649
Balance	1 338	2 920	2 436	2 136	2 488
Total trade	9 327	11 121	10 582	11 673	12 809

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with EPA SADC (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	9 634	9 703	10 348	9 812	6 457
Outward	47 198	86 403	50 038	56 080	50 497
FDI Flows					
Inward					
Outward					

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

1. INTRODUCTION

Pending a comprehensive Economic Partnership Agreement (EPA) with the full Eastern and Southern African region, an interim EPA was signed in 2009 by four ESA countries (Madagascar, Mauritius, Seychelles and Zimbabwe). This ESA-EU interim EPA (iEPA) has been provisionally applied since 14 May 2012 for the four countries. Comoros signed the EPA in 2017, ratified the EPA in December 2018 and implements the EPA since 7 February 2019. Zambia took part in the negotiations of the interim EPA and it may decide to sign the agreement in the near future.

In 2017, the then-four ESA partners requested to deepen this Agreement beyond trade in goods. In May 2019, the parties agreed to on a joint scoping paper at technical level, paving the way for the official launch of the negotiations in October 2019 (see section 4 for more details). A Sustainability Impact Assessment (including a limited ex-post evaluation of the existing interim EPA) will be conducted in parallel to the negotiations.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

The interim EPA offers duty free quota free access in the EU for all imports from ESA as of 1st January 2008. ESA States are in the process of liberalising their market to EU imports in line with the individual schedules of each ESA State, annexed to the interim EPA.[173] By 2022, Comoros, Madagascar and Zimbabwe will liberalise around 80% of their trade, while Mauritius and Seychelles will liberalise 96 and 98%, respectively. Goods excluded from liberalisation vary according to the individual offer but include predominantly agricultural products and some industrial goods such as plastics, paper, or textiles.[174]

Mauritius and Seychelles are implementing according to the respective schedule. Zimbabwe has now fully met its tariff liberalisation commitments following the gazette of the EU EPA market Access Offer covering the period 2017-2022 through Statutory Instrument (S.I. 2017 of 2019) in October 2019. Madagascar needs to complete, as agreed among the parties, the transposition of the tariff lines into HS2017 to ensure a smooth implementation of the tariff reduction phases. Comoros started implementing the agreement on 7 February 2019.

The EU Delegations in the region maintain a close dialogue with government and private sector on economic matters, including trade policy. For example, in Madagascar, the EU participates in the Economic Round Tables (which are annually organised for last 5 years) which the government uses to consult and obtain recommendations how to improve doing business climate and increase EU investments. EPA matters are also discussed. In Mauritius, regular business consolations are organised before each political dialogue. Also before the official launch of the negotiations to deepen the current agreement in October 2019, Mauritius private sector, which is very active, met with the EU to discuss their expectations and the

[173] The ESA countries were not in a position to table a common regional market access offer and each country presented an individual offer based on its specificities.
[174] More details can be found here: http://trade.ec.europa.eu/doclib/docs/2012/march/tradoc_149213.pdf

evaluation of the existing EPA. EU funded the e-licencing platform project of the private sector allowing businesses to obtain licenses and permits on line. In Seychelles, likewise, project launches and political dialogues are used as an opportunity to consult and engage private sector. In Madagascar, Economic Round Tables, which are annually organised for last 5 years, consult with private sector and obtain recommendations how to improve doing business climate, to facilitate exports and increase EU investments. In Zimbabwe, the EU participated at events organised by private business, which the public sector such as the Zimtrade Exporter's Conference (November 2019) and the Zimbabwe International Trade Fair (April 2019) also attended, with the aim to discuss barriers to their operations.

This year, the parties agreed to adopt the technical amendments on the Protocol on Rules of Origin aimed at:

(1) allowing 'accounting segregation' for materials;
(2) replacement of the provision on 'direct transport' by a rule on 'non-alteration' and possibility to use REX for EU exports to the ESA countries; and
(3) transposing to HS2017 the codes in Annex II relating to the product specific rules. The amendments entered into force on 31 March 2020[175].

Most importantly, the Parties agreed to undertake further steps towards the development of a common methodology aimed at finalizing a monitoring and evaluation framework for the interim EPA. This is an important step to define a joint understanding of the progress and remaining challenges as to be able to address those adequately.

2.2 Trade and sustainable development goals

The interim ESA-EU EPA does not include a dedicated chapter on Trade and Sustainable Development. Parties are committed to negotiate such a chapter in the course of the ongoing negotiations to deepen the Agreement. Under the umbrella of the Cotonou Agreement, and in the framework of development cooperation, the EU and the five ESA EPA States cooperate closely on achieving the sustainable development goals, including ensuring the contribution of trade policy towards that objective.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

An established, functioning EPA Committee serves as a platform for dialogue in a spirit of partnership to oversee and monitor the agreement's implementation and to take appropriate decisions.

The main issues addressed by the 7th Meeting of the EPA Committee in January 2019 (in Brussels) were:

- Agreement on modernisation of rules of origin and adoption by the EPA Committee by mid-2019;
- Agreement to put in place a monitoring and evaluation Mechanism to ensure an effective implementation of the interim EPA;

[175175] OJ L93, Decision No 1/2020 of the EPA Committee of 14.1.2020, p.1

- Initiated discussions on the scope and objectives of the envisioned deepening of the agreement (covering additional topics) which the ESA4 have asked for. The deepening will evolve around the issues mentioned in the rendez-vous clause of the interim agreement;
- Progress on the support to EPA implementation under both the 10^{th} and the 11^{th} European Development Fund (EDF);
- Agreement to setup a coordination mechanism financed by the EU to assist ESA side in the negotiations for the deepening;
- Discussion on the ESA commitments to the development of internationally agreed standards for cooperation between tax jurisdictions.

4. TRADE AND DEVELOPMENT COOPERATION AND SPECIFIC AREAS OF IMPORTANCE

Deepening of the current agreement

In 2017, the four ESA States (Madagascar, Mauritius, Seychelles and Zimbabwe) expressed their interest to deepen the agreement beyond trade in goods towards a more comprehensive agreement. The EU welcomed this initiative, especially in the context of the Africa-Europe Alliance for Sustainable Investment and Jobs, and engaged in this process. In the meantime, Comoros joined the EU-ESA EPA on 7 February 2019. In October 2019, both parties officially launched the negotiations for the deepening of the agreement after having agreed on the scope and objectives of this deepening. The new agreement should cover other important trade related areas and trade related rules, such as services, investment, technical barriers to trade, intellectual property rights as well as trade and sustainable development. A first round of negotiations based on text proposals from both sides took place in January 2020 and covered the five following areas: rules of origin, sanitary and phytosanitary measures, customs and trade facilitation, technical barriers to trade and agriculture.

Support and technical assistance for the negotiations

At the request of the five ESA countries, the European Union has agreed to provide financial assistance for the setting up of an EPA coordination mechanism. Its aim is to ensure appropriate coordination and technical support to the five ESA countries so they can engage effectively in the negotiation process. The ESA EPA Hub received initially €1 million to support the ESA side to the preparation of the scoping phase and the launch of negotiations and an additional €1 million to continue with the needs of negotiations. Further, the process is assisted by EU Member States, as exemplified by the German development agency GIZ support for capacity building, whereas complementarity is assured.

Technical assistance towards the implementation of the current agreement

Development cooperation is essential for EPA implementation and for ensuring the long-term sustainable development impact of the agreement. Each of the four ESA EPA countries benefits from an envelope of €10 million and Comoros an envelope of €6 million under the SADC regional programme to support EPA implementation and export competitiveness. The respective technical assistance programmes are currently in different states of preparation or implementation.

1. COMOROS

In 2019, Comoros benefitted from support through the EU-funded TradeCom II programme for Comoros' accession to the WTO and EPA implementation. Following ratification of the ESA-EPA in January 2019, the country is currently in the process of drafting its EPA National Implementation Plan. A €6 million programme (RIP EDF) to support the implementation of the EPA is being formulated and will be adopted during 2020. It will assist private sector to become more competitive, will foster private-public dialogue and promote the "Made in Comoros" brand.

2. MADAGASCAR

The EPA National implementation plan was elaborated in 2016, however little progress has been made on reforms. The *Programme d'Appui au Développement des Exportations et à l'Intégration Régionale* (PADEIR, €10 million) is designed to support EPA implementation through capacity building for key public and private sector stakeholders and addressing non-tariff barriers. Certain number of actions have been initiated:

- Cooperation with the APEX export promotion agency which directly supports exporters to respond to international market expectations;
- Support for a One-Stop Shop for customs clearance certificates and authorisations in line with the objectives of the Trade Facilitation Agreement;
- Support to quality infrastructure development, in particular accreditation and upgrading of laboratories, to counteract border rejection of exports;
- Support for ICT, tourism and textile sectors;
- Support for Public-Private dialogue.

Other EPA-relevant projects include:

- Support for Business Climate Programme (€7 million): aims at improving doing business conditions and improve investment attractiveness of, started in September 2019.
- Support for Ecosystem Incubation (€5 million) is dedicated to young entrepreneurs' support but will be reported on in 2020. EDB will be involved as a one-stop shop for opening and developing a business as well as a support institution for young enterprises.

3. MAURITIUS

Under the EPA support project (€10 million under the 11th EDF), the EU supported various reforms of the business and investment climate. Given that Mauritius business licensing was viewed as a major obstacle to business activity due to its overtly bureaucratic nature, lack of transparency and highly prescriptive licenses, €5.5 million have been dedicated to the development of an e-licencing platform. The portal is now operational for the main permits. The reform contributed to improving Mauritius' rank (now 13th worldwide) in the World Bank Doing Business Report (more information in the case study at the end of this chapter).

Furthermore, the EU supports the implementation of the Intellectual Property Development Plan to unlock the potential for innovation. The IP Law was adopted in Mauritius in 2019 and work on the reform of the IPR office will continue in 2020. Moreover, thanks to EU support, the OECD conducted the first Regulatory Impact Assessment (RIA) in Mauritius to improve cost benefit analysis of business-related legislation, strengthen regulatory oversight and ability to monitor compliance. Finally, the Mauritian Chamber of Commerce and Industry received the EU support to implement technology transfer activities between the EU and Mauritian SMEs.

4. SEYCHELLES

Seychelles' EPA Implementation Strategy 2017-2020 aims amongst other at strengthening the role of high value manufacturing niche sectors, including in the blue economy.

Under the 10^{th} EDF, Seychelles benefited from €1 million actions focusing on capacity building of trade related institutions such as the Seychelles Standards of Bureau. Dialogue between the EU and the Seychelles in the context of this project has also promoted the Seychelles government into transferring EPA responsibilities from Foreign Affairs to the Ministry of Trade for more consistency. Under the 11^{th} EDF, a new €10m project has recently been signed and will start implementation in 2020. The project will strengthen capacity, ownership and efficiency of key actors that manage and implement the EPA, as well as other trade and regional integration agreements; and support the upgrading of specific value chains to expand trade with the EU.

Thanks to a €5.4 million garantee, the EIB financed a large rehabilitation and extension project of Port Victoria in Seychelles. Further, under the sectoral support of the EU-Seychelles Sustainable Fisheries Partnership Agreement (SFPA), three medium-sized local fish processing companies exporting to the EU market have benefited from the construction of adequate warehouses designed for fulfilling the EU standards on quality assurance, food safety and good manufacturing practices. In addition, smaller units have been leased to local fish food processors to ensure similar food and hygiene standards in the local market. The above actions ensure local value addition, decent job conditions, circular economy principles for high quality fresh fish processing facilities targeting the EU market and the local market.

5. ZIMBABWE

The Zimbabwe EPA Support Project (€10 million) seeks to improve the legislative and regulatory framework in the area of trade and private sector development. This will be accomplished through support to the custom's "single window" initiative and the establishment of a coordinated border management platform. Furthermore, the project will seek to improve competitiveness and export capacity of SMEs and boost agricultural value chains. The project will provide technical assistance and capacity development to the Ministry of Foreign Affairs and International Trade, the national EPA Committee and to the National Economic Consultative Forum to strengthen EPA implementation and private-public dialogue.Also relevant, technical assistance is being provided to review and strengthen the organisational capacity of the Zimbabwe Revenue Authority.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

COMOROS: Cyclone Kenneth (April 2019) heavily affected economic activity in the Union of Comoros in 2019. According to the IMF, growth for the year as a whole fell to about 1.9 %, while inflation remains contained at 3.3%. Fiscal revenue as a share of GDP fell as well, driven by the impact of the cyclone on the economy and difficulties of several state-owned enterprises. Growth of credit to the private sector remained weak as the operating environment for banks remains challenging.

The structural trade deficit results from a limited export base (cloves, ylang-ylang and vanilla represent 90% of exports), subject to the large variation in the prices of agricultural products, and dependency on imports of hydrocarbons, rice and other agricultural products, manufactured products, etc.. The deficit is partially compensated by private and official transfers: external subsidies, in particular from the Middle East, and diaspora remittances reach even 18.6% of GDP.

MADAGASCAR: Growth had reached a decade-high of 5.1% in 2018, driven by robust activity in export-oriented sectors, but slowed in the first half of 2019 due to a combination of weakening external demand from key trading partners and the slow execution of public spending. In particular, as the new government took office following the presidential election end-2018, the establishment of the new administration and the revision of the 2019 budget were associated with slower budget execution, particularly for public investments.

Export revenues and industrial activity were also adversely affected by a significant deceleration in major export markets, which coincided with the flare-up of trade tensions between the United States and China. These two countries absorb 25% of Malagasy exports. This has put downward pressure on both the demand and price of Madagascar's key export goods and was associated with a dip in industrial sales and order books at the start of the year. Weakening export revenues, including from cash crops and nickel, and sustained imports were reflected in a deteriorating current account balance.

MAURITIUS: Mauritius continues to preserve macroeconomic stability and steady growth, as confirmed by the IMF Article IV report released in April 2019. The country's gross domestic product (GDP) in 2019 grew 3.6%, driven by construction and services sectors (banking, ICT) as well as a rebound in agriculture. Manufacturing growth remained on a sluggish trend and was negatively impacted by decelerating global demand during 2019.The high level of debt, however, makes Mauritius vulnerable to macro-fiscal shocks in the medium-term. In this sense, the Central Bank has surprisingly donated 18 billion Rs (close to 4% of GDP) to the government to repay parts of its debt obligations. On the fiscal policy, the Government is adopting an expansionary policy with increased government expenditure, especially on the welfare state. After the reform of its global business sector, triggered *inter alia* by the request of the European Commission under exercise to list non-cooperative tax jurisdictions, the IMF recommends that Mauritius adopt further revenue mobilization efforts to build fiscal space and preserve debt sustainability. Tax efficiency should be improved to yield additional revenues, although the Mauritius Revenue Authority remains the best performing African revenue authority and among the best in the world.

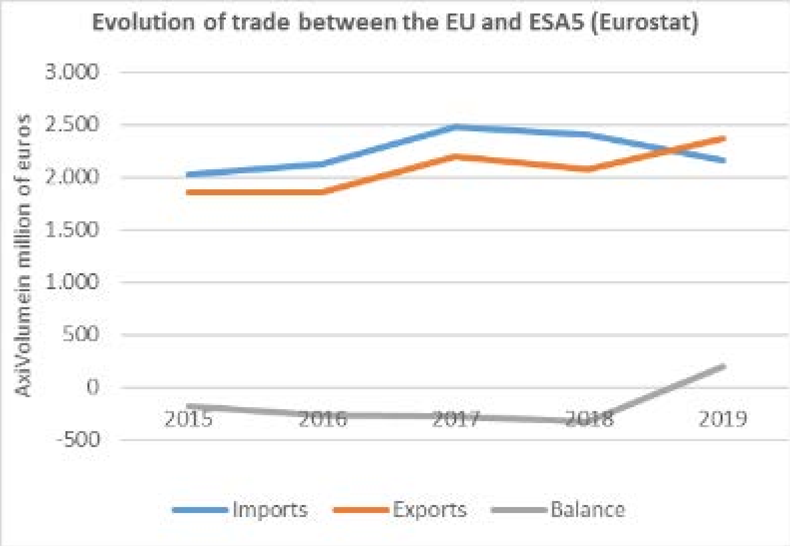
SEYCHELLES: Macroeconomic perspectives for Seychelles, which evolved into a high-income status in 2015, remain positive. Real GDP growth is estimated at 3.5% in 2019, down slightly from 4.1% in 2018 (AfDB data), driven by tourism, fisheries, and financial services. The service sector (mainly tourism) contributes more than 80% of GDP and employment, while industry contributes a meagre 16% (5% from manufacturing). GDP per capita growth, 3.4% in 2018, declined to an estimated 2.8% in 2019, due to lower GDP growth. Inequality is high. Although the unemployment rate was low in 2018 (3.5%), youth unemployment was four times as high (14.5%).

The exchange rate remained stable over the past three years, mainly due to a robust tourist presence and prudent macroeconomic management. Inflation remained low at 2.6% in 2019, with lower import prices than anticipated and a tight monetary policy. The fiscal balance declined to a slight deficit in 2019 (0.1%) due to increased capital outlays. The current account remained in deficit, hovering around 17% of GDP, substantially financed by foreign direct investment (FDI). Current debt is 58% of GDP, down from 130% during the 2008 financial crisis.

ZIMBABWE: According to the World Bank real GDP is expected to contract by 7.5% in 2019. Shortages of foreign currency, fuel and electricity contributed to dampened economic activity. Production of agriculture and mining products is on the decline. Inflation reached 230% in July 2019, driven by rising prices of both food and non-food items on the back of local currency depreciation. The food security situation is dire following the destruction caused by cyclone Idai 2019 and exacerbated by the current El Nino induced drought conditions prevailing in the country.

5.2 Trade in goods

While the EU27's share as a destination for ESA4 exports has been shrinking over the past decade, the bloc remains the **second largest trade partner for ESA5** after South Africa. In 2019, the main export destination of ESA5 was South Africa (31%), followed by the EU (22% - down from 51% in 2008)), the United Arab Emirates (10%) and the US (8%). ESA5 imports in 2019 mainly came from South Africa (19%), the EU (15%), China (14%), United Emirates and India (both 8%). In 2019, **total trade between the EU and ESA5** is highest with Mauritius (€1.8 billion) and Madagascar (€1.7 billion), followed by Zimbabwe (€514 million), Seychelles (€445 million) and Comoros (€82 million).



Although total trade with ESA5 increased slightly by €43 million (1%) in 2019, the EU imports from ESA5 decreased by €234 million (-10%) while EU exports to ESA5 increased by €277 million (14%) absorbing the long standing positive for ESA5 trade balance, which became positive for the EU (€165 million). This reverse of trade balance is mostly due to Mauritius and Madagascar.

The overall **decrease in EU imports from ESA5** in 2019 is mainly caused by a sharp fall in vanilla and cobalt imports from Madagascar, prepared and preserved fish from Seychelles, iron and steel products from Zimbabwe and preserved fish and textiles from Mauritius. **EU imports have risen** for cane sugar from Mauritius, tobacco, as well as earth and stones from Zimbabwe, nickel from Madagascar and light oils from Seychelles.

Mauritius has long had a trade deficit with the EU due to strong imports of machinery and transport equipment and from the EU. As a positive development, in 2019, EU imports of cane sugar from Mauritius bounced back strongly (+€35 million, + 55%), reversing the negative trend caused by the end of the sugar quota in the EU. Imports of optical, medical and surgical instruments also continued to grow, albeit still accounting only for around 3.5% (€21 million) of total exports. On the other hand, EU imports of prepared or preserved fish decreased (-€17 million or 9%). The continuous decrease in textile exports (in 2019, -€19 million or -12.7%) can be attributed to growing competition in the world and specifically, as the Mauritian sector stresses, the introduction of the minimal wage in Mauritius in 2018. Moreover, Mauritius experiences shortages of manpower. The textile factories rely on foreign (Bangladeshi and Malagasy) labour and many producers delocalised to Madagascar. Slowdown in Mauritian textile industry's exports may also be attributed to the non-response to current consumer needs, i.e. bio products from natural fibres and use of sustainable and fair production practices.

EU imports from **Madagascar** decreased by €207 million (or -17%) due to a substantial decrease of imports of raw vanilla (-€115 million or -32%) and vanilla extracts / oils (-€32 million or almost 100%), as well as cobalt (-€63 million or -72%) and fisheries (-€17 million or -17%). The decrease in vanilla exports is mainly due to a combined result of problems in the management of the production, the limited by the government time for the Malagasy campaigns compared to other countries and the crop robberies (green vanilla collected in the fields). The decrease in cobalt exports is due to a decrease in total quantities (-57%), as a Madagascar-based major nickel and cobalt producer, Ambatovy, shut down for planned maintenance in the end of the year, and a fall in global prices (-33%). On the positive side, exports of apparel and clothing remained stable (accounting for €328 million or 33% of total EU imports from Madagascar). Imports of nickel increased (+€12 million, +27%).

EU imports from **Zimbabwe** grew marginally (+€4 million or 1.2%), due to growing imports of tobacco (+€23 million or 26%), granite and other earths and stones (+€9 million or 45%) and edible fruits and nuts (+€5 million or 14%). On the other hand, imports of iron and steel decreased significantly (-€42 million, -30%).

EU imports from **Seychelles** decreased due to a drop in imports both of fresh fish (-€14 million, -28%) and prepared and preserved fish products (-€35 million, -21%).

EU imports from **Comoros** are concentrated in vanilla, cloves, and ylang-ylang essential oil. Imports of the latter decreased by €4 million or 25% in 2019.

Exports are becoming **increasingly diversified for Madagascar and Mauritius**, but **diversification is still sought-after for Seychelles and Zimbabwe, as well as Comoros**. Mauritius has launched exports of assembled medical appliances and instruments, of which around 60% are destined for the EU market. Madagascar has a textile heavy export base, but is also adding continuously new products. In 2019, the top 10 export products (HS 6-digit) accounted for 60% of Madagascar's total exports to the EU and 62% for Mauritius, but 83% for Zimbabwe, 98% for Seychelles and 99% for Comoros. Looking at the number of different products (at 6 digits level of HS codes) exported to the EU with a minimum value of €1 million: in 2019, the EU imported 100 different products from Madagascar (up from 69 in 2008; mostly different textile products, however), 63 from Mauritius, 27 from Zimbabwe, 9 from Seychelles and 3 from Comoros.

Preference utilisation rates for ESA5 exports to the EU are high, ranging from 92-98% for the five countries.

A number of structural problems impact the (diminishing) **competitiveness** of the economy of **Mauritius**. Traditional export sectors are breaking away. For example, the Mauritian textile industry is endangered by increasing labour costs and strong competitors such as Bangladesh, Vietnam and even Madagascar now. Recently, Mauritius has taken important steps towards an economy based on more sophisticated and high-tech manufacturing and services as mentioned above.

For **Madagascar**, the outlook does not look very good this year mainly because the shrinking exports of vanilla and cobalt. This trend could be reversed with changes in the overall business environment and investment climate. Similarly, **Zimbabwe** has enormous export potential but as long as the economic situation remains uncertain, with no serious business climate reforms and no foreign capital inflows, necessary investments will not take place. For **Seychelles**, the lack of diversification is serious; the country is aiming at exporting more fisheries by-products and processed fish products but is hindered by human resource limitations.

Top 10 EU imports from ESA5 in 2019					
	Comoros	**Madagascar**	**Mauritius**	**Seychelles**	**Zimbabwe**
1	Essential oils	Vanilla	Prepared or preserved tunas, skipjack etc.	Prepared or preserved tunas, skipjack etc.	Tobacco
2	Vanilla	Frozen shrimps and prawns	Cane sugar (170199)	Frozen yellowfin tunas	Iron and steel products of chapter 72
3	Cloves	Jerseys, pullovers, cardigans, waistcoats and similar articles of Kashmir	Raw cane sugar not containing flavouring or colouring (170114)	Light oils and preparations	Fresh or dried oranges
4	Vessels for the transport of goods and/or persons	Nickel	T-shirts, singlets and other vests of cotton	Frozen skipjack or stripe-bellied bonito	Raw hides and skins of reptiles
5	Cruise ships	shawls, scarves, mufflers, mantillas, veils and similar articles of silk or silk waste	Men's or boys' trousers, bib and brace overalls (etc.) of cotton	Prepared or preserved fish	Arsenic sulfides, alunite, pozzuolana, earth colours and other mineral substances, n.e.s.
6	Light-vessels, fire-floats, floating cranes and other vessels	Fresh tamarinds, cashew apples, jackfruit, lychees, passion fruit, other	Men's or boys' shirts of cotton	Frozen bigeye tunas	Granite, crude or roughly trimmed
7	Machines for the reception, conversion and transmission or regeneration of voice, images or other data	shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	Articles of jewellery	Fresh or chilled yellowfin tunas	Ferro-silico-chromium
8	Personal property belonging	Prepared or preserved tunas, skipjack, etc	Frozen yellowfin tunas	Fresh or chilled fillets of fish, n.e.s.	Fresh or chilled peas
9	Parts suitable for use solely or principally with electric motors and generators, electric generating sets and rotary converters	Unshelled beans	Diamonds	Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.	Fresh or dried avocados
10	Coffee	cobalt	medical instruments	motor boats and motor yachts	Ferro-chromium, containing by weight > 4% of carbon

Source: Eurostat, product names partly simplified

Increasing **EU exports** to ESA5 (+€288 million or 13.9%) can be explained by the unusual spike of machinery and equipment mainly due to transport equipment (aircraft) exports (+€307 million in 2019). Disregarding this sector, EU exports to ESA5 actually decreased slightly (-0,9%) in 2019.

Main export increases in 2019 are machinery and transport equipment (+€276 million or 41%), chemicals (+€13 million or 5%), medical instruments (+€11 million or 15.4%), plastics, rubber and products thereof (+€8 million or 12%), vegetables (+€8 million or 12%), textiles (+€7 million or 4.2%) and pulp of wood and products thereof (+€6 million or 15%). Main export decreases concern machinery and appliances (-€31 million or 6%), live animal and animal products (-€24 million or 14%) and base metals (-€11 million or 11%).

5.3 Trade in agricultural products

In 2019, the **agri-food trade balance** was still positive for ESA5 (€404 million) but lower than in 2018 (+€486 million). Increased imports of sugar (from €64 million in 2018 to €105 million in 2019) and tobacco (from €87 million in 2018 to €109 million in 2019) were offset by decreased imports of tropical fruits (from €386 million in 2018 to €274 million in 2019). EU exported mainly wheat (€40 million), followed by pet food, food preparation not specified, pasta and pastry, and infant food and other cereals, starch or milk preparations.

5.4 Trade in services and Foreign Direct Investments

The current EPA does not include provisions on services. In 2018 (latest year for which data is available), total EU services imports from ESA5 increased by €318 million to €2.2 billion, The change was driven by a substantial increase of Services imports from Mauritius (the most important services trade partner among ESA5) by €171 million or 15%, to €1.3 billion and Seychelles by € 67 million or 17%.

Services imports from Zimbabwe and Madagascar are also growing, albeit from lower levels, by 39% to €74 million and 16% to €319 million respectively. As for services imports from Comoros, they doubled to €84 million discounting probably the positive climate from the implementation of the agreement.

On the other hand, EU services exports to ESA5 in total shrunk to €1.4 billion in 2018, a decrease of 32% over 2017, which is entirely due to Mauritius. The EU runs a deficit with all ESA5 but with Zimbabwe.

The five ESA countries are currently negotiating provisions on trade in services, which would allow them to find a new growth engine in services exports. In particular, Mauritius took part in the WTO's negotiations for a Trade in Services Agreement (TISA) and now would be interested to use the ESA EPA opportunities, as TISA is not going forward. Financial services and tourism are main sectors of interest.

Current EU FDI stocks in ESA5 stand at €17.1 billion, out of which €15.7 billion for Mauritius, €778 million for Seychelles, €366 million for Zimbabwe and €268 million for Madagascar.

FDI flows in 2018 remained positive for Madagascar and Zimbabwe albeit at low levels (+€14.3 million and +€33 million respectively) proportionally to the overall level of stocks in these two countries reflecting their need for improving the overall business climate to attract investors. On the other hand, for Mauritius, the flows became substantially negative in 2018 (-

€1.2 billion from +€2.3 billion in 2017) reflecting a massive disinvestment from EU investors which may be attributed to the effect of the issues raised relating to illicit financial flows[176].

According to Mauritian national statistics, gross FDI from the EU for the first three quarters of 2018 amounted to MUR 7.4 billion (approx. €170 million) accounting for two-thirds of world total. In 2019, national statistics from the Bank of Mauritius show that FDI inflows from the EU increased significantly, driven by real estate investment.

Mauritius stands out as the single most important jurisdiction in Africa offering a stable legal environment. In particular, Mauritius has gathered a reliable reputation regarding its banking structures and increasingly expanded its financial sector. As such, Mauritius is the largest EU FDI recipient among the ESA5 partners. However, this positive context may be compromised by the listing of Mauritius by the Financial Action Task Force as one of the countries presenting strategic deficiencies in their legal framework onanti-money laundering and countering the financing of terrorism. Mauritius is currently reforming its anti-money laundering legal framework, including with EU support.

FDI in Mauritius is mostly in financial sector and real estate. The same is true for Seychelles where the financial/offshore sector is growing rapidly; the government considers the financial sector as the third pillar of economic development after tourism and fisheries. Productive investment in both countries can be found in tourism, but also in manufacturing for Mauritius. For Seychelles, an example for productive investment is a German-Seychelles joint venture, Sun Tech Seychelles[177], which provides solar photovoltaic technology and after sales services in the Seychelles.

6. CONCLUSIONS

In 2019, the most important element was the **official launch of the negotiations** for the deepening of the current agreement on 2 October in Mauritius. The future comprehensive free trade agreement will improve the business and investment environment and stimulate the economies of the five ESA countries, for instance by diversifying their exports to the EU. The process will thereby contribute to the objectives formulated in the Commission's "Comprehensive Strategy with Africa" and the "Africa-EU Alliance for Sustainable Investment and Jobs" launched in September 2018. Moreover, it will promote both regional economic integration, for instance by developing regional value chains, and continental integration by furthering the ESA five countries' preparedness for implementing the African Continental Free Trade Area (AfCFTA) under the African Union.

Another important element in 2019 was the agreement on the setting up a **mechanism for monitoring and evaluating** the implementation of the agreement. It will consist of regular monitoring reports and period ex-post evaluations undertaken in close cooperation by the parties. Both parties agreed to undertake further steps towards the development of a common

[176] Mauritius has been identified by the Financial Action Task Force (FATF) as a country potentially presenting deficiencies relating to Mauritius framework to combat money laundering and the financing of terrorism and proliferation. In February 2020, such strategic deficiencies led FATF to list Mauritius in its so-called grey list.

[177] https://sts.sc/index.html

methodology aimed at finalizing a monitoring and evaluation framework for the interim EPA. This is an important step to define a joint understanding of the progress and remaining challenges as to be able to address those adequately.

Overall, the very different economic profiles and levels of development of ESA5 render implementation and negotiation challenging. Nevertheless, there are natural **complementarities** and the countries see the **potential for cooperation** among themselves, both in the context of the EPA and beyond. Labour shortages in Mauritius can be addressed by employing Malagasy and by delocalising e.g. textile production to Madagascar. Madagascar can supply Mauritius and Seychelles with needed fruits and vegetable exports, if SPS issues are resolved. Mauritius experience in reforming the business environment is key for Madagascar, Seychelles and Zimbabwe in unblocking their development prospects. Zimbabwe, finally, features high in Mauritius' Africa Strategy, as a close partner to invest in.

MAURITUS – ranking 13th in World Bank Doing Business thanks to reforms undertaken with assistance of the EPA support project

Applying for business permits and licenses was considered as a daunting task for business operators and investors. Inefficient government bureaucracy was identified as the most problematic factor for doing business in Mauritius by CEOs, according to the World Economic Forum's Global Competitiveness Report 2017. Applicants needed to deal with multiple agencies that all weighted in on the final decision. Applications were processed manually, creating bottlenecks and a source of red tape. The opaque procedures, ambiguous rules and unpredictable results created a lot of uncertainties which added to business costs for potential investors.

The Government acknowledged that an overhaul of the current business licencing system was required to avoid unnecessary restrictions on competition. The Government of Mauritius sought the support of the European Union under the Economic Partnership Agreement (EPA) support programme to address the efficiency and effectiveness of Government licencing departments and institutions.

The EU support was multi-dimensional as it targeted the simplification of the regulatory framework, streamlining the licensing process, improving the interaction among public sector agencies and setting up an electronic application system for business permits and licences. A business process reengineering exercise was undertaken with 14 Ministries and 27 public agencies dealing directly with business permits and licences in order to streamline the administrative processes to reduce inefficiencies and red tape. The recommendations of this exercise was submitted to the Government of Mauritius and subsequently eight primary legal provisions and nine business regulations under the Mauritius Business Facilitation Act was amended. In parallel, the National Electronic Licencing System (NELS) (https://www.edbmauritius.org/e-licensing/) was put in place which became a game changer by creating a major structural change in the administration and processing of business permits and licences. The platform acts as the single point of entry for application of business permits and licences, occupation and working permits.

The World Bank 2020 Ease of Doing Business report acknowledged the reforms of business licensing system undertaken by Mauritius. Thanks to the NELS, and the EU support, the country is now ranked 13th compared to 49th in 2017 and is one of the most business friendly country in Africa

Energy-efficient production of ylang-ylang essential oil in COMOROS

Under the EU-funded regional programme on renewable energy, the EU provided €365,000 for the project *Filière ylang-ylang et distillation à foyer économe* in Comoros and Madagascar. The project helped to build 36 energy-efficient destillation units of ylang-ylang essential oil on the islands of Anjouan and Mohéli. Reduced-energy destillaries help allow to save precious wood resournces and contribute to maintaining the ecological balance of these islands. The project has also trained 53 young technicians on Ylang-Ylang distillation and planted more than 25,000 trees as accompanying measure. Ylang-ylang essential oil is primarily exported to France and used in high-value parfumes.

Competitive agricultural production in Madagascar thanks to EU imports

Tozzi Green is specialised in the production of renewable energy as biggest hydroelectric independent power producer in the country. The enterprise, however, is also involved very actively in agribusiness. It has rehabilitated 7,000 ha of which was believed to be arid land in the South of the country (Ihrombe region), now devoted to the production on corn, soybeans and geranium essential oils.

Production is continously evolving through experimentation, and currently covers the following crops:

- **Primary foodstuffs**, such as plantations of maize (first ranking internal producer of the island), soy, black beans, voanjobory, sunflowers and fruit trees.
- **Bourbon geraniums**, from which **essences and distillates** are obtained for perfume which are standard supplies for perfumery and cosmetics companies. The essential oils are marketed under the Tozzi Green Aromatics brand name.
- **Quality spices**, grown in cooperation with small local producers that guarantee the artisan execution of all the processes. The spices are marketed under Sambava Epices brand.
- **Research and development on the Jatropha Curcas**, a plant that produces oily seeds for the production of biodiesel. On this front Tozzi Green has a long-standing cooperation with the University of Florence. The purpose of the research is to obtain a selection of seeds which will optimize the harvest and yield of the oil extracted for energy production.

Tozzi Green is a clear example of the EPA benefit for Madagascar: besides catering to local food needs, the firm produces essential oils for export to the EU, thereby providing jobs to 158 permanent employees (37% female) and 518 temporary workers (30% women). Tozzi Green also stresses the importance of competitively priced inputs for production, illustrating thereby that tariff reduction in essential intermediate products serves local development.

"We import fertilizers and other agricultural inputs with different origins as well as agricultural equipment mainly from the EU. As we produce for the local market it is essential that we can keep our production cost low in order to be able to sell our products at a reasonable price in the context of Madagascar. We also need to be competitive with

food importations which are a problem for the economy given that imports are paid in euro or dollars bringing monetary unbalances for the state finance"

Alessandro Berti, Tozzi Green, CEO Madagascar

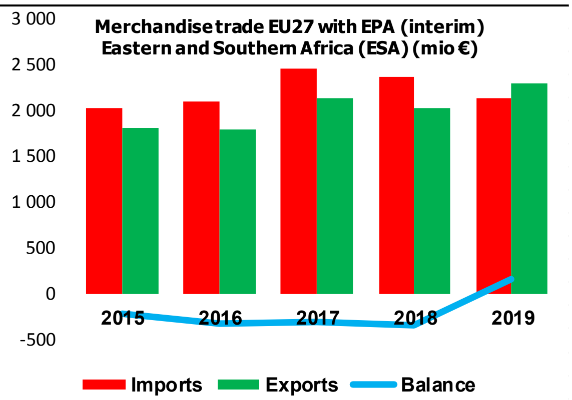
Corporate Social Responsibility is high on the agenda for Tozzi Green, and the company has build child care facilities, wells, and medical offices. The agribusiness project in Madagascar has been recently financed by two European development finance institutions, namely BIO Invest and Finnfund.

7. Statistics

EPA ESA

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with EPA (interim) Eastern and Southern Africa (ESA) (mio €)					
Imports	2 023	2 109	2 455	2 375	2 141
Exports	1 813	1 798	2 146	2 030	2 306
Balance	-210	-311	-308	-346	165
Share EPA (interim) Eastern and Southern Africa (ESA) in EU27 trade with Extra-EU27					
Imports	0.1%	0.1%	0.1%	0.1%	0.1%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade EPA (interim) Eastern and Southern Africa (ESA) with world					
Imports					
Exports					
Total (I+E)					

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade EPA (interim) Eastern and Southern Africa (ESA): IMF Dots



Total merchandise trade EU27 with EPA (interim) Eastern and Southern Africa (ESA) (mio €)

EPA (interim) Eastern and	2018	2019	Growth mio €	Growth annual %
Imports	2 375	2 141	-234	-9.9%
Exports	2 030	2 306	277	13.6%
Balance	-346	165	511	
Total trade	4 405	4 448	43	1.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with EPA (interim) Eastern and Southern Africa (ESA) (mio €)

EPA (interim) Eastern and Southern Africa	2018	2019	Growth mio €	Growth annual %
Imports	795	718	-77	-9.6%
Exports	317	317	0	0.1%
Balance	-478	-401	77	
Total trade	1 111	1 035	-76	-6.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with EPA (interim) Eastern and Southern Africa (ESA) (mio €)

EPA (interim) Eastern and	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 581	1 423	-158	-10.0%
EU27 exports	1 713	1 990	277	16.2%
Balance	132	566	434	
Total trade	3 294	3 413	119	3.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with EPA (interim) Eastern and Southern Africa (ESA) (mio €)

EPA (interim) Eastern and	2017	2018	Growth mio €	Growth annual %
Imports	1 908	2 226	319	16.7%
Exports	2 044	1 385	-659	-32.2%
Balance	136	-841	-978	
Total trade	3 951	3 611	-340	-8.6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with EPA (interim) Eastern and Southern Africa (ESA) (mio €)

	2014	2015	2016	2017	2018
Imports	1 819	2 098	2 156	1 908	2 226
Exports	1 155	1 289	1 608	2 044	1 385
Balance	-664	-809	-548	136	-841
Total trade	2 973	3 386	3 764	3 951	3 611

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with EPA (interim) Eastern and Southern Africa (ESA) (mio €)

	2014	2015	2016	2017	2018
			FDI Stocks		
Inward	6 347	5 128	10 143	8 078	10 310
Outward	13 137	14 364	1 448	17 785	17 119
			FDI Flows		
Inward					
Outward					

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
			FDI Stocks		
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
			FDI Flows		
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND COTE D'IVOIRE

1. INTRODUCTION

Pending an Economic Partnership Agreement (EPA) with the West African region, Côte d'Ivoire concluded a stepping stone or **interim Economic Partnership Agreement** with the EU in November 2008.[178] The interim EPA with Côte d'Ivoire was signed on 26 November 2008, approved by the European Parliament on 25 March 2009 and ratified by the Ivorian Parliament on 12 August 2016. It entered into provisional application on 3 September 2016. The interim EPA (iEPA) will be substituted by the regional EU-West Africa EPA once the latter enters into force.[179] By the end of 2019, 14 out of 15 members of the Economic Community of Western African States (ECOWAS), and Mauritania, have signed the regional EPA, which now misses only Nigeria's signature.

Côte d'Ivoire is the **first country in West Africa that started liberalizing its market for trade with the EU** and apply reciprocity to the market access enjoyed in the EU. In 2019, Côte d'Ivoire translated this political commitment into the first round of tariff reduction. The process was completed in December 2019 and the liberalization of the first 1115 products will be applied retroactively as of 1st January 2019. Agricultural products, including fruit and vegetables, are mostly excluded from liberalisation.

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178 The official name of the agreement ("stepping-stone agreement") reflects the fact that the initial and ultimate objective for economic partnership in West Africa is a comprehensive, regional agreement. It is also called "interim EPA".

179 The Economic Partnership Agreement was signed in December 2014 by the European Union and 13 West African Countries. In 2018, the Gambia and Mauretania signed the agreement, making Nigeria the only remaining country opposed to the EPA. The agreement will enter into provisional application if the 16 West African Countries sign the agreement and 2/3 of these countries ratify it.

2. Main implementation issues

2.1 Main steps in implementation

2.1.1 Implementation activities in 2019

In 2019, Côte d'Ivoire took the first step towards implementing its market access offer, by liberalizing its market for 1155 EU products. The liberalization became fully effective on 6th December 2019 with the publication of the Customs notices[180]. The benefit of liberalization will be applied retroactively as of 1st January 2019 for the 1155 European products liberalised. The first round of tariff liberalization (2019) concerns few products with significant EU exports (9 tariff lines with exports above €1,000,000), e.g. vaccines (human and veterinary medicine), printed books, laboratory reagents, some chemicals (diammonium phosphate, contraceptive preparations), newspaper, electrical equipment (e.g. motors). Agricultural goods, including fruits and vegetables, are altogether mostly excluded for liberalization, as well as inputs in specific value chains such as cotton, cement, cosmetic goods, plastics and cardboards. The liberalization process will be completed by 1/1/2029. The revised Market Access Offer and schedule have been published.[181]

In 2019, the parties furthermore adopted of the reciprocal rules of origin, enabling the implementation of preferential market access for EU products in Côte d'Ivoire. The parties also agreed to to create EPA sub-committee on customs.

2.1.2 EU cooperation with the private sector on trade and investment barriers

Within the framework of a contract called "**S'investir ensemble**" set in 2019, the EU delegation is working together with the European private sector (Eurocham[182]), as well as the national private sector, represented by Union Des Grandes Entreprises Industrielles De Côte D'ivoire (UGECI) and Confédération Générale des Entreprises de Côte d'Ivoire (CGECI), to

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[180] The customs notices on EPA liberalisation are the following:
1. Circulaire d'application de l'Ordonnance 2019-80 du 23/01/2019 identifiant les 1155 produits de la première phase du démantèlement tarifaire http://www.douanes.ci/sites/default/files/base_documentaire/c_2052.pdf
2. Circulaire d'application du Décret 2019-829 fixant les règles d'origine et méthodes de coopération administrative http://www.douanes.ci/sites/default/files/base_documentaire/c_2053_0.pdf
3. Circulaire sur les procédures douanières pour le bénéfice des préférences applicables aux produits originaires de l'UE importés dans le cadre de l'APE
4. http://www.douanes.ci/sites/default/files/base_documentaire/c_2054.pdf

5. Circulaire sur le dédouanement des marchandises éligibles à l'APE et d'autres marchandises contenues dans un même envoi: http://www.douanes.ci/sites/default/files/base_documentaire/c_2067.pdf

[181] Offer and schedule can be found on the DG Trade website: https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158598.pdf

[182] The European private sector is supported by a European Chamber of Commerce and national chambers of Commerce to identify trade and investment barriers; Eurocham, the European Chamber of Commerce, was set up with the support of the EU delegation 10 years ago was the first European chamber in West Africa. This Chamber was also the first European chamber in West Africa to join the network of European chambers (EBOWNN) in 2017. In addition, national chambers of commerce from France, Belgium, UK and more recently Germany are present in Côte d'Ivoire.

improve the business climate. Key objective is to establish a dialogue between the private sector, the government of Côte d'Ivoire and the EU with Members States.

The cooperation achieved first results in 2019. Eurocham organised strategic monitoring sessions on key impediments to doing business in sectors such as energy, agriculture and new technologies. These sessions aimed at better understanding the evolution and identify the challenges and problems concerning a specific sector and to issue recommendations.

The first "**Trilogue**"[183] meeting between the private sector (represented by Eurocham, CGECI and UGECI), the EU and its Member States and the Ivorian authorities at ministerial level took place on 12 November 2019 and the following themes were addressed: corporate social responsibility, the banking and financial sector and broadening the tax base.

The EU has suggested continuing these dialogues with quarterly meetings. Côte d'Ivoire is fully supportive of this process and it has proven to be an effective way to tackle trade barriers and contribute to the EU market access strategy.
The EU organised also the **EU-Côte d'Ivoire Business Forum**, in May 2019, which highlighted the contribution of the European private sector to the Ivorian economy, and the link between Ivorian jobs and exports to the EU, being Côte d'Ivoire's main market. The Forum improved the visibility of the EU as an essential partner of the private sector, with the participation of 600 CEOs, 4 Ivorian Ministers (Trade, Economics and Finance, SME, and Private Investment promotion), close to 30 newspaper articles and a digital footprint of over 125,000 online views on the Facebook page of the Delegation.

2.1.3 Study on the impact of the interim EPA on regional integration in West Africa[184]

Côte d'Ivoire, with support from the EU, conducted in 2019 a study to determine the impact of tariff liberalisation under the EU-Côte d'Ivoire and EU-Ghana interim EPAs on regional trade in West Africa. The study assessed the possible consequences of EU intermediate products imported under EPA preferences (i.e. at zero duties, or duties significantly lower than the ECOWAS Common External Tariff) being used for manufacturing final goods, which are then exported to the region. The study takes into account the de facto applied rules for goods circulation within ECOWAS (the ECOWAS Trade Liberalisation Scheme, ETLS, the corresponding rules of origin).

The impact study showed the following results:

1. The volume of Ivoirian and Ghanaian transformed goods that contain liberalised EU inputs (=intermediate products imported from the EU under EPA preferences) and are exported to the rest of the region are very limited for Côte d'Ivoire (123 million USD) and statistically non-significant for Ghana (26.4 million USD). The volume

[183] The trilogue is prepared by the EU's Market Access Team, including Eurocham and the national chambers. Agenda items that are not adequately addressed at the level of the trilogue, are put on the agenda of the Political Dialogue between the EU and Côte d'Ivoire (Political Dialogue under Article 8 of the Cotonou Agreement).

[184] The study is available in the website of DG TRADE: https://trade.ec.europa.eu/doclib/html/158337.htm)

corresponds to 2% and 0.4%, respectively, of goods formally imported by ECOWAS Member States from both countries.
2. The study shows that the countries possibly affected by these imports of transformed products would be: a) Burkina Faso (31 million USD) and Mali (24 million USD) in the case of Côte d'Ivoire; and b) Burkina Faso (10 million USD) and Togo (2 million USD) in the case of Ghana.
3. Only 15 transformed products produced and exported by Ghana and Côte d'Ivoire using EU liberalised input might require specific trade surveillance measures. These include wheat products, soap products, carboys, soups, make-up, hygiene articles, tableware, clinker and preserved tomatoes.
4. Trade diversion effects caused by those products against regional producers are statistically insignificant (less than 1 million USD) and mostly compensated by trade creation effects going in favour of local consumers (i.e. more affordable prices).
5. In Côte d'Ivoire, the liberalisation of 26 EU inputs (accounting for 52 million USD of Ivorian imports from the EU) used in the manufacturing of 8 transformed products exported in the region does not significantly distort the demand of Côte d'Ivoire for equivalent regionally produced inputs except for salt coming from Senegal (0.16 million USD of Ivorian imports from Senegal). In Ghana, the liberalisation of 7 EU inputs (accounting for 12 million USD of Ghanaian imports from the EU) used to produce 8 transformed products exported in the region, does not significantly affect the demand of Ghana for equivalent regionally produced inputs except for locally produced clinker.
6. The already limited impact of these EU input liberalisation will be further mitigated by their progressive liberalisation as agreed in their respective Market Access Offer. 66% of the volumes will be liberalised after 2026 in the case of Ghana and 60% of the volumes will be liberalised after 2024 in the case of Côte d'Ivoire. This gives sufficient time to the region to set up the recommendations proposed by this study.

The Study proposes four main recommendations:

1. In the short term, i.e. within the next five years, maintain the free circulation of transformed products coming from Ghana and Côte d'Ivoire and using EU liberalised input goods. If needed, apply safeguards if unexpected rise in volume exports happen related to the transformed products occur.
2. A trade surveillance system should be set up for the identified 15 products that are manufactured using liberalised EU inputs and may cause distortions on the regional market.
3. In the medium term, from 2024, the monitoring of the ETLS system by ECOWAS and the trade statistics in Ghana and Côte d'Ivoire could be improved for a better tracking of the transformed products using EU liberalised input.
4. Furthermore, after 2024, Ivoirian and Ghanaian companies exporting to other ECOWAS countries could be requested to pay back to these countries the customs duties related to the amount of liberalised EU input used in their transformed products.

A key recommendation of the study was to initiate discussions on building a regional safeguard mechanism between ECOWAS countries that currently does not exist in the legal framework. A safeguard mechanism could help facilitate the solution of other cross-border issues currently dealt with at bilateral level.

2.2 Trade and sustainable development goals

The interim EPA with Côte d'Ivoire does not include a dedicated chapter on trade and sustainable development. Nevertheless, the parties cooperate closely under the framework of the **Cotonou Agreement** to ensure the contribution of trade to the achievement of the sustainable development goals. Furthermore, the parties have recently taken concrete steps – in line with the 15 point action plan of the EU – to address sustainability matters under the EPA.

For example, in 2019, the EU and Côte d'Ivoire made good progress on the setting up of a **monitoring mechanism** for the Agreement. The first joint monitoring report was endorsed in November 2019 during the 4th EPA Committee.[185] Moreover, Côte d'Ivoire and the EU agreed to establish an EPA **Civil Society platform** with the support of the European and Ivorian Economic and Social Economic Committees to address all trade and sustainable development issues from a civil society perspective. It will bring together representatives from the EU and Côte d'Ivoire civil society and become a key instrument with which civil society can weigh in on the implementation of the agreement.

Dialogue on sustainability matters has also intensified in the last EPA Committee. In the 4th EPA committee meeting with Côte d'Ivoire in November 2019, the parties discussed **sustainability issues in the cocoa value chain**. This happened against the backdrop of Ghana and Côte d'Ivoire announcing in mid-2019 a minimum price for cocoa sold on the world market, with the aim to ensure a decent income for local farmers.[186] DG TRADE, in close cooperation with DEVCO, took this opportunity to engage with both Ghana and Côte d'Ivoire on complementary issues, namely deforestation and child labour, which are affecting the sustainability of the cocoa value chain.

The EU is the first importer of cocoa of Côte d'Ivoire and Ghana amounting to 65% of their exports. There is a consensus among the different actors (EU Commission, EU Member States, MEPs, European and international companies, NGOs), that more work is required to make the cocoa value chain sustainable. The European Parliament and NGOs request better traceability of cocoa products and more responsible business conduct from the companies supplying the European market with cocoa. Several large international food companies are pushing for EU actions: e.g. setting up a multi-stakeholder platform, establishing a due diligence system, based on legislation adopted at EU level, introduction of a voluntary partnership agreement or the setting up of a robust traceability system. EU Member States involved in chocolate production and distribution (FR, NL, BE, DE) and Switzerland are promoting national due diligence requirements or multi-stakeholder actions. They are aware that significant results cannot be achieved in isolation and without structural reforms of the cocoa sector in the two countries.

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[185] Available here: https://trade.ec.europa.eu/doclib/html/158529.htm

[186] Ghana and Côte d'Ivoire jointly announced in June 2019 the suspension of their cocoa futures sales for the cocoa production of the 2020-2021 season (which will begin in October 2020) below a certain price (USD 2600/tonne). This was accompanied by a joint public intervention, which led to an agreement with industry to offer a USD 400/tonne premium above the price of the world market.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

Two EPA committees meeting took place in 2019: one in April and an extraordinary committee in November.

In April, the focus was on the urgency of **effectively implementing the first phase of tariff dismantling**. This was also an opportunity to hold a first meeting with the Ivoirian civil society to discuss deforestation, child labour and cocoa production. A meeting took also place with the EU Member States agencies promoting trade and investment in Africa.

During the **4th EPA Committee meeting between Côte d'Ivoire and the EU in November 2019**, the parties took stock of the **liberalisation process** in Côte d'Ivoire that was initiated in January. Côte d'Ivoire formally announced the signature of the decree on the Rules of Origins paving way for the effective liberalisation. A discussion took place on the joint monitoring report of 2018 and the implementation of the EU-Côte d'Ivoire civil society platform. The EU stressed the growing importance of sustainable development, coming both from civil society and European parliamentarians. The Committee underlined the importance of sustainable development with regards to cocoa (deforestation, child labour and living income for farmers). Both parties recognized the importance of Sanitary and Phytosanitary (SPS) measures in order to ensure food safety and agreed to work together to deal with the SPS problems in the field of fishery (tuna) and to strengthen the quality of the competent structures. The committee validated the texts of the rules of arbitration procedure and the rules of mediation as well as the methodology for drawing up the list of international arbitrators and established the list of the arbitrators.
In addition, Côte d'Ivoire organized a **regional workshop** on 7th and 8th of May 2019 to discuss the results and the recommendations of a **study on the impact of the interim EPAs in Côte d'Ivoire and Ghana on regional integration in West Africa** with the two regional organizations ECOWAS and WAEMU and neighboring countries. The workshop allowed for the formal endorsement of the recommendations by Côte d'Ivoire integrating concerns raised by the participants. This study commissioned by Côte d'Ivoire demonstrated that the impact of liberalisation in Côte d'Ivoire and Ghana was limited in scope, due to the weak economic integration of the ECOWAS region, the complex rules of circulation set in the ECOWAS and the limited numbers of industrial products exported by Côte d'Ivoire and Ghana into the region. The study made recommendations to circumscribe the potential risks. It played an important role in reassuring Côte d'Ivoire and Ghana as well as the neighboring countries, that the liberalization process could be managed in the short term.

4. TRADE AND DEVELOPMENT COOPERATION AND SPECIFIC AREAS OF IMPORTANCE

Fisheries

In 2019 two major audit undertaken by the EU in Côte d'Ivoire fisheries' sector revealed serious deficiencies in the control systems put in place by the Ivoirian authorities.

First, an audit of DG Sante identified serious deficiencies with regards to respect of SPS in tuna processing. The various weaknesses identified during an SPS audit can lead to restriction of access for exports of Ivorian tuna products to the EU market. Following this audit, Côte d'Ivoire agreed to strengthen monitoring and follow-up mechanisms to address and minimize the possible negative impacts for the tuna sector following the audit results.

Secondly, DG Mare performed an audit with regards to illegal, unreported and unregulated (IUU) fishing in May 2019 which identified weaknesses in the Ivorian system to combat IUU fishing. The lack of initial response to repeated requests for information sent by MARE was of concern and the issue was raised during the Political Dialogue. DG MARE plans a mission in 2020 to assess the progress made.

Banana sector

Upon the initiative of Ivorian banana producers, banana producers from ACP countries came together in the "Appel d'Abidjan" in September 2019 to voice their concerns to the EU regarding preference erosion. The EU reiterated that the tariff liberalization negotiated with Latin American countries on banana within their respective FTAs was now stabilized with a floor customs tariff of €75/ton.

Development cooperation

Development cooperation, in particular trade-related assistance, is an important pillar of the EPA, as it contributes to operationalizing the development dimension of the partnership.
Côte d'Ivoire is a showcase of integrated approach; development cooperation and trade are aligned and mutually reinforcing common interests.

The EU provides budget support to Côte d'Ivoire under a **good governance contract (€60 million, 2016-2020)** with the aim to improve economic governance and the investment climate overall, as well as increasing the collection of value-added taxes (VAT).

Another budget support operation on-going is the ***Programme d'appui au foncier rural* (PAFR) (€41 million 2016-2022)** which aims at investing in rural infrastructure, agricultural modernisation and security in rural areas. Communication on the EPA is embedded in this programme.

The **Côte d'Ivoire EPA Implementation Strategy** was adopted in October 2017. A dedicated EU-financed programme (€5 million in **support of EPA implementation**) and was adopted in November 2019. It will promote customs cooperation on tariff and non-tariff issues and provide support to reduce barriers to trade. The programme will also assist relevant government actors with other reforms related to the implementation of the EPA, including transition in taxation (diversification of fiscal revenues away from customs income) and the establishment of trade defence instruments. An specific technical assistance is foreseen to support the fiscal transition to the Customs Directorate-General for Customs and the Directorate General for Taxation as well as the strengthening of technical and operational capacities of the ministries impacted by the EPA in the areas such as regulatory harmonisation and legislative approximation relating to technical barriers to trade and sanitary and phytosanitary measures .

The implementation of the national component for Côte d'Ivoire of the regional **Competitiveness support programme in West Africa (PACIR II)** (€9 million) started in 2019. The project aims at: (1) Upgrading and supporting consortia of companies in target sectors and value chains; (2) Strengthening the capacities of the Private Sector Intermediary

Organizations that will serve as a lever for modernization, competitiveness and growth for SMEs; (3) Improving the overall business regulatory environment. The programme will further consolidate results achieved under the previous Trade and Regional Integration support programme (PACIR I, €16 million, 2010-2015).

Côte d'Ivoire will also benefit from the regional **West Africa Trade Facilitation Programme (€24.4 million)** and the **Regional Infrastructure Investment Programme**. The latter foresees investment of €28.6 million on the Bamako-San Pedro corridor between Mali and Côte d'Ivoire, as well as €9.43 million for pre-studies on the construction of a motorway between Abidjan and Lagos.

Funded from the EDF's intra-ACP envelope, the **Fit for Market programme,** implemented by COLEACP since 2016 (35M€), undertook a number of interventions in Côte d'Ivoire[187]. The Fit for Market programme assists smallholders, farmer groups and MSMEs (Micro, Small and Medium Enterprises) to access international and domestic horticultural markets by complying with market and sanitary/phytosanitary (SPS) requirements. It provides training on building up producers' business skills, strengthening links throughout the value chain, and improving the capacity of competent authorities. COLEACP has been conducting 141 interventions in Côte d'Ivoire from the start of the programme:

- 89 technical assistance activities (31 in 2019);
- 45 trainings (18 in 2019, which focus on building up producers' business skills, strengthening links throughout the value chains and improving the capacity of competent authorities);
- 3 information and communication (1 in 2019);
- 3 administrative support interventions.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Côte d'Ivoire has experienced significant and steady economic growth since the political crisis of 2012, with an average GDP growth above 8%. In 2019 the economy grew by 7%. Côte d'Ivoire is the leading economy within the Western African Economic and Monetary Union (WAEMU).

Côte d'Ivoire has adopted an open economy approach, with a focus on trade liberalisation, as well as an economic growth based on private investment from both domestic and international sources (50% of total investment is FDI). Côte d'Ivoire has adopted generous investment policies to promote the industrialisation and transformation of its agro-industry, mainly geared towards export markets (cocoa, cashew, banana, tuna, hévéa, coffee…).

Côte d'Ivoire has improved its Doing Business ranking from 122nd in 2019 place to 110th place in 2020, but Côte d'Ivoire is not yet in the top 10 in Africa and is no longer one of the

[187] https://Côte-divoire.coleacp.org

most reforming countries. Côte d'Ivoire's progress in the ranking was mainly made possible by the introduction of the online payment and tax refund system. Investors identify fiscal harassment and the lack of predictability (of fiscal measures) as two of the main barriers, impacting investment and business climate.

Key challenges remain for inclusive economic growth: The Ivorian economy remains dependent on exports of agricultural raw materials and very vulnerable to climate change. More private investment and especially FDI will be necessary to maintain the current growth rate. Côte d'Ivoire needs to increase its stagnating tax revenues (their share in GDP being one of the lowest in the region), reduce the informal employment rate (close to 94%) and the share of population living in poverty (currently at 46%). The 2019 UNCTAD investment policy review of Côte d'Ivoire has more details.[188]

5.2 Trade in goods

The EU27 continues to be the **main trade partner** for Côte d'Ivoire: in 2019, **35% of Ivorian exports went to the EU**, 19% to the West African region, 9% to the US and 6% to Vietnam. With 19% of regional exports Côte d'Ivoire is a champion of regional trade (the average in ECOWAS is 9%). Almost 70% of Côte d'Ivoire's regional exports go Burkina Faso, Mali and Ghana. Regarding imports, the **EU accounted for 27% of Ivorian imports** from the world, followed by China (15%) and Nigeria (12%). Around 16% of Ivoirian imports come from the West African region, almost 75% of it from Nigeria (mostly mineral fuels and other petrol-based products).

Total trade with Côte d'Ivoire has increased by €36 million or 0.5% in 2019. EU imports from Côte d'Ivoire increased by €19 million (+0.4%), reaching €4.1 billion and EU exports to Côte d'Ivoire increased by €17 million (+0.6%), reaching €2.6 billion. The trade balance remains strongly in favour of Côte d'Ivoire (€1.5 billion), due to a large surplus in agri-food trade (€2.6 billion); however, Côte d'Ivoire runs a deficit for non-agricultural trade (-€1.1 billion).

The slight increase in **EU imports from Côte d'Ivoire** in 2019 can be attributed to an increase in value of imports of raw and processed cocoa products by €99 million or 3.5%, after a fall of €175 in 2018 (caused by a drop in global market prices). Imports of fruits and nuts also increased (+€33 million, 12.1%), driven mainly by bananas, but also cashew nuts, pineapples and mangos. Imports of mineral fuels (-€117 million, 25%) and canned tuna (-€29 million, 23%) decreased.

Cocoa and transformed cocoa products remain Côte d'Ivoire's main export products, accounting for 69% of total EU imports from Côte d'Ivoire in 2019. Ivorian exports of cocoa paste, butter and powder, as well as chocolate, have continuously increased in recent years and, being less sensitive to price fluctuations, are supporting the creation of a local agroindustry. Chocolate exports to the EU significantly increased by 412% from €24 million in 2010 to €123 million in 2019.

[188] UNCTAD, 2019: https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2681

Preference utilisation rates for Côte d'Ivoire are continuously in the 98-99% range. Preferences are used in particular for cocoa and cocoa products, vegetables, prepared foodstuffs and wood products.

EU imports from Côte d'Ivoire are still little diversified. The total number of products with export values above €1 million was 46 in 2019, basically the same as in 2014 (45 product lines). The share of the top 10 products in total EU imports from Côte d'Ivoire is 91% in 2019 (see Table 1).
However, over the past 10 years, Côte d'Ivoire was able to further diversify its economy by exporting a range of new products. For example, exports of fresh coconuts, articles of wood and fresh fish all went from zero to being worth several million euros. Of the more traditional export sectors, the most drastic increases over the past 10 years were recorded for guavas and mangos, bran, sharps and other residues of wheat, and waste and scrap of copper.

Table 1. 2019 top 10 EU imports from Côte d'Ivoire

Product	Description	Imports in value in 2019 (million €)	Share (%)
180100	Cocoa beans, whole or broken, raw or roasted	1713.0	44.1%
180310	Cocoa paste (excl. defatted)	369.8	9.5%
270900	Petroleum oils and oils obtained from bituminous minerals, crude	343.5	8.8%
180400	Petroleum oils and oils obtained from bituminous minerals, crude	275.5	7.1%
400122	Technically specified natural rubber 'tsnr'	266.4	6.9%
080390	Fresh or dried bananas (excl. Plantains)	231.5	6.0%
180620	Chocolate and other food preparations containing cocoa, in blocks, slabs or bars weighing > 2 kg or in liquid, paste, powder, granular or other bulk form, in containers or immediate packings of a content > 2 kg (excl. Cocoa powder)	122.9	3.2%
160414	Prepared or preserved tunas, skipjack and atlantic bonito, whole or in pieces (excl. minced)	88.7	2.3%
180320	Cocoa paste, wholly or partly defatted	81.9	2.1%
400129	Natural rubber in primary forms or in plates, sheets or strip	47.1	1.2%
	Total	**3,540.3**	**91.2%**

Source: Eurostat (Product descriptions are partly shortened)

EU exports that increased in 2019 are wheat and meslin (+€28 million, +40%), tobacco (+€24 million, 31%), pharmaceutical products (+€17 million, 12%) and food preparations of flour, groats, meal, starch or malt extract, or milk, cream, butter milk, sour milk, sour cream, whey, yogurt, kephir (+€18 million, 56%). Main export decreases concern motor vehicles (-€47 million, 21%) and mineral fuels (-€14 million, 9%).

Table 2. 2019 top 10 EU exports to Côte d'Ivoire

Product	Description	Exports in value in 2019 (million €)	Share (%)
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	561.7	2.7%
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	552.7	2.6%
870120	Road tractors for semi-trailers	451.7	2.1%
284390	Inorganic or organic compounds of precious metals, whether or not chemically defined (excl. Silver and gold)	379.8	1.8%
870840	Gear boxes and parts thereof, for tractors, motor vehicles for the transport of ten or more persons	352.3	1.7%
870829	Parts and accessories of bodies for tractors, motor vehicles for the transport of ten or more persons	328.0	1.6%
840820	Compression-ignition internal combustion piston engine "diesel or semi-diesel engine"	304.8	1.4%
880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15.000 kg (excl. Helicopters and dirigibles)	300.0	1.4%
840734	Spark-ignition reciprocating piston engine	272.9	1.3%
847150	Processing units for automatic data processing machines, digital	247.4	1.2%
	Total	**3,751.3**	**17.8%**

Source: Eurostat (Product descriptions are partly shortened)

5.3 Trade in agricultural products

In 2019, total trade in agricultural goods was €9.49 billion, with a huge surplus of €2.64 billion for Côte d'Ivoire. **EU imports** of agricultural goods from Côte d'Ivoire to the EU represented 78% of the total exports from Côte d'Ivoire to the EU and amounted to €3.26 billion. Imports were dominated by cocoa products – cocoa beans, paste and powder – (84%, for a value of €2.75 billion) followed by tropical fruits (9%, €304 million). Imports in agricultural goods have increased by almost 80% since 2009.

EU agri-food exports to Côte d'Ivoire reached a value of €625 million in 2019 (increasing by 11.2% since 2018 and reaching the highest value since 2009). EU exports consisted mainly of wheat (17.6%), raw tobacco (16.6%) and infant food and other cereals, starch or milk preparation (11%). All of the three main categories of exports registered an increased by more than 30% compared to 2018.

5.4 Trade in services and Foreign Direct Investments

The interim EPA with Côte d'Ivoire does not cover services nor investment. **Trade in services** between the EU and Côte d'Ivoire increased by 15.5% in 2018, due to an increase of both EU exports by 16.3% or €120 million and EU imports by 14.3% or €76 million. Total trade in services has reached its highest since 2014, from €1.205 billion to €1.455 billion or +20% in 5 years. Total services trade balance is positive for the EU.

EU **foreign direct investment** stocks in Côte d'Ivoire stood at €2.5 billion in 2018. New outward investment in Côte d'Ivoire was €151 million in 2018. The EU remains the largest foreign investor, accounting for over 58% of the current FDI stock. Over 500 European companies are currently active in Côte d'Ivoire, several of them as market leaders within their particular market.

In the past 5 years, competition from emerging countries has been increasing. FDI flows from China have been steadily on the rise, combined with over €3.5 billion of concessional loans in key infrastructure sectors (Abidjan port and airport, roads, energy, mining). The latter promoted state-supported Chinese companies to enter the Ivorian market where they are increasingly crowding out European companies. Moreover, strong communication coming from the Ivorian government indicates an objective to double or even triple the share of these new investors (more specifically China, Morocco and Gulf States).

6. CONCLUSIONS

The EU continues to be the largest and most stable market for Ivorian exports but Côte d'Ivoire is progressively sourcing imports including machinery from Asia. Chinese presence in the economy is on the raise, while the EU continues to be the main trade and investment partner for the country, with EU investments also supporting sustainability goals ad can be seen from the example in the box below. Implementation of the interim EPA will be a key instrument to ensure the continued prime position of the EU among Côte d'Ivoire's partners, as well as the contribution of trade to sustainable development in the medium and long term. The EU will need to intensify its work with Côte d'Ivoire specically on sustainability matters, such as the cocoa sector.

EU investment in biomass plant for renewable electricity production in Côte d'Ivoire

In 2019, Côte d'Ivoire and the project company Biovéa Energie, composed of the French companies EDF and Meridiam and the Ivorian company Biokala (a subsidiary of the SIFCA group), signed a concession contract for a biomass power plan.

The contract provides for the design, construction and operation of a biomass power plant with a capacity of 46 MW over a period of 25 years. Work will start in the second half of 2020 and operations in mid-2023.

The biomass plant will be located in Aboisso, 100 km from Abidjan, in the Sud-Comoé region. It will be the largest energy infrastructure in West Africa based on biomass waste. Using agricultural waste, it will provide electricity for 1.7 million people. The total investment represents almost €200 million, financed by the consortium and partners like Proparco, a subsidiary of the French Agency for Development.

Farmers supplying biomass for the plant will see their incomes rise by up to 20%. Farmers will be able to use the ash emitted by the power plant as fertilizer. Building the plant is expected to create at least 500 jobs locally, while its operation will create more than 1,000 full-time jobs.

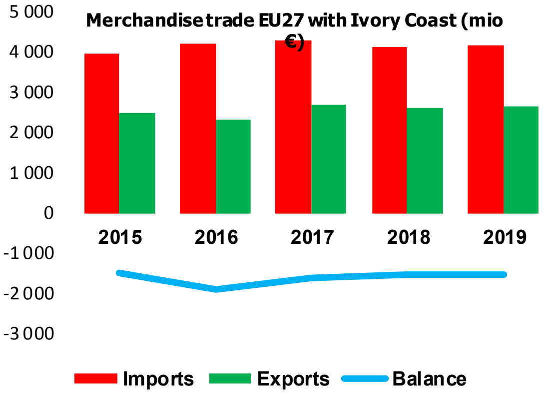
This project is part of the National Action Plan for Renewable Energies of Côte d'Ivoire, the aim of which is to increase the share of renewable energies in the energy mix to 42% by 2030.

7. Statistics

IVORY COST

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Ivory Coast (mio €)					
Imports	3 990	4 231	4 315	4 151	4 169
Exports	2 502	2 333	2 717	2 626	2 643
Balance	-1 488	-1 898	-1 598	-1 524	-1 526
Share Ivory Coast in EU27 trade with Extra-EU27					
Imports	0.2%	0.3%	0.2%	0.2%	0.2%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.2%	0.2%	0.2%	0.2%	0.2%
Share EU27 in trade Ivory Coast with world					
Imports	30.6%	29.1%	35.6%	27.6%	27.3%
Exports	39.6%	37.7%	37.9%	33.9%	34.5%
Total (I+E)	35.6%	33.9%	36.9%	30.9%	30.9%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Ivory Coast: IMF Dots



Total merchandise trade EU27 with Ivory Coast (mio €)

Ivory Coast	2018	2019	Growth mio €	Growth annual %
Imports	4 151	4 169	19	0.4%
Exports	2 626	2 643	17	0.6%
Balance	-1 524	-1 526	-2	
Total trade	6 777	6 813	36	0.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Ivory Coast (mio €)

Ivory Coast	2018	2019	Growth mio €	Growth annual %
Imports	3 125	3 265	139	4.5%
Exports	562	625	63	11.2%
Balance	-2 563	-2 640	-77	
Total trade	3 688	3 890	202	5.5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Ivory Coast (mio €)

Ivory Coast	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 026	905	-121	-11.8%
EU27 exports	2 064	2 018	-46	-2.2%
Balance	1 039	1 113	75	
Total trade	3 090	2 923	-167	-5.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Ivory Coast (mio €)

Ivory Coast	2017	2018	Growth mio €	Growth annual %
Imports	529	604	76	14.3%
Exports	731	851	120	16.3%
Balance	203	246	44	
Total trade	1 260	1 455	195	15.5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Ivory Coast (mio €)

	2014	2015	2016	2017	2018
Imports	473	655	582	529	604
Exports	732	724	695	731	851
Balance	259	70	113	203	246
Total trade	1 205	1 379	1 277	1 260	1 455

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Ivory Coast (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	-2	-205	152	961	978
Outward	3 679	3 790	3 730	3 217	2 584
FDI Flows					
Inward	36	-235	-62	688	74
Outward		735	-50	193	151

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND GHANA

1. INTRODUCTION

Pending an Economic Partnership Agreement (EPA) with the West African region, Ghana concluded a **stepping stone (or interim) Economic Partnership Agreement with the EU in December 2007**.[189] The stepping-stone EPA with Ghana was signed on 28 July 2016, ratified on 3 August 2016 by the Ghanaian Parliament and approved by the European Parliament on 1 December 2016. It entered into provisional application on 15 December 2016. The EU-Ghana interim EPA agreement will be substituted by the regional EU-West Africa EPA once the latter enters into force.[190] By the end of 2019, 14 out of 15 members of the Economic Community of Western African States (ECOWAS), and Mauritania, have signed the regional EPA which now misses only Nigeria's signature.

During the 2nd EPA Committee, held in Brussels in November 2019, Ghana submitted a revised liberalisation schedule for the period 2020-2029. **Ghana started reciprocating its preferential access to the EU at the beginning of 2020**, while the EU continuously upheld duty free quota free access to its market for Ghanaian products since 2008. The revised market access offer and full liberalisation schedule is available on DG Trade's website.[191]

2. MAIN IMPLEMENTATION ISSUES

2.1 Main steps in implementation

2.1.1 Main steps taken in the implementation of the Agreement in 2019

In 2019, the parties **endorsed Ghana's revised market access schedule**, along with the revised market access offer – paving the way for liberalisation to commence in 2020. While the EU continuously upheld duty free quota free access to its market for Ghanaian products, Ghana started to liberalise its market for EU products in 2020. The revised market access offer foresees that 78% of tariff lines will be progressively liberalised over the period 2020-2029. Liberalisation has started formally in early 2020, however, only products where tariffs are already at 0% are included in this first round. "Actual" liberalisation will start in January 2021 where 1056 lines will be liberalised. This first round of liberalisation concerns few products with significant EU exports (8 tariff lines with exports above €1,000,000, mainly

[189] The official name of the agreement ("stepping-stone agreement") reflects the fact that the initial and ultimate objective for economic partnership in West Africa is a comprehensive, regional agreement. It is also called "interim EPA".

[190] The Economic Partnership Agreement was signed in December 2014 by the European Union and 13 West African Countries. The agreement will enter into provisional application if the 16 West African Countries sign the agreement and 2/3 of these countries ratify it. In 2018, both the Gambia and Mauretania signed the agreement, which means that only Nigeria's signature is still missing.

[191] Published on DG Trade's website: https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158599.pdf

machinery and chemicals). Agricultural goods, including fruits and vegetables, are altogether mostly excluded for liberalization, as well as inputs in specific value chains such as poultry, sugar, edible offal, food preparations. The full offer and schedule is available online. [192]

The parties endorsed the changes stemming from legal scrubbing of the Protocol on Rules of Origin, and agreed to adopt the final version of the protocol in 2020. The parties also agreed on a draft text for the rules of procedures for the EPA Committee, to be adopted in the first half of 2020.

2.1.2 Cooperation with the private sector in addressing trade barriers

The EU Delegation to Ghana has systematically worked in close coordination with the EU Member States and the local authorities to address trade barriers. In May 2019, a **joint meeting between the EU Delegation, EU Member States, the European Business Organisation and the Customs Division of the Ghana Revenue Authority**, took place in order for the EU and private sector representatives to address challenges when dealing with Customs' authorities at Ghana's main port.

The EU Delegation also ensures that the voice of the local private sector is heard in the process of addressing trade barriers and implementing trade agreements. For example, in 2019, the EU-funded West Africa Competitiveness Program (€4.1 million, 2019-2021) supported small and medium local trade associations to become more present in forums and events and to better make their voice heard with regard to value chains in the agriculture sector. Furthermore, through the Investment Promotion component (€2.8 milllion, 2018-2021) of the EU-funded Ghana Employment and Social Protection Programme, the EU campaigned for more Ghanaian SME's to be linked with larger companies in the ECOWAS region and the EU market for improved export promotion and Value-Chains' development in agriculture.

In June 2019, an **EU-Ghana Business Forum** was organised with hundreds of participants and dozens of Ghanaian media present. Jyrki Katainen, Vice President of the European Commission opened the forum. The forum focused on the European External Investment Plan, its tools and the opportunities it provides for developing countries which want to involve more the private sector in their development efforts.

2.1.3 Conclusion of a study[193] on the impact of the interim EPAs on regional trade in West Africa

Côte d'Ivoire, with support from the EU, conducted in 2019 a study to determine the impact of tariff liberalisation under the EU-Côte d'Ivoire and EU-Ghana interim EPAs on regional trade in West Africa. The study assessed the possible consequences of EU intermediate products imported under EPA preferences (i.e. at zero duties, or duties significantly lower than the ECOWAS Common External Tariff) being used for manufacturing final goods, which are then exported to the region. The study takes into account the de facto applied rules for goods circulation within ECOWAS (the ECOWAS Trade Liberalisation Scheme, ETLS, the corresponding rules of origin).

[192] Full offer and schedule available here: https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158599.pdf

[193] The study is available in the website of DG TRADE: https://trade.ec.europa.eu/doclib/html/158337.htm)

The impact study showed the following results:

1. The volume of Ivoirian and Ghanaian transformed goods that contain liberalised EU inputs (=intermediate products imported from the EU under EPA preferences) and are exported to the rest of the region are very limited for Côte d'Ivoire (123 million USD) and statistically non-significant for Ghana (26.4 million USD). The volume corresponds to 2% and 0.4%, respectively, of goods formally imported by ECOWAS Member States from both countries.
2. The study shows that the countries possibly affected by these imports of transformed products would be: a) Burkina Faso (31 million USD) and Mali (24 million USD) in the case of Côte d'Ivoire; and b) Burkina Faso (10 million USD) and Togo (2 million USD) in the case of Ghana.
3. Only 15 transformed products produced and exported by Ghana and Côte d'Ivoire using EU liberalised input might require specific trade surveillance measures. These include wheat products, soap products, carboys, soups, make-up, hygiene articles, tableware, clinker and preserved tomatoes.
4. Trade diversion effects caused by those products against regional producers are statistically insignificant (less than 1 million USD) and mostly compensated by trade creation effects going in favour of local consumers (i.e. more affordable prices).
5. In Côte d'Ivoire, the liberalisation of 26 EU inputs (accounting for 52 million USD of Ivorian imports from the EU) used in the manufacturing of 8 transformed products exported in the region does not significantly distort the demand of Côte d'Ivoire for equivalent regionally produced inputs except for salt coming from Senegal (0.16 million USD of Ivorian imports from Senegal). In Ghana, the liberalisation of 7 EU inputs (accounting for 12 million USD of Ghanaian imports from the EU) used to produce 8 transformed products exported in the region, does not significantly affect the demand of Ghana for equivalent regionally produced inputs except for locally produced clinker.
6. The already limited impact of these EU input liberalisation will be further mitigated by their progressive liberalisation as agreed in their respective Market Access Offer. 66% of the volumes will be liberalised after 2026 in the case of Ghana and 60% of the volumes will be liberalised after 2024 in the case of Côte d'Ivoire. This gives sufficient time to the region to set up the recommendations proposed by this study.

The Study proposes four main recommendations:

1. In the short term, i.e. within the next five years, maintain the free circulation of transformed products coming from Ghana and Côte d'Ivoire and using EU liberalised input goods. If needed, apply safeguards if unexpected rise in volume exports happen related to the transformed products occur.
2. A trade surveillance system should be set up for the identified 15 products that are manufactured using liberalised EU inputs and may cause distortions on the regional market.
3. In the medium term, from 2024, the monitoring of the ETLS system by ECOWAS and the trade statistics in Ghana and Côte d'Ivoire could be improved for a better tracking of the transformed products using EU liberalised input.
4. Furthermore, after 2024, Ivoirian and Ghanaian companies exporting to other ECOWAS countries could be requested to pay back to these countries the customs duties related to the amount of liberalised EU input used in their transformed products.

A key recommendation of the study was to initiate discussions on building a regional safeguard mechanism between ECOWAS countries that currently does not exist in the legal framework. A safeguard mechanism could help facilitate the solution of other cross-border issues currently dealt with at bilateral level.

2.2 Trade and sustainable development goals

The interim EPA with Ghana does not include a TSD chapter, nevertheless, close cooperation is taking place, e.g. under the framework of the Cotonou Agreement.

Under the EPA, parties started to engage in a **dialogue on sustainability of the Cocoa value chain,** during the 2nd EPA Committee meeting with Ghana on 29th November 2019. Both sides agreed to continue this dialogue in future meetings. The EU imports 65% of Ghana's and Côte d'Ivoire's cocoa exports, making it the first importer worldwide. While cocoa beans are duty free on a MFN basis, exports of processed cocoa (butter, paste and powder) benefit from EPA preferences – which allowed Ghana to multiply by a factor of 6 its processed cocoa exports since 2008.

In mid-2019, the governments of Ghana and Côte d'Ivoire started engaging in a joint cocoa initiative through guaranteeing a minimum price for cocoa on the world market with the aim to ensure a **living income for local farmers**.[194] The European Commission seeks to engage with both Ghana and Côte d'Ivoire on complementary issues related to deforestation and child labour which are affecting the sustainability of the cocoa value chain. Addressing these issues will need structural reforms in both countries, as well as strong cooperation among the various European actors involved in the value chain, e.g. with regard to traceability.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

Technical meeting in Accra, 28 February-1 March 2019

A technical meeting took place on 28 February – 1 March 2019, at the Ministry of Trade and Industry (MoTI) in Accra, Ghana. Parties jointly undertook simulations on the fiscal revenue losses in order to finalise the update of the Ghanaian Market Access Offer. Parties also discussed remaining questions related to the final text on the rules of origins submitted by the EU party.

2nd EPA Committee in Brussels, 29 November 2019

The second meeting of the EPA Committee under the Interim Economic Partnership Agreement (EPA) between Ghana and the EU was held in Brussels on 29th November 2019, in the presence of Hon. Alan Kyerematen, Minister of Trade and Industry of Ghana.

The Committee achieved a number of key results: the Parties endorsed the full market access offer and market access schedule of Ghana. Ghana will start to liberalise its market for EU

[194] Ghana and Côte d'Ivoire jointly announced in June 2019 the suspension of their cocoa futures sales for the cocoa production of the 2020-2021 season (which will begin in October 2020) below a certain price (USD 2600/tonne). This was accompanied by a joint public intervention, which led to an agreement with industry to offer a USD 400/tonne premium above the price of the world market.

products by the first quarter of 2020. The liberalisation schedule will be concluded by 2029. The Parties, secondly, agreed on the final version of the Protocol on Rules of Origin and will adopt it officially in the first half of 2020. Thirdly, the EPA Committee also agreed on the rules of procedures for the EPA Committee.

Furthermore, the parties exchanged views on sustainability in the cocoa value chain. The EU informed the Committee that there are currently discussions in the EU on how to further contribute to addressing social and environmental challenges in the cocoa supply chain. Finally, the EU updated Ghana on the implementation of other Economic Partnership Agreements with other ACP countries and debriefed the Ghanaian side on Brexit. Ghana highlighted recent progress on the implementation of the African Continental Free Trade Area (AfCFTA).

4. TRADE AND DEVELOPMENT COOPERATION AND SPECIFIC AREAS OF IMPORTANCE

Development cooperation

Development cooperation, particularly trade-related assistance, is an important pillar of the EPA as it contributes to operationalizing the development dimension of the partnership.

Ghana adopted an **EPA Accompanying Measures Strategy** in 2015 to facilitate EPA implementation. The EU will support the implementation of the strategy with €12 million for 2018-2023 through the following projects: i) support to the Ministry of Trade to implement the EPA and to engage on EPA-related issues; ii) support to the Ghana Export Promotion Authority and the Ghana Investment Promotion Centre in promoting local SMEs to upgrade along value chains and improve the quality of their products; and iii) overall support to improving the business policy and regulatory environment.

The first action, **Support to the Ministry of Trade (€4.1 million, 2019-2021)** aims at information dissemination, awareness raising and mainstreaming the EPA across public and private sector, as well as capacity building for EPA implementation and monitoring. Implementation will start in the first trimester of 2020.

In addition, in 2018, the EU launched the **Ghana Employment and Social Protection Programme (GESP) – Investment Promotion Component** (€2.8 million, 2018-2021) which aims at fostering access to business development services (BDS), promoting structured business advocacy initiatives and supporting investment promotion and business linkages in selected value chains. The project will undertake a structured sequence of investment promotion activities, such as identifying potential investors, lead companies and local suppliers, preparing investment briefs to key target investors, supporting promotion campaigns and providing investor management. In 2019, SMEs and authorities benefitted from workshops on “Investment Appraisal Skills”, “Institutional Strengthening, Leadership and Change Management” and “ECOWAS market identification”. A total of 151 MSMEs and start-ups benefitted from a first round of investment promotion activities. The ECOWAS export generation initiative has selected 9 SMEs from the prepared food, cosmetic and oil sectors and identified potential countries for export. Market research is underway for exports to Burkina Faso, Cape Verde, Ivory Coast and Mali. The project also co-sponsored the Ghana Industrial Exhibition and Summit and the Ghana-EU Forum

Under the regional **West Africa Competitiveness Program, the national component in Ghana (€6.35 million, 2019-2022)** is focusing on value chain development in the fruits, cassava and cosmetics sector. Planned activities include value chain diagnostics, strengthening of intermediary organizations, and specific training of brokers, cluster development agents and micro, small and medium sized enterprises (MSMEs). In 2019, the project helped establish three Value Chain Strategic Committees (VCSC) for the three selected value chains, with the objective of facilitating sectorial dialogue and promoting synergies. In 2019, the project provided trainings to 95 producers in cassava and fruit value chains to strengthen the application of Good Agricultural Practices (GAP) and agricultural certifications, and trained 30 cosmetic producers on product registration and certification procedures.

Other relevant support:

- The EU supports Ghana's agricultural sector through the **Market Oriented Agricultural programme (MOAP)** (€35 million, 2017-2024) and the programme to promote **productive investments for sustainable agriculture in Northern Ghana (2018-2025, 102M€)**.
- The EU is also implementing the **Budget Support Programme to Promote Investment and Job Creation (SDG-Contract, 45 M€, 2019-2021)** which aims at promoting domestic and foreign investment and strengthening public financial governance and fight against corruption, as well as boosting domestic revenue mobilisation.

The Fit for Market programme, implemented by COLEACP, since 2016 (35M€), assists smallholders, farmer groups and MSMEs (Micro, Small and Medium Enterprises) in ACP countries to access international and domestic horticultural markets by complying with market and sanitary/ phytosanitary (SPS) requirements. It focuses on the business case for adopting good practice that not only facilitates market access but also genuinely helps suppliers run more efficient, profitable and resilient businesses. It provides training with the objective of building up producers' business skills, strengthening links throughout the value chain, and improving the capacity of competent authorities. COLEACP has been conducting **72 interventions in Ghana** from the start of the programme: 50 technical assistance activities (21 in 2019), 21 trainings (15 in 2019), and one advocacy training (which aims at strengthening stakeholders' capacity to lobby and advocate with regulators and standard-setters).

Fisheries

Following the issuance of a yellow card by the EU on illegal, unreported and unregulated (IUU) fishing in 2013, Ghana prompted rapid efforts at reform, including the introduction of Ghana's 2015-2019 Fisheries Management Plan. Ghana earned good reputation during its work in the context of the formal dialogue with the European Commission, which led to the lift of the pre-identification/yellow card in October 2015. However, the situation has significantly worsen and the legal reforms undertaken during the "yellow card" period in terms of fines as well as monitor, control and surveillance (MCS) are not being fully implemented.

The Commission is recently alerted Ghana of the increased risk of a new yellow card, and outlined key concerns: high level of illegal transhipments; lack of control over foreign interests in the industrial sector; the disappearance of an observer on a Chinese-owned trawler; the lack of enforcement of the law and lack of political will to allow technical teams to deliver, including political obstruction. The Commission called on Ghana to take strong actions rapidly to address all the weakness in the system.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

The assessment of the macroeconomic performance for Ghana for 2019 showed sustained improvements of key macroeconomic fundamentals, but weak revenue mobilisation, coupled with a faster growth in expenditure remain the main challenges.

Ghana is one of the **fastest growing economies in Africa**. GDP grew by 6.7% in 2019, below the 7.1% target of the 2019 Mid-year Review. The downward trend of inflation is confirmed in 2019 with end-period inflation of 7.6% in September 2019, down from 9.8% in October 2018 and 11.8% in December 2017. The decline in inflation was mainly driven by non-food inflation and the monetary stance taken by Bank of Ghana. The fiscal deficit was at 4.5% of GDP at the end of September 2019.

Ghana's external position in 2019 largely continued to strengthen. The provisional trade balance recorded a surplus of USD 2.16 billion (3% of GDP) by the end of 2019 from a surplus of USD 1,8 billion recorded in 2018. Gross international reserves decreased to 3.6 months of import cover from 3.9 months at the end of 2017 largely due to 7.6% depreciation against the US Dollar at the end of September 2018.

Ghana remains a **favourite destination for investment** in West Africa and the government is continuing its reforms to improve the overall investment climate. Ghana dropped by four places in the Doing Business report of 2020 (118^{th} place from 114^{th} in 2019) but still ranks 13^{th} among 48 Sub-Saharan African states. Ghana is valued for its political stability, relatively open democratic institutions, free media and a fairly vibrant civil society. The 2018 Mo Ibrahim Index on African Governance ranks Ghana 6 out of 54 African countries with recent improvement in indicators like 'Sustainable Economic Opportunities' and 'Safety and Rule of Law'. On the other hand, Ghana suffers from the common ailments found all over Africa: red tape, corruption, discriminatory taxation, slow justice system and local content/ ownership requirements that sometimes discourage European companies from investing and bidding for government contracts.

5.2 Trade in goods

In 2019, **EU27 was Ghana's largest source of imports**, accounting for 17% of Ghana's imports (ahead of China with 16.8% and the USA with 9.6%). **EU27 was Ghana fourth largest export destination**, accounting for 10.6% of Ghana's exports (behind India with 26.8%, China with 14.6% and Switzerland with 14.6%). However, exports to India and China are almost exclusively gold, oil and mineral ores, while exports to the EU are more diversified. Only 4.5% of Ghana's exports go to the West African region (mostly Togo and Burkina Faso) and less than 4% of Ghana's imports come from the region (mostly Côte d'Ivoire and Nigeria), less than the average exports and imports rates within the ECOWAS region.

In 2019, **total trade** between the EU27 and Ghana decreased by 10.8%, mostly due to a fall in EU imports from Ghana by €390 million or 14.6% to €2.3 billion. However, total imports from Ghana are still above the level of 2017, as 2018 saw an unusual spike due to high oil exports. EU exports to Ghana in 2019 decreased by €231 million or 9.5% to €2.2 billion. The overall trade balance is negative for the EU (-€92 million), for both agricultural and non-agricultural goods.

The decrease in **EU imports from Ghana** is due to a decrease in mineral oil imports by €457 million (-43.1%), after an increase by 180% in 2018. Imports of raw cocoa beans also decreased by €39 million (-6%). On the other hand, EU imports of edible fruits and nuts (mostly bananas) increased by €21 million (+25%), imports of cocoa paste, butter and powder increased by €60 million (+12%) and imports of vegetable fats and oils increased by €14 million (+29%). Processed cocoa products (paste, butter, powder and chocolate) have doubled since 2010 and multiplied by 6 since 2008. They now account for 47% of the overall value of Ghanaian cocoa exports to the EU.

Main destination of Ghanaian exports in the EU are the Netherlands (€803 million), France (€396 million), Italy (€304 million) and Germany (€256 million). Ghanaian exports to the UK were €324 million in 2019, down 30% from the previous year. Preference utilisation rates for EU imports from Ghana are continuously around 98 or 99%.

EU imports from Ghana are diversifying only slowly. The top 10 products imported by the EU (at HS 6-digit level) accounted for 87.4% of total imports in 2019 (89.8% in 2018), see Table 1. In 2019, the EU imported 47 different products (at HS 6-digit level) with a value of above €1million from Ghana (compared to 53 products in 2014 and 43 in 2009). A few new products were added to the export basket over the past 10 years, such as yams, frozen cuttle fish and squid, frozen octopus and frozen tuna. Of the more traditional export, the most dramatic increases over the past 10 years were recorded for mangos, other exotic fruits, vegetable fats and oils, and, of course, cocoa butter, fat and oil and cocoa powder.

Table 1. 2019 top 10 EU imports to Ghana

Product	Description	Volume (million €)	Share
180100	cocoa beans, whole or broken, raw or roasted	611.7	26.98%
270900	petroleum oils and oils obtained from bituminous minerals, crude	560.7	24.73%
180400	cocoa butter, fat and oil	295.6	13.04%
180310	cocoa paste (excl. defatted)	175.7	7.75%
160414	prepared or preserved tunas, skipjack and atlantic bonito, whole or in pieces (excl. minced)	76.7	3.38%
760110	aluminium, not alloyed, unwrought	76.6	3.38%
151590	fixed vegetable fats and oils and their fractions	576.7	2.54%
080390	fresh or dried bananas (excl. plantains)	53.4	2.35%
180500	cocoa powder, not containing added sugar or other sweetening matter	46.3	2.04%
180320	cocoa paste, wholly or partly defatted	27.5	1.21%
	Total	**2,500.9**	**87.41%**

Source: Eurostat (product names partly shortened)

Table 2. 2019 top 10 EU exports to Ghana

Product	Description	Volume (million €)	Share (%)
271012	light oils and preparations, of petroleum or bituminous minerals	184.3	8.43
20714	frozen cuts and edible offal of fowls of the species gallus domesticus	123.1	5.63
300490	medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	696.7	3.19
271019	medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, n.e.s.	57.2	2.62
490700	unused postage, revenue or similar stamps of current or new issue in the country	40.1	1.83
300220	vaccines for human medicine	36.7	1.68
843143	parts for boring or sinking machinery of subheading 8430.41 or 8430.49, n.e.s.	34.3	1.57
630900	worn clothing and clothing accessories, blankets and travelling rugs, household linen and articles for interior furnishing	32.7	1.50
190190	malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa	32.2	1.47
870120	road tractors for semi-trailers	25.9	1.18
	Total	**1,263.2**	**29.11%**

Source: Eurostat (product names partly shortened)

The decrease in **EU exports to Ghana** was mostly driven by a decrease in exports of mineral fuels and mineral oils (-€240 million, -49%), as well as machinery and mechanical appliances (-€49 million, -11%), cement (-€28million, -78%) and miscellaneous articles of base metal (-€27 million, -58%).

On the other hand, EU exports increased for stamps, banknotes, cheque forms, stock, share or bond certificates (+€40 million, +1005%), meat and edible meat offal (+€32 million, +21%), pharmaceutical products (+€21 million or 20%) and wheat and meslin (+€18 million from 0).

5.3 Trade in agricultural products

Total trade in agricultural goods between the EU and Ghana counted for €1.83 billion in 2019, with Ghana having a surplus of €860 million.

EU imports of agri-food products from Ghana have increased by €55 million or 4.2% in 2019 to a total of €1.3 billion. Imports of agricultural goods from Ghana count for 59% of the total EU total trade with Ghana. Cocoa products (cocoa beans, paste, butter and powder) counted for 86% (€1.16 billion) of EU imports of agricultural goods from Ghana. Imports of tropical fruits counted for a value of €82 million in 2019.

The **EU exports of agri-food products** to Ghana in 2019 consist mainly of poultry meat (29%, €143 million), infant food, and other cereals, flour, starch or milk preparations (7%, €34 million and having increased by 54.5% compared to 2018), milk powders and whey (6.8%) and vegetables oils – other than palm & olive oil – (6.4%). In 2019, exports of sugar decreased by 36.7% and counted for 3.9% of exports of agricultural products to Ghana.

The EU does not open any TRQs to Ghana. In 2019, Ghana was not yet liberalizing its market for EU imports under the EPA, and most agricultural products will remain excluded from liberalization.

5.4 Trade in services and Foreign Direct Investments

The interim EPA with Ghana does not cover trade in services nor investment.

After a major fall in 2017 (from €2.493 billion in 2016 to €1.062 billion or -50%), **trade in services** is picking up. Total EU services trade with Ghana slightly increased in 2018 reaching €1.098 billion (+3.3%). EU imports of services from Ghana decreased slightly by €7 million or 1.8% to €388 million. EU exports of services to Ghana increased by €44 million or 6.6% to €722 million. Overall balance is positive for the EU.

In 2018, EU27 **foreign direct investment** stocks in Ghana stood €1.967 billion (+€464 million or +30.9%). EU27 FDI flows reached €149 million (+€105 million or +238%). Several large EU companies, such as Volkswagen, have finalised plans to invest in assembly lines in the country.

6. CONCLUSIONS

With the endorsement of the revised market access offer and schedule, the implementation of the EU-Ghana interim EPA took a major step forward in 2019. Exports of Ghana to the EU remain dominated by cocoa and mineral oils, nevertheless, exports to the EU are far more diversified than to any other trade partner. The EU remains a key trade and investment partner even its reduced EU27 configuration. Close cooperation will be needed in the coming years to reap full benefits from the implementation of the EU-Ghana interim EPA.

Europeans enjoys fresh fruit from Ghana

The Ghanaian company *Blue Skies* has been producing fresh-cut fruit in Ghana since 1998 and has now diversified into freshly squeezed juice and dairy-free ice cream. The business employs around 3,500 people in its three factories in Ghana and sources fruit from over 120 farms across the country.

The business predominantly supplies 'own label' products to a number of retailers including Albert Heijn in the Netherlands, Delhaize in Belgium and Carrefour and Monoprix in France. Products sent to Europe include freshly cut mango, coconut, pineapple and papaya. In 2018/2019, *Blue Skies* exported over 7,000 tonnes of fresh fruit into the EU.

Exporting to Europe, thanks to duty-free market access under the EPA, has been a key growth factor for the company. *Blue Skies* has recently launched dairy-free ice cream, which is made using fresh coconut milk and has won numerous awards.

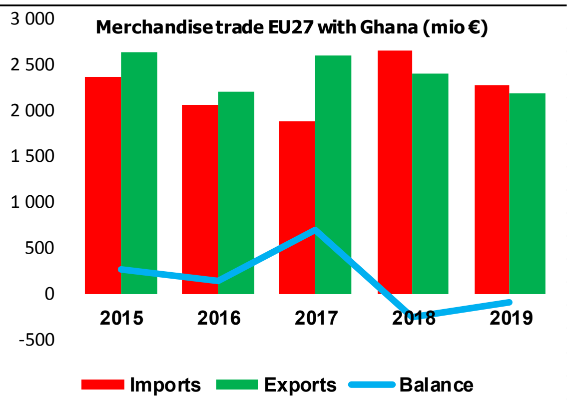
In response to growing demand, *Blue Skies* is investing in a new state-of-the-art factory in Benin, which is expected to be completed by the end of 2019 and will take advantage of direct flights from Cotonou to France.

7. STATISTICS

GHANA

Merchandise trade EU27 2015-2019					
	2015	**2016**	**2017**	**2018**	**2019**
Merchandise trade EU27 with Ghana (mio €)					
Imports	2 368	2 063	1 897	2 668	2 278
Exports	2 635	2 215	2 607	2 417	2 186
Balance	267	152	710	-251	-92
Share Ghana in EU27 trade with Extra-EU27					
Imports	0.1%	0.1%	0.1%	0.1%	0.1%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Ghana with world					
Imports	19.6%	21.6%	23.4%	21.5%	17.0%
Exports	16.6%	12.5%	15.2%	18.7%	10.6%
Total (I+E)	18.3%	17.2%	19.0%	19.8%	13.1%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Ghana: IMF Dots



Total merchandise trade EU27 with Ghana (mio €)

Ghana	2018	2019	Growth mio €	Growth annual %
Imports	2 668	2 278	-390	-14.6%
Exports	2 417	2 186	-231	-9.5%
Balance	-251	-92	159	
Total trade	5 085	4 464	-621	-12.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Ghana (mio €)

Ghana	2018	2019	Growth mio €	Growth annual %
Imports	1 293	1 348	55	4.2%
Exports	427	488	61	14.4%
Balance	-867	-860	6	
Total trade	1 720	1 836	116	6.7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Ghana (mio €)

Ghana	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 374	930	-445	-32.4%
EU27 exports	1 990	1 698	-292	-14.7%
Balance	616	769	153	
Total trade	3 365	2 628	-737	-21.9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Ghana (mio €)

Ghana	2017	2018	Growth mio €	Growth annual %
Imports	395	388	-7	-1.8%
Exports	666	710	43	6.5%
Balance	271	322	50	
Total trade	1 062	1 098	36	3.4%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Ghana (mio €)

	2014	2015	2016	2017	2018
Imports	912	1 183	1 153	395	388
Exports	1 042	1 398	1 340	666	710
Balance	130	215	186	271	322
Total trade	1 954	2 580	2 493	1 062	1 098

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Ghana (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward			-671		-1 511
Outward	2 379	3 436	2 244	1 503	1 967
FDI Flows					
Inward			-357		-671
Outward	15	329	69	44	149

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND CAMEROON

1. INTRODUCTION

On 17 December 2007, Cameroon and the EU initialled a stepping-stone EPA. They signed it on 15 January 2009. The European Parliament approved this agreement on 13 June 2013 and the Parliament of Cameroon proceeded to its ratification on 22 July 2014. On 4 August 2014, the agreement entered into provisional application. This EPA is a regional agreement and is open to the accession of other Central African countries.

In August 2016, Cameroon started reciprocating its preferential access to the EU. After 4 years, the liberalisation process has now reached cruising speed.

Cameroon will liberalize 80% of imports from the EU over 15 years. Products under liberalization are mainly industrial machines (pumps, generators, turbines, etc.), electrical equipment (transformers, capacitors, resistors, etc.) and certain chemicals. These are mostly inputs used by Cameroon's industries not produced locally. Eliminating import duties will reduce the costs of inputs for local businesses and will also benefit consumers.

Cameroon has excluded a number of agricultural and non-agricultural processed goods from liberalisation of EU imports, mainly to ensure the protection of certain sensitive agricultural markets and industries but also to maintain fiscal revenues. The excluded products include most types of meat, wines and spirits, malt, milk products, flour, certain vegetables, wood and wood products, used clothes and textiles, paintings, and used tyres.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main steps in implementation

The EPA foresees that Cameroon successively liberalizes 80% of imports from the EU. Effective liberalization started on 4 August 2016 for 1st category products (1727 tariff lines) and on 4 August 2017 for 2nd category products (985 tariff lines). The two first categories consist mainly of necessities, industrial and agricultural inputs, machines, chemicals, vehicles and spare parts, computers, papers, consumer products for households.

In 2019, during the 4th EPA Committee meeting, parties signed the Decision concerning the accession of Croatia and concluded the negotiation on dispute settlement procedures. Negotiation on a joint protocol on rules of origin are still ongoing and is expected to conclude in 2020.

The EU Delegation throughout the year participated in local meetings in the field of trade and private sector development, including meetings linked to the preparations of a framework law for the implementation of measures on social corporate responsibility. A Committee composed of representatives from the Cameroonian government, the private sector and civil society meets at least twice a year in Yaoundé to assess the implementation of the EPA.In addition, the Cameroonian government and the EU Delegation to Cameroon continued to organize outreach and awareness raising events on the EPA with civil society, media, academia and private sector representatives.

2.2 Trade and sustainable development goals

The EPA with Central Africa / Cameroon does not include a dedicated chapter on Trade and Sustainable Development. However, under the framework of the Cotonou Agreement, and funded by the European Development Fund (EDF), parties are cooperating intensively on matters related to environmental sustainability of trade.

The **Forest Governance Improvement Programme** (PAMFOR, €10 million), aims to improve the traceability of wood for all the marketing and export of Cameroonian wood while respecting the balance of biodiversity. The private sector of the wood sector actively participates in the implementation process of the Voluntary Partnership Agreement relating to the application of Forest Law and Governance for Trade (VPA FLEGT). The restructuring of the wood industry is expected to have a positive impact not only on employment but also on the migration from the informal to the formal.

The **Programme to support the preservation of biodiversity and fragile ecosystems in Central Africa** (ECOFAC 6) provides direct support for the sustainable management of protected areas and support for regional and national environmental. In Cameroon (€15.5 million), ECOFAC 6 supports directly two national parks, the Faro national park and the Dja Faunal Reserve with activities to improve sustainable management of the protected areas and anti-poaching activities.

The **Central Africa World Heritage Forest Initiative** (€5 million) is deployed also in Cameroon, in the Dja Faunal Reserve and the Sangha Tri-national. The project aims to reinforce, through the implementation of the World Heritage Convention, the management of forest sites.

In the North Cameroon, the EU supports a landscape approach to maintain wildlife corridors between the 3 national parks (Faro, Benoué and Bouba N'Djida) and promote socially equitable and ecologically sustainable economic development (€7.5 million).

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **fourth EPA Committee** meeting between Cameroon and the EU took place on 18th to 19th February 2019 in Yaoundé. During this meeting, the parties signed a decision on the accession of Croatia to the EPA and reviewed two draft decisions on dispute settlement (procedures and list of arbitrators) to be signed during the fifth EPA Committee in 2020. The parties also reached an agreement on the implementation of the liberalisation schedule until 2029, taking into account current Cameroon security and economic constraints. Cameroon's official commitment to the schedule provides predictability for parties and particularly for economic operators.

The parties also exchanged views on the impact of tariff dismantling on the basis of the report produced by Cameroonian customs highlighting custom revenue losses for this administration. However, we are still at the beginning of the process and the real impact of the liberalisation, the final beneficiaries and the effects on the economy remain to be identified.

A common protocol on rules of origin was not included in the EPA at the time the parties concluded its negotiations in 2007. Negotiations of a protocol started end 2016 and are still ongoing. After conclusion of the negotiations, the parties will annex the protocol to the agreement. In the meantime, Cameroon benefits from the general EPA rules of origin included in EU Market Access Regulation 2016/1076. The rules of origin applicable to products imported from the EU are laid down in Cameroon's Presidential Decree 2016/367 of 3 August 2016.

During the last EPA committee meeting, the parties took stock of the current negotiations on the protocol on Rules of Origin. The negotiations between experts should resume soon and a conclusion is expected before the fifth EPA Committee.

The parties agreed to develop a monitoring system for the agreement. This monitoring will make it possible to monitor the implementation of the agreement, identify its impacts on Cameroon value chains and consumers, and will contribute to the identification of political correction or incentive measures. Parties will prepare a first common monitoring report for the next EPA Committee meeting in 2020.

The parties also discussed trade barriers, Cameroonian export taxes and internal taxes/levies.

4. TRADE AND DEVELOPMENT COOPERATION

In addition to the technical assistance provided to Cameroon in pursuit of fostering trade and sustainable development goals, the EU continued to provide support to Cameroon helping the country to benefit from the EPA, improve its economic performance, competitiveness and become more open for trade and investment.

In 2019, the EU continued to support Cameroun in elaborating a study on a **National EPA Implementation Strategy** and a study on the **net fiscal impact of the EPA** and the reforms necessary to absorb and compensate such impact. Both studies will be completed in the first half of 2020. Another study seeking to map impediments of **SME competitiveness** ("cartographie des PME") started in 2019 and is currently ongoing. Three additional studies funded with the support of the EU were finalised in 2019: (i) a strategy for cluster development ("Stratégie nationale de développement des clusters"), (ii) the implementation of the National Export Strategy , including for exports to the EU, Nigeria and Central Africa, and (iii) the impact of the reforms adopted upon recommendation of the Cameroon Business Forum.

The implementation of the programme ***Dispositif d'appui à la compétitivité du Cameroun* (DACC)**, (€10 million) started in January 2020. The programme will last until 2023 and aims at improving: (i) competitiveness, through direct support to SMEs, start-ups and intermediary organizations; (ii) business climate and (iii) standards and energy efficiency. Under the DACC, a contract has been signed with UNCTAD to extend the online registration of new companies ("mybusiness.cm") to four regions of the country after a pilot phase established the online registration in three regions. This online registration is one of the most appreciated reforms in the country in recent years.

In the **agricultural sector**, the EU provides **budget support** (€35 million in 2019, out of a total €100 million for the period 2017-2019) to improve the distribution and access to seeds and fertilizers, to foster agricultural productivity and competitiveness. An increase of €50 million to the budget support program has been adopted to cover the period 2020-21. The sectoral approach targeting the rural sector will be maintained, but with an increased emphasis on supporting the development of value chains (cotton, wood, etc.), including improving governance and accountability in these sectors. Support measures for the banana sector are also still ongoing (€48 million, 2015-2020). Some EU Member States also provide support to certain value chains and to SMEs in the agri-food sector.

Via the **Fit for Market** programme, implemented by ColeACP, and the Strengthening sanitary and phytosanitary systems of the ACP horticultural sector (FFM-SPS) project, the EU also supports SPS capacity-building activities related to fruit and vegetable value chains and the development and promotion of Geographic Indications in Cameroon.

The formulation of a **support programme for regional integration and investments in Central Africa** has been finalised in 2019 (PAIRIAC). Contracting will take place during 2020 and implementation will start in 2021. The programme will include support to EPA implementation and outreach; assistance in the rationalization of the Regional Economic Communities (CEMAC and CEEAC); capacity building for operators in the implementation and monitoring of SPS standards and private standards; improvement of the region's attractiveness for investments and financing.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

Cameroon is a Lower Middle-Income Country and classified in the medium human development category (rank 150/189) in the 2019 UN Human Development Report. While lagging behind neighbouring Gabon, Congo and even Equatorial Guinea in terms of human development, it is the most diversified and dynamic economy in Central Africa. The business climate remains challenging. Cameroon consistently fares poorly in most assessments of it business climate (167 out of 190 economies in the 2020 World Bank's Doing business ranking; 123 out of 141 in the World Economic Forum's 2019 Global Competitiveness ranking and 153 out of 180 in the corruption perceptions index 2019).

Cameroon's economy grew by 4% in 2018 and 2019 (3.5% in 2017). This recovery was characterized primarily by a less pronounced contraction of the oil and gas sector, but growth in the non-oil sector was also strong, driven by the implementation of projects for the Africa Cup of Nations, the production of timber and processed wood products, and the services sector, particularly banks and financial institutions (source IMF). A serious impact on growth from the fall in oil and gas prices and social and economic restrictions due to Covid-19 can be expected for 2020.

Inflation rose to 2.5 percent from 1.1 per- cent last year, mostly due to continued disruptions in food production in the an- glophone regions. The Government main- tained its efforts towards fiscal consolidation in 2019, despite security spending pressures. While the unemployment rate according to ILO remains low (3.8%), the main challenge relates to underemployment which is estimated at over 70% of all those occupied.

Cameroon's global trade balance is structurally negative: its trade deficit was of € 0.69 billion in 2019 (€4.7 billion of imports, against €4 billion of exports) with a positive trend to narrow the gap (€1.6 billion in 2018, from €2.5 billion in 2016). With the EU, however, its trade balance has been positive for several consecutive years.

The crisis and ongoing security concerns in the two anglophone regions, which contribute significantly to the country's GDP, will continue to have a negative impact on the government's finances, on the production and export of coffee, bananas and cocoa, and on private investment.

5.2 Trade in goods

Total EU27 trade with Cameroon has been relatively stable over the last decade. In 2019, EU imports from Cameroon increased by €381 million (+22%) to €2.1 billion, back to the level of the 2010-2014 period. Exports from the EU to Cameroon decreased by €124 million (-8%) to €1.4 billion. The balance of trade has been negative for the EU for a long period and continues to slowly increase while EU exports are relatively constant.

The EU is by far the most important trade partner of Cameroon: 47% of Cameroon's exports go to the EU (followed by China with 14%, India 11%, USA 4%. Furthermore, 28% of Cameroon's imports come from the EU (followed by China with 20%, Thailand 5% and Nigeria 5%).

Main products exported in 2019 from Cameroon to the EU are oil and gas (48% of total exports in value), cocoa bean (19%), wood (12%), banana (7%). Top 10 products accounted for 93.4% of the total imports. Imports from Cameroon remain little diversified.

Considering the high share of raw materials in Cameroon’s exports, most of Cameroon’s exports to the EU are free of duty on an MFN basis. The remainder, mainly bananas, aluminum, processed cocoa and some wood are exported under EPA preferences. Preference utilisation rates are high for these products, at 98% in 2019.

Table 1: Top ten products imported by the EU27 from Cameroon in 2019 (in million of Euros)

HS Code	Product (shortend)	2010	2015	2018	2019	%
270900	petroleum oils and oils obtained from bituminous minerals, crude	822.45	479.71	717.05	1009.74	48%
180100	cocoa beans, whole or broken, raw or roasted	417.96	383.61	264.09	396.57	19%
080390	fresh or dried bananas (excl. plantains)	0.00	193.13	152.07	144.72	7%
440729	tropical wood specifie, sawn or chipped lengthwise, (…)	99.03	105.79	119.75	132.30	6%
180400	cocoa butter, fat and oil	29.70	30.41	71.69	79.85	4%
760110	aluminium, not alloyed, unwrought	73.03	102.01	119.80	74.28	4%
440727	sapelli, sawn or chipped lengthwise, sliced or peeled (…)	27.06	45.85	43.54	48.73	2%
440728	iroko, sawn or chipped lengthwise, sliced or peeled (…)	26.12	21.87	32.95	29.79	1%
090111	coffee (excl. roasted and decaffeinated)	42.49	40.94	25.01	26.58	1%
440839	sheets for veneering, incl. those obtained by slicing laminated wood (…)	30.46	20.05	24.59	25.69	1%
	TOTAL	**1568.29**	**1423.37**	**1570.52**	**1968.24**	**93%**

Source: Eurostat

The increase in EU imports from Cameroon in 2019 can be attributed to an increase in the imports of mineral fuels (+€293 million or +41%), cocoa beans (+€132 million or +50%) wood sawn or chipped (+€13 million or +10.5%), and cocoa butter (+€8 million or +11%). On the other hand, EU import of aluminium from Cameroon decreased in 2019 by €46 million or -38%. Similarly, imports of banana decreased by €7 million or -5%.

Main destination for Cameroonian exports in the EU are the Netherlands (33%), Italy (22%), Belgium (12%), Spain (11%), France and Portugal.

Table 2: Top ten products exported by the EU27 to Cameroon in 2019 and evolution of share (in million of Euros)

HS Code	Product	2010	2015	2018	2019	%
630900	worn clothing and clothing accessories (…)	50.51	72.24	69.08	67.11	4.86%
300490	medicaments (…)	78.96	101.60	65.34	62.37	4.52%
100199	wheat and meslin	0.00	80.79	23.18	51.24	3.71%
271019	medium oils and preparations	13.45	29.29	17.95	47.27	3.43%
252310	cement clinkers	8.66	32.15	33.46	31.81	2.31%
870323	motor cars and other motor vehicles (…)	15.38	28.32	29.84	29.55	2.14%
271012	light oils and preparations (…)	0.00	0.93	61.98	26.44	1.92%
330210	mixtures of odoriferous substances and mixtures (…)	17.87	26.22	27.25	24.35	1.77%
110710	malt (excl. roasted)	17.87	27.74	24.30	21.91	1.59%
210690	food preparations, n.e.s.	10.57	13.85	12.69	18.43	1.34%
	TOTAL	**213.26**	**413.13**	**365.07**	**380.48**	**27.58%**

Source: Eurostat

The decrease in EU exports to Cameroon in 2019 affects most products. However, note the sharp increase in imports of wheat and meslin (€28 million or +121%), medium oils (€29 million or +163%) and sharp decrease of light oils (-€36 million, -57%) among the top ten. The relatively small quantities imported of each product also explain the inter-annual variations.

Main origins of Cameroonian imports from the EU are France (36%), Belgium (21%), The Netherlands (8.7%), Italy (8.2%), Spain and Germany.

Cameroon Customs tracks carefully the use of EPA preferences for the products liberalized as of now. The total value of goods imported into Cameroon under EPA preferences from August 2016 to December 2019 is estimated at €530 million (Source: Cameroon customs). Main products imported under EPA preferences according to Cameroon customs were clinker (27% of total value of imports under EPA preferences), chemical industries (24%), electrical machinery and equipment (18%), vehicles and transport equipment (6.5%), paper and cardboard (7.3%), fertilizers (5.1%). Over the period from August 2016 to December 2019, the total value of forgone customs revenue due to liberalization of tariff rates under the EPA was €21.53 million. Ten companies account for 56% of imports under EPA preferences. These companies operate in the following fields: cement, brewing, energy, rail transport, chemicals (Source: Cameroon Customs).

5.3 Trade in agricultural products

In 2019, the trade surplus of Cameroon in agricultural goods increased compared to 2018 (€431 million from €316 million of 2018). Total trade in agricultural goods increase compared to 2018 up to €969 million (+18%). In particular, imports from Cameroon (that count for 33% of the total trade from Cameroon to the EU, for a value of €700 million) increased by 23.2% in 2019, and where dominated by cocoa products (73%, for a value of

€507 million), followed by tropical fruits, nuts and spices (21%, €149 million). EU exports (€269 million) were more diversified, and consisted mainly of wheat (€52 million, 19.3%), malt (€22 million, 8%) and food preparations (€22 million, 8%).

5.4 Trade in services and Foreign Direct Investments

The EPA with Cameroon does yet not include provisions on trade in services that will be negotiated at a later stage. Trade in services between the EU and Cameroon shows little variation over the last years. After a fall in 2017 (from €981 million in 2016 to €854 million or -13%), trade in services is picking up. Total EU services trade with Cameroon slightly increased in 2018 reaching €948 million (+11%). EU imports of services from Cameroon increased slightly by €14 million or 4.7% to €314 million. EU exports of services to Cameroon increased by €80 million or 14.4% to €634 million. Overall balance is positive for the EU.

The EU investment stock in Cameroon remains largely tied up in extractive industries. However, EU is currently diversifying its investments in Cameroon across various sectors such as infrastructure (transport, energy), agriculture (bananas, sugar), communication and distribution.

6. CONCLUSIONS

In 2019, Cameroon continued to take important steps in implementing its commitments, culminating in significant tariff cuts. The implementation of the agreement is now in its cruising phase. Several steps have been completed in 2019 (liberalisation schedule, dispute settlement) and others are expected to be launched soon (accompanying measures, monitoring). Negotiations on rules of origin are still ongoing.

Uncertainty remains as to the effective resumption of negotiations at the regional level and the possibility of extending the agreement to other Central Africa countries.

The EPA is expected to gradually facilitate the internationalisation of small local businesses as illustrated by the example in the bow below.

Home décor from Cameroon

Creativity, tradition and proudly African. These are the values that define Frida-54, a Cameroon-based brand of home decorations and textiles. When founder Edith Tialeu created Frida-54 in 2016, she wanted products to be designed by African artists, using African materials and inspired by African stories, cultures and traditions.

To sell her products she looks beyond Africa: 3 years since being established, Frida has sales points in Cameroon, France, Ghana, Rwanda, the United Kingdom and the United States, and exports to other EU Member States via its web shop.

Edith Tialeu sees tremendous opportunities in e-commerce and aims to become one of the top interior design e-shops within the next years; an e-shop where people around the world can buy homeware produced in Africa. She also plans to reach 15 new wholesalers around the world.

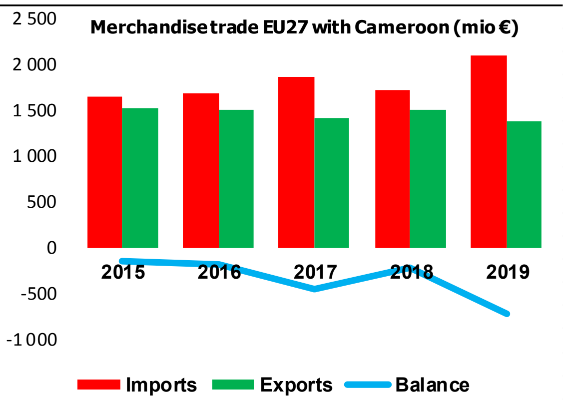
The EPA between the EU and Cameroon is helping her global expansion. Not only does it allow Frida-54 to ship products to the EU duty free and quota free, but it also provides a platform to discuss with Cameroon authorities how to overcome obstacles related to cross-border payments and logistics — some of the key challenges that Edith Tialeu has identified for her business.

7. STATISTICS

CAMEROON

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with Cameroon (mio €)					
Imports	1 656	1 694	1 869	1 737	2 108
Exports	1 527	1 513	1 418	1 519	1 387
Balance	-129	-182	-451	-218	-721
Share Cameroon in EU27 trade with Extra-EU27					
Imports	0.1%	0.1%	0.1%	0.1%	0.1%
Exports	0.1%	0.1%	0.1%	0.1%	0.1%
Total (I+E)	0.1%	0.1%	0.1%	0.1%	0.1%
Share EU27 in trade Cameroon with world					
Imports	26.4%	30.7%	30.7%	30.1%	28.3%
Exports	45.2%	52.5%	54.1%	47.3%	47.4%
Total (I+E)	34.0%	37.4%	39.7%	37.0%	37.2%

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade Cameroon: IMF Dots



Total merchandise trade EU27 with Cameroon (mio €)

Cameroon	2018	2019	Growth mio €	Growth annual %
Imports	1 737	2 108	371	21.3%
Exports	1 519	1 387	-132	-8.7%
Balance	-218	-721	-503	
Total trade	3 257	3 495	238	7.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with Cameroon (mio €)

Cameroon	2018	2019	Growth mio €	Growth annual %
Imports	568	700	133	23.3%
Exports	252	269	17	6.8%
Balance	-316	-431	-115	
Total trade	820	969	150	18.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with Cameroon (mio €)

Cameroon	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 170	1 408	238	20.4%
EU27 exports	1 267	1 118	-149	-11.8%
Balance	98	-290	-387	
Total trade	2 437	2 526	89	3.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with Cameroon (mio €)

Cameroon	2017	2018	Growth mio €	Growth annual %
Imports	300	314	14	4.7%
Exports	554	634	80	14.4%
Balance	254	320	66	
Total trade	854	948	94	11.0%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with Cameroon (mio €)

	2014	2015	2016	2017	2018
Imports	376	373	332	300	314
Exports	819	547	649	554	634
Balance	443	174	317	254	320
Total trade	1 195	920	981	854	948

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with Cameroon (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	38	-23	195	217	185
Outward	1 292	1 147	1 231		1 737
FDI Flows					
Inward	-0	-50	16	11	-45
Outward		53	48		128

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND CARIFORUM

1. INTRODUCTION

The EU- CARIFORUM EPA is a regional agreement between the EU and its Member States and 15 Caribbean countries. The negotiations were concluded in December 2007. The agreement was signed in October 2008 and it entered into provisional application on 29 December 2008. In 2019, this agreement was provisionally applied by the EU and its Member States and by 14 Caribbean States.[195] Haiti still needs to ratify the agreement in parliament before applying it, due to domestic legal requirements. By the end of 2019, 25 EU Member States and 10 Caribbean States had ratified the EPA.[196]

The EU-CARIFORUM EPA is **'comprehensive' both in the geographic and thematic sense,** covering the whole region and including not only provisions on trade in goods, but also trade in services and provisions on trade-related issues (including competition, innovation and intellectual property, transparency in public procurement and trade and sustainable development). Furthermore, like all EPAs, the EU-CARIFORUM EPA is a development-oriented trade agreement, geared towards fostering long-term sustainable economic growth in the Caribbean.[197]

In February 2019, the European Commission launched a **10 year ex-post evaluation** to evaluate the level of implementation and the impact on sustainable development 10 years after entering into force of the agreement. Intensive consultations and data gathering have been carried out in the CARIFORUM region in 2019 via consultants. Results of this comprehensive 10 years evaluation study are expected in the first Q of 2020 and will feed into **the 2020 Joint Review**, as well as **the next EU-CARIFORUM Joint Council**, both foreseen for 2020.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main open issues, progress and follow-up

The EU-CARIFORUM EPA has been implemented for 10 years now. **Implementation of goods market access schedules** is well advanced in most Caribbean states. Caribbean states have up to 25 years (until 2033) to cut import tariffs. They have excluded from these cuts around 17% of goods and services which they consider sensitive.[198] The exclusion list includes fresh fruits and vegetables, most alcoholic beverages, some garments, a number of processed agricultural products, fish, chemicals and furniture. In general, 25% of CARIFORUM's agricultural and fisheries products have been covered by liberalization under EPA and the EU is becoming increasingly important exporter of processed agriculture goods to CARIFORUM on the market that is strongly dominated by the US.

[195] Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

[196] On the Cariforum side, the agreement is not yet ratified by the Bahamas, Jamaica, Suriname and Trinidad and Tobago; on the EU side, the agreement is not yet ratified by Hungary, Poland and Slovenia.

[197] A factsheet on the EU-CARIFORUM EPA can be found here: http://trade.ec.europa.eu/doclib/docs/2012/april/tradoc_149286.pdf

[198] Note that the Cariforum states submitted individual market access schedules and not one single regional offer. Hence figures and information provided here are an average over all 14 market access schedules.

In 2019, the parties made progress regarding the following matters:

DG TRADE has engaged in the technical assistance to CARIFORUM Countries to assist them in the **transposition of tariff commitments** from HS 2002 to HS 2017 to enhance transparent application of the EPA rates.

Services commitments are an important part of the agreement and in 2019 the Parties intensified the discussions on the establishing a **Special Committee on Services** that is expected to become operational in 2020.

Progress has been made in 2019 at technical level in the negotiation **of Geographical Indications (GIs)** with a view to establishing a list of potential GIs to be protected under the EPA.

Multiple meeting of the task force on monitoring brought the parties close to an Agreement on a **monitoring mechanism**, which should become operational in 2020.

Awareness raising is a key priority under this EPA to make use of the full comprehensive scope of this agreement by EU and CARIFORUM business. In 2019 DG TRADE has engaged in EPA awareness and business outreach activities by active participation in the **4th CARIFORUM-EU Business Forum in Frankfurt**[199] in September 2019 and **the Trade and Investment Convention (TIC) in Trinidad and Tobago**[200]**.**

Cooperation with the private sector:

Supporting B2B remains a very important objective, especially for the smaller scale markets like CARIFORUM. The **Regional Private Sector Development Programme (RSDP)** remains the flagship regional programme in support to the Caribbean private sector, implemented by the Caribbean Export Development Agency (CEDA) focusing on SMEs support, development and B2B activities[201].

The EU Delegations in the region maintain a close dialogue with public and private sector in CARIFORUM States on trade matters and economic integration. The EU-funded Caribbean Export Agency and the EU Delegations in the region have consistently supported trade fairs such as **the Trade and Investment Convention (TIC) in Trinidad and Tobago; The Jamaica Investment Exhibition (JIE) in Jamaica; and Agroaliementaria, Hub-Camara, and Dominicana Moda** in the Dominican Republic, as well as the regional **CARIFESTA**. These events present also business opportunities for EU SMEs and general awareness and participation by EU SMEs will be further supported and promoted.

For the future, key priorities for implementation are:

- Enhancing **transparency** with regard to progressive implementation of the market access offers and applicable EPA rates;

[199] https://www.carib-export.com/businessforum/
[200] https://ttma.com/tic/
[201] https://www.carib-export.com/

- Promoting implementation of the full scope of the agreement, including outstanding matters of importance to the region such as **services, cultural cooperation and sustainable tourism**.

- **Raising EPA awareness** with both CARIFORUM and EU Business

- Full implementation of the **regional preference clause** to support regional integration of CARIFORUM countries in the region[202] to building regional value-chains;

- **Establish a functioning monitoring mechanism** to take stocks and monitor the agreements on annual basis.

- **Continued support to technical capacity** to set up an enabling regulatory environment is generally perceived as a key challenge for trade and investment in the CARIFORUM region.

2.2 Progress in the implementation of trade and sustainable development provisions

The EU-CARIFORUM EPA includes the Chapter 4 – Environment, and the Chapter 5 – Social Aspects. These provisions recognise the right of all parties to regulate their markets to pursue these objectives while requesting them to keep each other informed, be transparent, avoid unnecessary obstacles to trade and work towards regional harmonisation of these policies in the CARIFORUM States.

Regarding sustainable development, the Agreement aims to ensure that any trade activity does not cause environmental degradation. It reaffirms the Parties' commitment to conserve, protect and improve their natural environment and to prioritise sustainable development.

Both chapters are part of the implementation efforts under the agreement at the regional level by the join institutions and at national level by the national development cooperation programmes and authorities and in particular supported by the EDF Programmes.

<u>With regard to the TSD Action Plan it is worth to flag that:</u>

- **Working Together:** during the meetings of the Trade and Development Committee (TDC) the parties take stock and advance with the implementation of these chapters. At the last TDC 2019 the Parties agreed to hold a number of sustainable development workshops sharing the EU experience with the region with a particular focus on sustainable tourism;

- **Enabling and civil society including the Social Partners to play a greater role in implementation:** the EU-CARIFORUM Consultative Committee is composed of the civil society representatives from the EU and the Caribbean and meets regularly, as foreseen under the Agreement. The 5th Meeting took place in Brussels in November 2019, issuing the recommendations to the TDC and subsequent discussion and follow up;

[202] Many of these countries are small island developing states (SIDS).

- With regard to the implementation of **the ILOs conventions**, all CARIFORUM countries have ratified the core ILO conventions and benefitted in the past from (EU-funded) support on implementation;

- **Transparency, communication and awareness raising** is a continuous objective for the Parties.

Ensuring sustainability of our trade relations is a key objective in **cooperation projects,** both at regional and national level:

In Dominican Republic, one of the actions directly relevant to achieve **the objectives of TSD** chapters is the project focused on Cocoa production and fair trade in Dominican Republic (EUR 938,591 until June 2020) and implemented by NGO Save the Children. It aims to improve the respect, protection and enforcement of the human rights of vulnerable groups, with emphasis on children, adolescents and women, in the cocoa value chain in the Dominican Republic by promoting and monitoring the incorporation and implementation of the United Nations Business and Human Rights Guiding Principles, as well as the Children Rights Business Principles (CRBP). The project also contributes to disseminate information and awareness on the need to comply with the relevant standards of Fair Trade as regards to children labour, discrimination and forced labour.

There are numerous other projects un**der the 11th EDF that contribute to directly or indirectly to the EPA social and human development objectives** which, among others, aim at: (a) improving education and training and building technical capacity and skills; (b) improving health systems and nutrition, adequate food safety and security; (c) promoting fight against diseases; or (d) promoting social dialogue:

- The Programme of **Support for Health System Strengthening for Prevention and Control of Outbreaks of Zika and other Mosquito-borne Diseases in the Caribbean** – Implemented by the Caribbean Public Health Agency (CARPHA) with a total budget: EUR 4, 120,000

- Support to **the Health Sector in Grenada**- Sector Budget Support for the Health Sector with a total budget: EUR 3, 800,000 and the overall objective to improve the quality, efficiency and effectiveness of health services delivery for all Grenadians.

- **Civil Society Social Enterprise Project** – implemented by TEN HABITAT with a the EU contribution of EUR 400,000 and the objective is to boost the capacity of CSOs in Barbados and two other Eastern Caribbean countries to deliver on their mandate, i.e. promote social development and inclusive, equitable and sustainable growth.

- **Building Sustainable Youth Business through Social Entreprise** – Implemented by Barbados Youth Business Trust with a total budget: EUR 690,779 (the EU contribution: EUR 400,000)

However, with regard to training, technical capacity building and skills, the key programme of relevance is the **11th EDF Regional Private Sector Development Programme** – Implemented by Caribbean Export Development Agency (CEDA) with a total budget: 27.4 Mio EUR (EU contribution: 24 Mio EUR). It has as the main objective to increase employment creation, inclusiveness, particularly for youth, women and indigenous groups, and to contribute to overall poverty reduction in CARIFORUM countries.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The **9th meeting of the Trade and Development Committee (TDC)** took place in Brussels on 28th and 29th November 2019. The parties discussed, among other, the implementation of the CARIFORUM's tariff liberalisation schedule, transposition of the harmonised Commodity Coding Systems (HS) by CARIFORUM States, establishment of the Special Committee on Trade in Services and the establishment of the joint monitoring system under EPA.

Parties also discussed EU framework programmes, activation of the provisions of the Protocol on the cultural cooperation, tourism, issues of trade and sustainable development, technology transfer and the way forward for development cooperation. The Trade Committee has reflected on the work of the Joint EU-CARIFORUM Task Force for the next 5 years review of EPA due in 2020 and the preparation of the next 5th Joint EU-CARIFORUM Council in 2020.

The Committee received reports by a number of functioning Joint CARIFORUM-EU EPA Institutions:

- **The CARIFORUM-EU Consultative Committee,** held on 26 November 2019
- **The CARIFORUM-EU Special Committee on Customs Cooperation and Trade Facilitation,** held in April 2019
- **The CARIFORUM-EU Special Committee on Agriculture and Fisheries,** held in January 2019.
- The Committee also received the report on the establishment of a joint working group on the **modernization of the Rules of Origin** of the EPA as agreed by the Special Committee on Customs Cooperation and Trade Facilitation.

Specific areas of importance in 2019:

Services: The Parties concluded the discussions on a draft decisions to establish a **Special Committee on Services** and initiated the necessary legal procedures. The committee is expected to become operational in 2020.

Agriculture and GIs: The Agriculture and Fisheries partnership is implemented through **the Special Committee on Agriculture and Fisheries (SCAF)**. The SCAF meetings cover a substantive agenda: from agricultural research, the use of new technologies in agriculture, value addition in agri-food and rural employment and fisheries. The discussions allowed to identify concrete ways to move the partnership on agriculture and fisheries forward through the use of EU programmes and initiatives such as Erasmus+, Taiex, Twinnings, Interreg and Horizon 2020/Horizon Europe to enhance training and capacity building, to improve the value chain and to strengthen the collaboration and cooperation to successfully implement the EPA. The positive results are reflected in a more diversified and increased agri-food trade exchange in 2019.

A significant progress has been made in 2019 in the negotiation **of Geographical Indications (GIs).** The technical worked has progressed on establishing a list of potential GIs to be protected under the EPA. Currently the parties are exchanging information at technical level to clarify a few outstanding issues. In parallel, the EU Delegations in the region are actively promoting awareness on GIs through tailor-made events and workshops with business community, producer groups and other farmers' organizations. EUIPO is also assisting within **the CarIPI project** to install a robust GI legislation in the region.

Monitoring: The Task Force on Monitoring has made significant progress towards establishing a **monitoring mechanism**. The parties agreed on the priority outcome and compliance indicators and the operational basis for the mechanism. As a result of this work, a joint monitoring mechanism should be agreed and operational in 2020. It is expected to improve EPA's transparency, accountability and to increase the awareness of its benefits to business stakeholders and economic operators on both sides. The monitoring system would also constitute an early warning mechanism allowing to address bottlenecks and inefficiencies in a swift and continuous manner.

4. TRADE AND DEVELOPMENT COOPERATION

The EPA is a genuinely pro-development agreement and the EU provides considerable support to CARIFORUM and Caribbean governments for EPA implementation and export development. Under the 11th European Development Fund (EDF) (2014-2020), the total allocation for the Caribbean region is approximately €1 billion, of which €326 million is allocated to the Regional Programme (CRIP). Under this envelope, the EU supports **Regional Economic Cooperation and Integration in the Caribbean,** including **EPA implementation, trade-related capacity building and private sector development**, with €102 million.

The main objectives under the focal sector 1 of CRIP - **Regional Integration and Trade** are: i**) to strengthen the integration processes of the OECS and CARICOM; ii) improve intra-CARIFORUM cooperation, and: iii) increase cooperation between CARIFORUM and neighbouring regions, including OCTs and the French Overseas Regions.** Interventions under this focal sector are linked to the objectives of the European Partnership Agreement.

This includes, for example directly **supporting the CARIFORUM Directorate (€6.2 million)** to fulfill its role in coordinating and facilitating EPA implementation in CARIFORUM Member States.

Overall, 2019 was a year of significant progress in the implementation of the CRIP programmes in support of regional integration and trade with some key projects contracted under **"*Support to CARIFORUM member states in furthering the implementation of their Economic Partnership Agreement commitments and in meaningfully reaping the benefits of the Agreement*"** (decision 2018/040-087):

- A grant agreement with the German Metrology Institute (PTB) for the "**Technical Barriers to Trade Project**",

- A Contribution Agreement with the Inter-American Institute for Cooperation on Agriculture (IICA) for the "**Sanitary and Phytosanitary Measures**"

- A Contribution Agreement with the Caribbean Development Bank for the **EPA and CSME Stand-by Facilities**.

- A Contribution Agreement with the European Union Intellectual Property Office (EUIPO) for the "**Innovation and Intellectual Property Rights**" project Car-IPI. The final components of the programme "**Capacity building in the areas of competition, public procurement, customs and trade facilitation**" is expected to be signed in Q3 of 2020 through a Contribution Agreement with CARICOM.

Other ongoing projects are:

- "**Support to CARICOM Single Market and Economy - CSME**" being implemented by CARICOM.

- "**Support to the Coconut Industry**" (*EUR 6.000.000 under decision 2018/040-856).*

- "**Support to the Organization of Eastern Caribbean States – OECS Cooperation and Integration Process**" *(EUR 10.125.000 under decision 2018/040-089).*

- "**Support for CARIFORUM role in Regional Cooperation and EPA Implementation**" for additional activities under the Legal and Enabling Framework include Legislative and Treaty Drafting to strengthen the regulatory environment, and the determination of EPA compliant legislative & regulatory Framework *(a top-up of EUR 1.240.000 was proposed to decision 2016/038-925).*

- "**Support to CARTAC – Caribbean Technical Assistance Center**" *(a top-up of EUR 1.000.000 under decision 2016/039-649).*

In the **Dominican Republic**, the EU currently supports a project on **Quality Strengthening for MSMEs Development (€11 million, 2014-2019).** The project seeks to strengthen the national quality system and improve quality orientation of MSMEs in order to access national, regional and international markets by e.g. creating institutional networks or help to implementing standards and quality systems (such as ISO/9001, ISO/27001, ISO/22000), as well as good practices and food safety measures. In 2019, the national body in charge of metrology and standards was accredited by ISO/IEC 17065 and ISO/IEC 17021 which will allow it to certify products and management systems, respectively. Accreditation by ISO/IEC 17020 is expected in 2020 to carry out customs inspections, facilitating exports activity.

Private Sector Development Programme:

Out of the €102 million, the **Caribbean Export Development Agency (CEDA)** [203] currently implements a **Regional Private Sector Development Programme (RPSDP) (€27.2 million, 2017-2022**). This remains the flagship regional programme in support to the Caribbean

[203] https://www.carib-export.com/

private sector, focusing on successful SMEs support, development and B2B activities. CEDA is instrumental in the implementation of the programme, but faces administrative challenges such as ongoing vacant position of executive director pending nomination by CARIFORUM States, significant staff turn-over, problems with correspondent banking relations and the possibility to process funds through US intermediary banks, as well as the delay in the financial contributions from CARIFORUM Member States.

Thorough its branch in Dominican Republic, CEDA conducted a **Competitive Intelligence Workshop Series** in 2019, reaching around 40 firms in Dominican Republic, which were trained on conducting market research and how to use market intelligence tools for export and business decision making.

The **4th CARIFORUM-EU Business Forum in Frankfurt** in September 2019, was organised by CEDA in partnership with GIZ. The conference welcomed over 200 participants under the theme 'Building Strategic Partnerships in a Dynamic Global Economy'. The Forum was followed by an exposition, which showcased more than 60 of the region's leading producers in rum and natural products including natural cosmetics, sauces and condiments and the creative industries (music, film and animation sectors). Up to 138 serious business leads were secured at the Business Forum. Most of the leads made were by Caribbean creative industry exhibitors (44%), followed by that of food products (20%), then rum (19%). According to participating Caribbean exhibitors, expected long-term impacts of the Business Forum ranged from that of increased exports and profits, to that of new joint ventures with EU and other international firms. The general perception is that it was a successful event.[204]

In December 2019, Caribbean Export took the opportunity of the 9th ACP Group of States (ACP) Summit of Heads of State and Government in Kenya, to stage a fashion showcase in collaboration with the ACP Secretariat where 80 designers from 20 countries of the Caribbean, the Pacific and Africa presented themselves under the patronage of the Prime Minister of Barbados.[205]

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

The 14 CARIFORUM currently implementing the EPA include some bigger and more developed partners like Dominican Republic, Trinidad and Tobago, Bahamas and Jamaica and smaller islands of the Eastern Caribbean. The region is dependent on tourism demand, commodity prices and financial services. Despite improvements of public finances and economic prospects in 2019, high fiscal deficits and public debt remain major vulnerabilities for the region. In some tourism-dependent economies, debt ratios have been declining from high levels, while territories, including Grenada, Jamaica and St. Kitts and Nevis have engaged in multiyear fiscal consolidation efforts. In addition, numerous banks operate under constrained credit availability and limited economic activity that increases banks' susceptibility to shocks.

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[204] See here for impressions of the business forum: https://youtu.be/JvAwfUkz3yw

[205] https://www.carib-export.com/news/caribbean-export-promotes-the-caribbeans-orange-economy-in-kenya/
https://youtu.be/F3pLXAotEGY
https://www.carib-export.com/news/caribbean-export-promotes-the-caribbeans-orange-economy-in-kenya/

For the **member states of the Easter Caribbean Currency Union (ECCU)**[206], GDP growth stood at 3.8% in 2018 and the conditions remained favourable to growth in 2019 due to buoyant tourism. However, the fiscal balance for the region as a whole remained at risk. While much progress has been made in financial sector reforms, long-standing weaknesses such as limited natural resources, dependence on imports, and vulnerability to natural disasters and global and regional economic crises and disturbances will likely weigh on growth prospects. External deficits remain high, amplified by low competitiveness and more frequent and intense natural disasters.

The current COVID-19 crisis is expected to have a significant impact on the ECCU states due to high tourism dependence and little diversification in most of these economies.

The **Dominican Republic** is a middle-income country and the biggest country in the Caribbean with 10 million inhabitants. The economy grew by 5.1% in 2019, after averaging 6.3% per year between 2014 and 2018 and 7% in 2018, making it a champion in the LAC region. The Dominican Republic aspires to be the regional transport and logistics hub, and has a keen interest in regional economic integration. It aims to become a high-income country by 2030.

The sustained economic growth is due to increases in tourism revenues, strong foreign investment inflows, and continuously increasing exports and remittances. Despite strong growth, public debt continued to grow as a share of GDP (53.1% in 2018) due to persistent structural deficits, averaging around 4.5 % of GDP over the last five years. The debt to GDP ratio reached an all time high of 50.53% in 2019. The Dominican Republic's score on the World Bank "Ease of doing business" ranking for 2019 was 61, ranking it 102 out of 190 countries. There is still much to be done to improve the business climate.

The Dominican economy is sensitive to external demand conditions, as it depends on tourism, exports and remittances, predominantly from the United States. Tourism is the backbone of economy, providing around 350,000 jobs and is a source of 30% of foreign exchange inflows. Tourism sector brought in USD 7.7 billion in 2019 and a total of 6.6 million tourists visited the country.

The Dominican Republic has a comfortable level of foreign reserves and will be able to partly offset the effects of the current Covid-19 crisis, thanks to lower petrol prices and rising prices of gold, a main export product. The economy is expected to contract between 1.5% to 3% depending on the duration and depth of the Covid-19 crisis. However, it is expected to pick up again in 2021.

[206] Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines – as well as UK territory Montserrat. The six countries are also part of the Organisation of Eastern Caribbean States (OECS), together with other EU/UK territories and overseas regions.

5.2 Trade in goods

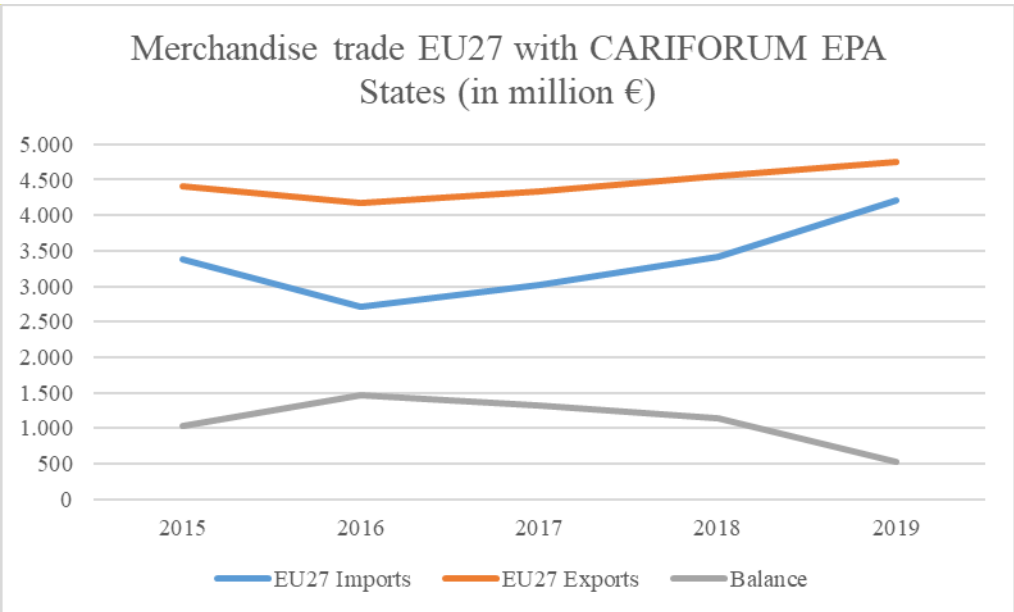
Without the UK, EU27 remains the **second largest importer** of Caribbean goods, accounting for 13.4% of total Caribbean exports (after the US with 40.5% and before China with 12.2%) and the **second largest exporter** to the region with 15.2% (after the US with 40.5% and before Canada with 5.7%). The UK represents only 1.5% of CARIFORUM imports and exports. Among EU27, the **Netherlands, Spain, Germany, Italy, France and Belgium** are CARIFORUM main trade partners in 2019 in that order. **Intra-regional trade** between the Caribbean states is low: only 7% of the region's imports originate from another Caribbean state. Similarly, only 5.5% of Caribbean exports go to the region.

Total trade between the EU27 and the CARIFORUM increased by €990 million or 12.4% in 2019, reaching nearly €9 billion. EU imports from CARIFORUM states increased by €802 million (or 23.5%) to €4.2 billion while EU exports increased by €187 million (or 4.1%) to €4.7 billion. The trade balance remains positive for the EU, but is now close to being balanced.

Increases in CARIFORUM exports to the EU were driven by mineral fuels (+€560 million or 80%) and aluminium oxide (+€58 million or 20%), but also increasing exports of fruit (especially bananas, but also avocados and mangos – overall +€49 million or 25.6%), pharmaceutical products (+€38 million or 76%), medical instruments (+€27 million or 21%) and rice (+€19 million or 34%),

Main **EU imports from CARIFORUM States** in 2019 were natural liquefied gas (€882 million), methanol (€338 million), aluminium (€236 million), fresh or dried bananas (€191), gold (€161), pesticides (€117), rum (€114) and cocoa beans (€94), instruments and medical appliances (€86).

The largest EU trade partner in the Caribbean is the Dominican Republic (total trade of €2.9 billion), followed by Trinidad and Tobago (€2.4 billion), Bahamas (€1.3 billion), Jamaica (€600 million) and Suriname (€540 million) in 2019.



Bilateral trade between the EU and the Dominican Republic reached a record level of €3 billion in 2019, with EU exports standing at €2 billion (highest ever recorded level) and EU imports from the Dominican Republic at nearly €1 billion

Main **EU exports to CARIFORUM** in 2019 petroleum oil and preparations (€523 million), transport vessels (€335 million), jewellery (€131 million), cruise ships and excursion boats (€91 million), motor cars and transport vehicles (€87 million), motor boats and yachts (€74 million), solids milk and cream (€51 million), potato preparations (€49 million), food preparations (€45 million), compression engine parts (€44 million) and medicaments (€36 million).

In 2019 CARIFORUM States exports to the EU still show little **diversification**. The share of top ten products in total exports is above 90% for most States, with exports concentrated in very few commodities. Trinidad and Tobago exports mostly natural gas, rum,, ammonia and petroleum oils. For Jamaica, it is largely aluminium oxide (90.3% of its exports), followed by rum. For the Bahamas and Barbados, the dominant export are boats and ships (re-exports/sales, not local production) and a bit of seafood (Bahamas) and rum (Barbados). Guyana and Suriname export predominantly gold (accounting for 26.9% and 53.7% of their exports in 2019, respectively); Guyana also exports aluminium ores, brown rice and rum while Suriname exports mainly bananas, oil and frozen shrimps and prawns.

The **Dominican Republic** represents an exception, where the share of top 10 products in total exports is 68.8% and manufacturing goods represent 35% of all exports. Top 10 products exported by the Dominican Republic to the EU are bananas, medical instruments, cocoa beans, rum and other spirits based on sugar cane, ferro-nickel, tobacco products (cigars), pharmaceutical products, footwear, electrical equipment and fresh or dried guavas, mangoes and mangosteens. The total number of products imported from Dominican Republic (at HS 6-digit level) with a value of more than €1 million grew from 53 in 2008 to 60 in 2019 (i.e. a 13% increase).

5.3 Trade in agricultural products

There are positive developments in the agriculture sector with increased cooperation and that is reflected in a more diversified and increased agri-food trade. Total agri-food imports into the EU increased in 2019 by **15.6%** to **€658 million**, due to increasing imports of bananas, rice, beer, cigars, other tropical fruits and rum. EU agri-food exports into CARIFORUM states increased by **7.8% to €742 million**, with increasing exports of fruit juices, vegetable food preparations, beer and cheese.

Key **EU imports** from CARIFORUM States in 2019 were tropical fruits, mostly bananas, avocados and mangos (€240 million, +25%), spirits and liqueurs (€122 million, +8.5%), cocoa and cocoa preparations (€99 million, -0.4%), rice (€74 million, +34%) and tobacco (€62 million, +13%).

Key **EU exports** to CARIFORUM EPA states in 2019 were dairy products, mostly milk powder, cheese (€174 million, +6.1%), followed by beverages, wines and spirits (€138 million, +7.2%) and food preparations (€78 million, +23%).

The Dominican Republic is an important supplier of **organic agri-food** products to the EU. In 2018, the Dominican Republic was the third largest supplier (after China and Ecuador), accounging for 8.4% of EU imports of organic agri-food products in terms of volumes[207] (mainly bananas and cocoa beans).

5.4 Trade in services and Foreign Direct Investments

The CARIFORUM EPA provides for important services liberalisation. **In 2018, total trade in services decreased by 22% to €15 billion**. EU services exports to the CARIFORUM states climbed by €1 billion (+31%), whereas imports of services from the Caribbean region dropped by €5.8 billion (-33%). Main services trade partners being Bahamas, Barbados and Dominican Republic. The decrease can mainly be attributed to the financial services sector in Bahamas and Barbados where stricter EU rules on financial services transparency might have affected business.

The CARIFORUM EPA contains provisions on investment liberalisation. **EU FDI stocks in the Caribbean region were stable at €101 billion in 2018**. The lion's share of these stocks are held in Bahamas (€45 billion) and Barbados (€45 billion), which have large financial sectors, followed by Trinidad and Tobago (€7.2 billion) and Dominican Republic (€6.5 billion) where investment is more in extractives and manufacturing. **The CARIFORUM FDI stocks in the EU were €110 billion in 2018**, a slight decrease from 2017 with €114 billion. Due to large financial sectors in Bahamas and Barbados in particular, it can be assumed that little inflows and outflows in these two economies is actually productive investment.

Outside the financial sector, **EU investment** in the region is found in fuel import and distribution (e.g. French company RUBIS), and in the rum industry, e.g. with Gruppo Campari (Italian) recently acquiring the Jamaican rum maker Lascelles de Mercado, whose brands include Appleton Estate and Wray and Nephew. Rum production of Appleton Estate has increased to over 2 million bottles a year and 500 new jobs have been added.

In the Dominican Republic, according to data presented by the Central Bank, the EU is the third largest investor for the period 2010-2019, after the US and Canada, accounting for about 10% of FDI or USD2.5 billion. Largest EU investor is Spain, accounting for around 6% of total FDI in the Dominican Republic between 2010 and 2019.[208]

There are many EU companies present in Dominican Republic, including from Spain (97 companies), Germany (60), France (30), Italy (13), and the Netherlands (10). EU investment in the Dominican Republic is mostly in tourism and manufacturing for exports (the latter taking place in called free zones, *zonas francas*). *Zonas francas* are offering numerous incentives for the established with attractive conditions for investors and producers. The

[207] See EC policy brief: https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/market-brief-organic-imports-mar2019_en.pdf

[208] According to the Central Bank of the Dominican Republic, total investment from Spain has been USD 292.4 million; however, the Spanish Embassy recorded only €50.6 million due to different accounting methodologies e.g. the embassy only takes into account direct flows from companies in Spain and excludes investment in real estate.

Dominican Republic is also connected by other free trade agreements with Central America and US (under DR-CAFTA) which presents important opportunities for potential investors.

Recent EU investments have been seen in **renewable energy sector** (French Akuo Energy started in 2019, Spanish investment in a wind park by INVERAVANTE company and a photovoltaic park operational from 2019), infrastructure (French company Vinci Airports in 2019) as well as manufacture of **medical disposables** (German company Fresenius Kabi in 2019).

6. CONCLUSIONS

In 2019, parties took significant steps in the further implementation of this comprehensive trade and development agreement, taking into account the complexity of the region and its socio-economic structure. Progress has been achieved with regard to the institutional structure of the Agreement (e.g. setting up a special committee on services, establishing a monitoring mechanism), as well as negotiations on geographical indications. New working groups were established or re-vived, for example on the modernization of the rules of origin, and on conducting the next 5-year review of the Agreement.

Strong successes in 2019 were achieved with regard to awareness raising and business-to-business networking, e.g. through the EU-Cariforum Business Forum in 2020. Numerous new technical assistance projects, to be funded under the 11th EDF, were signed in 2019.

Outstanding challenges include the implementation of all regulatory provisions, e.g. on services and investment, for which dedicated technical assistance is needed, and making better use of the services chapter under the Agreement. Continuous effort of all partners will be needed to ensure that benefits of the agreement fully materialize and in particular to raise awareness among EU business and SMEs to make a full use of the agreement and business opportunities with this region.

In 2019, the Parties started work under the Joint Task Force on the 2020 Review of the EPA (as prescribed by the agreement) with the view to elaborate the Joint Recommendations for the next EU-CARIFORUM Joint Council foreseen in 2020.

In 2019, research work for the ex post evaluation of the Cariforum EPA started. The **draft interim report[209] of the ongoing evaluation regarding the Cariforum Economic Partnership Agreement** (EPA) of Februry 2020 pointed out that the agreement contributed to improvements in the business environment in Caribbean countries, for example in the field of competition, increased transparency, lower market access barriers, etc.; and that the development co-operation related to this EPA has helped to improve the quality infrastructure and supported the creation of a regional export development agency (CEDA) – both of which can benefit SMEs in particular. The draft report also notes that a Memorandum of Understanding was recently signed between CEDA and the German SME Association at the occasion of an EPA related event, probably increasing the interest of German SMEs in the

[209] The revised interim report is available at https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc_158657.pdf

Caribbean region in the future (and thereby providing opportunities for both sides, as can also be seen from the example below).

German investment in medical equipment manufacturing in the Dominican Republic helps in the fight against Covid-19

The Dominican Republic is currently the third largest global producer of medical equipment, with 32 companies operating in the sector, located mostly in free trade zones. During 2019 the Dominican Republic exported medical equipment to a total value of USD 1.66 billion. The sector generates 24,000 jobs. Investors are attracted by generous fiscal incentives, a cheap labour force and privileged geographical position, as well as by the Dominican Republic's free trade agreements with the US (DR-CAFTA) and the EU (EPA).

In 2019, German company Fresenius Kabi expanded its plant in the Haina free trade zone with an investment of €30 million, doubling the size of the site's second plant to around 15,000 square meters. The new building houses production equipment, plasma kit assembly lines and sterilisation units. Medical disposables manufactured in Haina are exported to global markets, such as the US, China and the EU.

The expansion will increase production capacity of the existing product range. The number of employees has grown from 3,000 to 3,500, including production workers, technical staff, engineers and managers. Within the next years, up to 2,000 new jobs might be created, depending on the development of the Covid-19 related economic crisis.

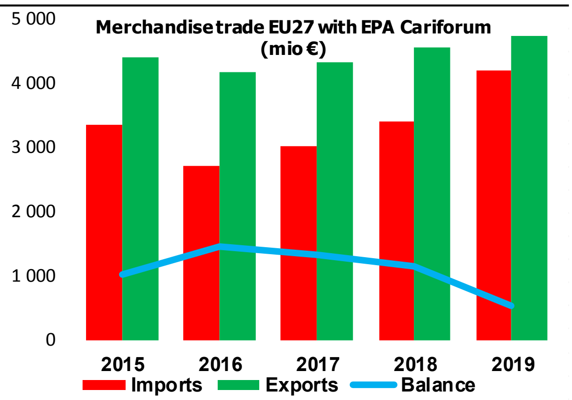
Importantly, Fresenius Kabi is making equipment for an innovative treatment of Covid-19. The equipment can extract plasma from a previously infected and cured donor to treat patients with Covid-19. The US Food and Drug Administration has approved the process.

7. STATISTICS

EPA CARIFORUM

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with EPA Cariforum (mio €)					
Imports	3 371	2 707	3 016	3 417	4 219
Exports	4 403	4 172	4 341	4 560	4 747
Balance	1 032	1 465	1 325	1 143	528
Share EPA Cariforum in EU27 trade with Extra-EU27					
Imports	0.2%	0.2%	0.2%	0.2%	0.2%
Exports	0.2%	0.2%	0.2%	0.2%	0.2%
Total (I+E)	0.2%	0.2%	0.2%	0.2%	0.2%
Share EU27 in trade EPA Cariforum with world					
Imports					
Exports					
Total (I+E)					

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade EPA Cariforum: IMF Dots



Total merchandise trade EU27 with EPA Cariforum (mio €)

EPA Cariforum	2018	2019	Growth mio €	Growth annual %
Imports	3 417	4 219	802	23.5%
Exports	4 560	4 747	187	4.1%
Balance	1 143	528	-615	
Total trade	7 977	8 966	990	12.4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with EPA Cariforum (mio €)

EPA Cariforum	2018	2019	Growth mio €	Growth annual %
Imports	569	658	89	15.6%
Exports	688	742	54	7.8%
Balance	119	84	-35	
Total trade	1 258	1 400	142	11.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with EPA Cariforum (mio €)

EPA Cariforum	2018	2019	Growth mio €	Growth annual %
EU27 imports	2 848	3 561	714	25.1%
EU27 exports	3 872	4 005	133	3.4%
Balance	1 024	444	-580	
Total trade	6 719	7 566	847	12.6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with EPA Cariforum (mio €)

EPA Cariforum	2017	2018	Growth mio €	Growth annual %
Imports	17 256	11 439	-5 817	-33.7%
Exports	3 464	4 541	1 077	31.1%
Balance	-13 792	-6 898	6 894	
Total trade	20 720	15 980	-4 740	-22.9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with EPA Cariforum (mio €)

	2014	2015	2016	2017	2018
Imports	12 385	20 357	18 275	17 256	11 439
Exports	2 220	2 523	2 969	3 464	4 541
Balance	-10 165	-17 834	-15 306	-13 792	-6 898
Total trade	14 604	22 880	21 244	20 720	15 980

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with EPA Cariforum (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	75 003	68 450	66 640	114 605	110 015
Outward	5 735	8 600	77 692	101 442	101 822
FDI Flows					
Inward					
Outward					

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
Outward	7 050 096	8 511 837	9 145 353	8 833 606	8 750 004
FDI Flows					
Inward	143 012	803 285	328 703	209 462	-67 421
Outward	203 711	1 016 490	449 657	180 796	-103 421

ANNUAL INFORMATION SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND PACIFIC STATES

1. INTRODUCTION

The EU is implementing an "interim" EPA (covering only trade in goods) with Papua New Guinea (PNG) since 2009, Fiji since 2014 and Samoa since 2019. PNG and Fiji account for the vast majority of trade between the 15 Pacific States and the EU[210]. The EPA is open to accession of other ACP Pacific States. Samoa acceded and is applying the EPA since 31 December 2018. The EU completed its inter-institutional procedures for Solomon Islands' accession in December 2019 and Solomon Islands is applying the EPA since 17 May 2020. The Commission and Tonga continued preliminary accession talks. Kiribati, Tuvalu and Vanuatu have informally expressed their interest to join the EPA. While the original plan was to replace the interim EPA by a regional one with all the Pacific States, the negotiations were paused in 2016 due to lack of progress and the withdrawal of the regional powerhouse PNG from the negotiations. The interim EPA is gradually becoming a definitive regional agreement, with the possibility of extending it to other countries and areas beyond trade in goods.

In 2019, the Pacific region's share in EU27 trade in goods was 0.1% (€2620 million in value). EU27 was the region's fifth trading partner (7.6%) after Australia (22.4%), China (16.8%), Singapore (12%) and Japan (7.6%). In value, EU imports represented €1267 million and exports €1353 million, with a positive balance of €85M on EU side. Pacific EPA countries (Fiji, PNG and Samoa) together accounted for 46% (26% in 2018) of EU trade with the region, with PNG alone accounting for 34% (24% in 2018).

Owing to the success of the tuna canning industry in PNG, which has attracted big investments and created tens of thousands of jobs, the Parties' common ambition is to replicate this success in other sectors/products and other countries in the region.

The Parties are stepping up dialogues to mainstream trade aspects of sustainable development in their policies, along with efforts to involve non-state actors in the monitoring and evaluation of EPA implementation.

2. MAIN IMPLEMENTATION ISSUES

2.1 Main steps in implementation

All exports from PNG, Fiji and Samoa enter the EU market duty-free and quota-free on a permanent basis. Taking full account of differences in development levels and sensitive

[210] The 15 ACP Pacific States are Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu and Timor-Leste.

sectors, PNG has liberalised 88% of imports from the EU since 2008, Fiji undertook to liberalise 87% over 15 years and Samoa will liberalise 80% over 20 years.

In 2019, Samoa started applying the Agreement. The Parties furthermore made progress towards the accession of Solomon Islands to the Agreement. Solomon Islands started applying the Agreement in May 2020. The Parties are open to consider the requests for accession of Vanuatu, which will graduate from Least Developed Countries (LDC) status in December 2020, and Kiribati and Tuvalu whose date of graduation will be decided in 2021. Upon graduation from LDC status, these countries will lose the EU's Everything-But-Arms (EBA) preferences three years thereafter. They will fall under the General Scheme of Preferences (GSP), which is less generous, unless they decide to accede to the EPA.

EU development support is essential to help the Pacific States to prepare national plan of actions for EPA implementation. In 2019, the Parties stepped up support to that end, as well as capacity building on customs and rules of origin, made progress on the preparation of decisions on rules of procedures, the amendments to the Agreement in order to take account of the accessions, initiated discussions on Trade and Sustainable Development (TSD) and mechanisms for EPA monitoring and evaluation.

2.2 Trade and sustainable development goals

The Pacific EPA does not currently include a chapter on Trade and Sustainable Development. Nevertheless, the EU and the Pacific States are cooperating on a number of relevant matters under the framework of the Cotonou Agreement and are also stepping up their cooperation under the EPA. For example, parties have advanced their discussions on setting up a monitoring mechanism for the agreement, with a strong role for civil society.

With support of the EU Delegation for the Pacific, the EPA Parties held a **civil society workshop** at the University of South Pacific in Suva (Fiji) on 2 October 2019, bringing together over 100 state and non-state actors in order to promote trade and sustainable development. The stakeholders identified the main sustainable development challenges and ways to address them through trade and the EPA, the mechanisms and processes used to involve the private sector and civil society in designing appropriate solutions, and how gender (women) representation in the workforce and businesses contribute to achieving sustainable development objectives of the Agreement, etc.

The workshop’s outcome fed into the seventh meeting of the EU-Pacific Trade Committee also held in Suva (3-4 October 2019). The Parties agreed to draw up a **non-binding instrument on trade and sustainable development**, setting out political commitments to promote bilateral cooperation and trade in a way that meets internationally recognised labour standards, safeguards the environment and the management of natural resources.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The Parties held their seventh statutory Trade Committee meeting in Suva (Fiji), 3-4 October 2019, to which Solomon Islands and Tonga participated as observers.

During the Trade Committee, the Parties made progress on a number of draft decisions (rules of procedure for the Trade Committee, EPA amendment due to accessions, updates of the Pacific countries' market access commitments). They exchanged views on trade in services, development cooperation (preparations of the Pacific Regional Integration Programme, and the foreseen support for EPA implementation), communication (outreach and awareness raising), civil society involvement in the monitoring and evaluation of EPA implementation, etc. They were also briefed on the Pacific Kava project, the evolution of trade in agri-food products between the Parties, value chains and diversification, with the view to exploring potentials of registration and protection of Geographical Indications for the Parties.

Four complementary events were held on the margins the meeting, namely:

- Bilateral discussions between the EU and each Pacific State (30 Sept. - 2 October);
- Civil society and private sector workshop held at the University of the South Pacific to promote the trade aspects of sustainable development (2 October);
- Capacity building workshop on customs and rules of origin (30 Sept. - 1 October), which brought together 35 customs and trade officials and 15 representatives of private sector (fisheries, coconut and coconut oil, garment industry);
- Special Committee on Customs Cooperation and Rules of Origin (2 October), which exchanged views on the recent developments in the customs legislations of the Parties, their free trade agreement negotiations, and the necessary technical amendments to bring Protocol II of the EPA up to date with current trade trends and realities.

4. TRADE AND DEVELOPMENT COOPERATION AND SPECIFIC AREAS OF IMPORTANCE

Development cooperation is essential for EPA implementation. In December 2019, the Commission adopted two new programmes worth €94 million to boost climate-sensitive business, trade and investment in the Pacific. The Pacific Regional Integration Support Programme (€37 million) will strengthen the regional trade and business enabling environment. It will also assist Pacific businesses seize new opportunities under the EPA. The Investment Facility for the Pacific (€57 million top-up) will provide grant funding to leverage critical investments in partnership with International Financial Institutions, strengthening Pacific productive capacities and trade-related infrastructure, thus facilitating the successful EPA implementation.

Bilateral programmes are ongoing in focal areas such as agriculture (mainly Melanesian countries), energy (Micronesian countries), fisheries and waste management. In Fiji, a budget support is contributing to agriculture/sugar sector reform and trade-related adjustment. In Samoa, the EU supported the development of coconut value chains including an innovative pilot project for a business exporting virgin coconut oil products to Germany.

In PNG, the Trade Related Assistance (TRA2) ended in November 2019 after supplying laboratories equipment. Future support areas may include technical assistance to review key customs legislation, training on the use of and purchase of complementary laboratory equipment, implementation of WTO Trade Facilitation Agreement, establishment of the National Trade Office, etc. The EU supports to rural entrepreneurship, investment and trade, enabling 'hard components' (transport infrastructure, energy access) to be connected with 'soft components' (financing, training, market access, trade and other value chain support services for commodities). The EU and PNG held the first Business-to-Business Conference in Port Moresby (21 June 2019) involving Fiji, Samoa, Solomon Islands and Tonga.

The EU provided assistance via intra-ACP programmes (Hub & Spokes II, TradeCom II, Technical Barriers to Trade, etc.), helping Pacific countries for example to conduct trade needs' assessments and develop customs and trade policy frameworks and related national consultation mechanisms; with targeted support to help Samoa, Solomon Islands and Tonga in the process of EPA accession and implementation. The EU-ACP Technical Centre for Agricultural and Rural Cooperation also provided support e.g. to optimise the performance of Pacific agricultural value chains, investment readiness, financial inclusion etc.

5. EVOLUTION OF BILATERAL TRADE

5.1 Economic environment

PNG is the biggest country of the ACP Pacific grouping, with a population of 9 million. PNG's GDP grew to €21 billion in 2019 (up from €20 billion in 2018), driven by a rebound in the resource (mainly extractive) sector. There was slowdown in the non-resource activity due to sluggish domestic demand, while formal employment improved during the first nine months of 2019. The exchange rate of the kina (local currency) against the euro remained stable, but inflation was 3.9% (down from 5.2% in 2018). The country is blessed with natural resources: rich in minerals (gold, copper), oil, gas, forests and fish stocks. PNG development objective in the medium to long run is to move from an economy dominated by primary production to commercialisation through the promotion of downstream processing activities. The country's long-term policies are centred on the renewable sector and the transition to a green economy.

A renegotiation of terms of the Papua Liquid Natural Gas (LNG) €13 billion project (the Elk-Antelope gas fields in Gulf province) in August 2019, a delay in reaching agreement on the PNG LNG expansion (the P'nyang gas field) and prolonged legal proceedings over the Wafi-Golpu gold project have led to downward economic growth projections. In 2019, EU-PNG trade averaged €1 billion, a figure that has not been fluctuating much since 2011.

The other thirteen ACP Pacific countries[211], with a total population of around 2.5 million, are widely dispersed over a maritime region equivalent to 15% of the earth's surface. This makes transportation, administration and the efficient provision of basic services extremely challenging. The countries' small size, limited natural resources, narrowly-based economies, small domestic markets and large distances to major external markets/trading centres, high costs of energy, infrastructure and transportation and vulnerability to external shocks considerably affect their economic growth and create a high degree of economic volatility.

With a population of 1 million, Fiji's GDP of €5 billion in 2019 represented more than 50% of the countries' combined GDP of €9.5 billion. Samoa's GDP was around €0.83 billion. In 2019,

[211] Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu – excluding Timor-Leste, which, albeit officially part of the Pacific grouping, is located in South East Asia and not covered here.

Fiji's GDP grew by 2.7% (down from 3.5% in 2018) and Samoa's GDG grew by 2.5%. Inflation rate was 3.5% (down from 4.1% in 2018) in Fiji and 2.2% in Samoa.

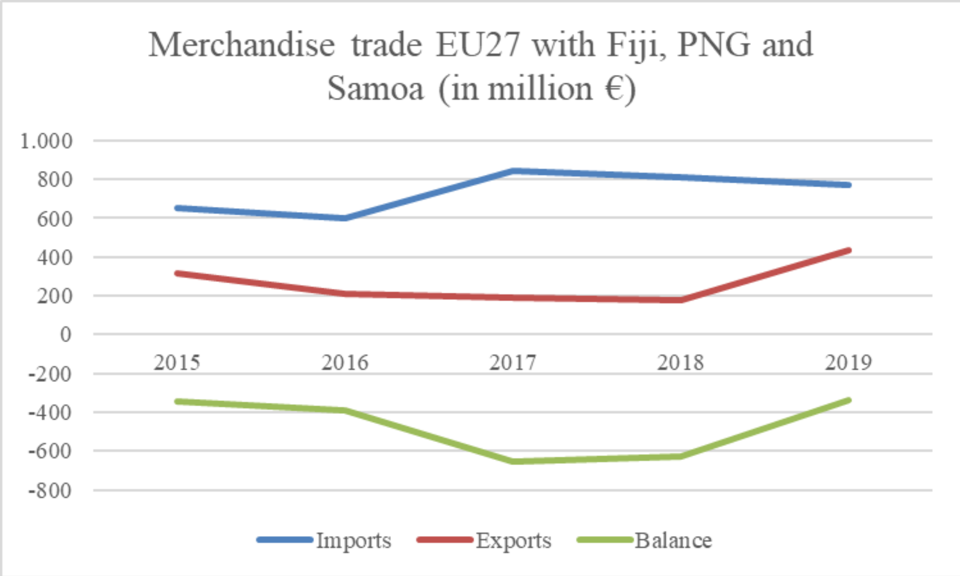
Pacific Island States are characterised by narrow export sectors, dominated by processed and unprocessed natural resource-based products. The majority of their exports are agricultural products, some manufactured goods, services (including ICT) and mining/resources (fuel in the case of PNG, minerals, forestry products and pearls). All Pacific States experience a high level of import dependence. Machinery and electrical goods, consumer goods, fuels, raw materials, metals, chemicals, equipment, vehicles and some specific food products (e.g. rice), are the most prevalent type of imports. The level of import dependence is much higher for the very small island countries, which lack both an agricultural and industrial base. Like other Pacific countries, Fiji and Samoa’s vulnerability to the effects of climate change and natural disasters affect significantly their economic and political environments. They are however at the forefront of the global fight against climate change (e.g. Fiji presidency of COP23).

PNG and Fiji concluded negotiations of a bilateral trade deal with the UK, a replicate of the EPA, ahead of Brexit.

5.2 Trade in goods

In 2019, the EU27 remained the fifth largest trading partner for **PNG** (representing 6.8% of its world’s trade) after Australia (29.5%), China (18.9%), Singapore (9.9%) and Japan (9.9%). EU27 was PNG’s fourth exports destination and the sixth imports source. For the first time in last decade, the EU27 became **Fiji’s** second largest trading partner (representing 13.5% of its world’s trade) after Singapore (15.4%) and ahead of Australia (12.6%), New Zealand (11%) and China (8.6%). For **Samoa**, the EU27 is only the thirteenth largest partner for Samoa (representing 0.7% of Samoa’s trade with the rest of the world). Samoa’s main trade partners are New Zealand, Singapore, the US, China, Australia and Fiji.

In 2019, PNG accounted for 58% (66% in 2018) of the Pacific region’s exports to the EU27. Fiji alone accounted for 22% (2% in 2018) of the region’s imports from the EU27. Together, Fiji, PNG and Samoa account for 80% of the region’s exports to the EU27 and 32% of the region’s imports from the EU27. The EU27’s **total trade with Fiji, PNG and Samoa** increased by €221 million (+18.2%) in 2019. EU exports to these States increased by €257 million (+59%), mainly driven by EU’s export of aeroplanes and other powered aircrafts to Fiji. The overall trade balance was negative for the EU (-€296 million).



EU imports from PNG decreased slightly from €788 million (2018) to €741 million (2019), driven by a decline in exports of palm oil (-€45 million or 13%) and mining ores (-€25 million or 17%). EU imports of coffee (+€6 million, +12%) and preserved fish (+€12 million, +8%) grew. The EU27 exports to PNG grew from €118 million (2018) to €138 million (2019), with a negative trade balance of €603 on EU27's side (2019). By AMA/NAMA Product Groups, EU27 imported agricultural products (53.6%), fishery products (22.4%) and industrial products (20%); and exported exclusively industrial products (91.5%). By SITC product Groups, the EU27 imported mainly primary products (92.6%) and exported mainly manufactures (89.9%). Total trade in value decreased from €906 million (2018) to €879 million (2019).

EU imports from Fiji increased from €19 million (2018) to €31 million (2019), after a significant drop in 2018. The recovery was driven by increases in EU imports of fish and sugar. The EU27 exports grew from €49 million (2018) to €291 million (504% growth rate, mostly due to export of aeroplanes and other powered aircrafts), with a trade balance of €260 on EU27's side (2019). By AMA/NAMA Product Groups, EU27 imported agricultural products (63%), fishery products (22.6%) and industrial products (14.4%); and exported exclusively industrial products (96.6%). By SITC product Groups, the EU27 imported mainly primary products (85.6%) and exported exclusively manufactures (96%). Total trade in value grew from €67 million (2018) to €323 million (2019).

EU27 imports from Samoa increased by more than 38% over the last decade mainly driven by an increase in fruit juices imports.

Main destinations for the Pacific EPA States' exports are the Netherlands, Germany and Spain. Preference utilisation rates for EU imports from the Pacific states have risen from 85% in 2014 to 99.3% in 2019.

Pacific States' exports to the EU27 show **little signs of diversification**. The top 10 export products accounted for 96.6% of total exports from Fiji, 97.8% of total exports from PNG and 95.5% of total exports from Samoa to the EU. The main Fiji's exports products included sugar, frozen tuna fillet, fruit and vegetables, mineral water. PNG's main exports included palm oil, prepared or preserved tuna, copper ores, coffee, cocoa and vanilla. Samoa's main exports products included juice, part or accessories of automatic data processing, dresses of synthetic fibres, crude coconut oil, etc.

The EU mostly exports machinery and mechanical appliances, electrical machinery and equipment, optical, medical or surgical instruments, certain chemicals, as well as aircrafts and motor vehicles to the Pacific States. These exports are crucial for the local industry, which uses them as production inputs. Eliminating import duties on these items will reduce the costs of inputs for local businesses and will benefit consumers.

5.3 Trade in agricultural products

Total trade in agricultural goods with Pacific EPA States (Fiji, PNG and Samoa) reached a value of €439 million in 2019, with a trade deficit for the EU of €395 million.

EU agri-food exports to the EPA Pacific States are low (€22 million), and consisted mainly of preparations of vegetables, fruits or nuts (27%), meat preparations (24.5%) and cigars and cigarettes (17.5%). While meat preparations saw an increase of 28% in the exports compared to 2018, the export of cigars and cigarettes decreased by about 35% in the same period.

EU imports of agricultural goods from EPA Pacific States (Fiji, PNG and Samoa) counted for €417 million in 2019. Imports of agricultural goods were dominated by palm & palm kernel oils (76%, about €360 million in value, representing a decrease of 12.5% compared to 2018) followed by unroasted coffee, tea in bulk & mate (12.5%, €59 million in value) and beet and cane sugar (6%, €28 million in value, an increase of 91% compared to 2018).

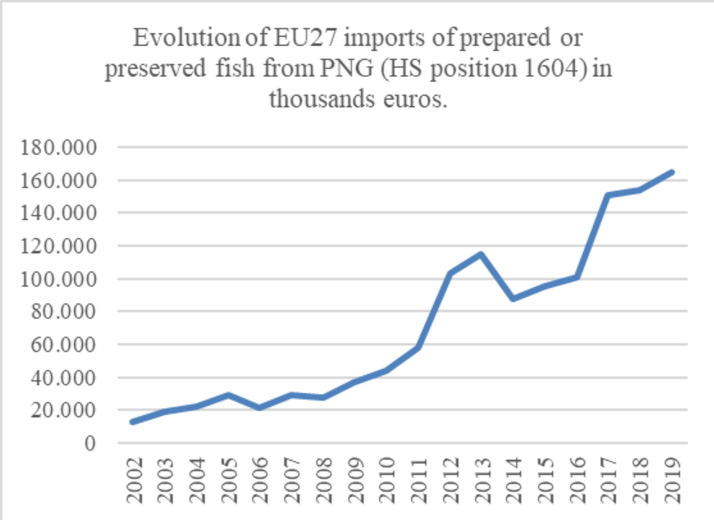
5.4 Trade in services and Foreign Direct Investments

The EPA with the Pacific states does not include provisions on services or investment. Trade in services with the Pacific EPA states has been fairly stable over the past years, at a low level. EU services imports from PNG were €42 million in 2019 and exports came to €86 million. Services trade with Fiji in 2019 consisted of EU imports of €92 million, and exports of €43 million. EU FDI stocks are most significant in PNG, where they stood at €1.5 billion in 2019, with new inflows of €52 million in 2019.

6. CONCLUSIONS

EPA implementation and accession remained top priorities in 2019. Fiji is still to ratify and effectively start implementing the Agreement. Having made all its tariff cuts, PNG continued to push to extend its export diversification beyond the fisheries sector. Samoa is preparing to start its tariff cuts in 2024. Following the conclusion of the accession, the EU and Solomon Islands started provisional application of the EPA in May 2020. The EU looks forward to starting negotiations on Tonga’s accession in 2020, and is open to consider any accession requests that Kiribati, Tuvalu and Vanuatu may make. The Parties look forward to making progress, with the view to adopting the pending procedural and implementation decisions, including mainstreaming the trade aspects of sustainable development into respective policies, involving civil society in implementation and carrying out a study on the strengths and weaknesses of the services' sector.

Processed fish exports – a success story of the EPA



A unique derogation (the so-called "Global sourcing") allows Pacific States to source fish globally and process it further for exporting to the EU. It takes into account the Pacific states' own limited fishing capacity and promotes the development of an onshore processing capacity to create local employment, skills transfer and income. At the same time, strong monitoring provisions ensure long-term sustainability of fish stocks.

Since the conclusion of the EPA, five major onshore investment projects have been established in PNG, leading to an increase of direct and indirect employment, mainly for women. By 2014 PNG had reported 50 000 extra jobs in tuna canning, 90 % of them held by women.

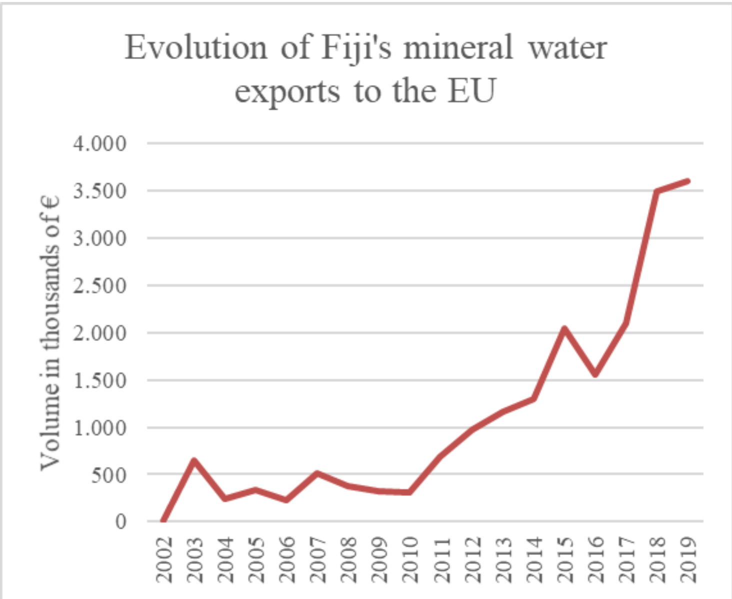
Exports of processed tuna to the EU have increased significantly. They reached EUR 164 million in 2019, accounting for 20.7 % of PNG's total exports to the EU that year.

Mineral water from Fiji

Mineral and Natural Waters from Fiji ("FIJI Water") is now available in leading hotels, fine restaurants and retail locations in EU27. Owing to harmonised import rules and the predictability in the EU market, guaranteed by the EPA framework, FIJI Water can be found in almost all the big distribution chains in four main EU27 countries:

- France: La Grande Epicerie Paris, Carrefour, Casion Supermarche, E. Leclerc, Franprix, Geant Casino, Intermarche, Monoprix
- Germany: Edeka, Galeria Kaufhof, Getrarke Hoffmann, Globus, Karstadt, Kaufland, Rewe dein Markt, Legut
- Spain: El Corte Ingles, Hipercor, Hudson
- Belgium: Carrefour, etc.

To note: currently almost all the imports (more than 90%) enter the Union via the United Kingdom and then redistributed in the rest of the above Member States. The main UK distribution chains are Booth, Harrods, Harvey Nichols, Recivital, Spar, Tesco, Waitrose and Whole Foods Market.

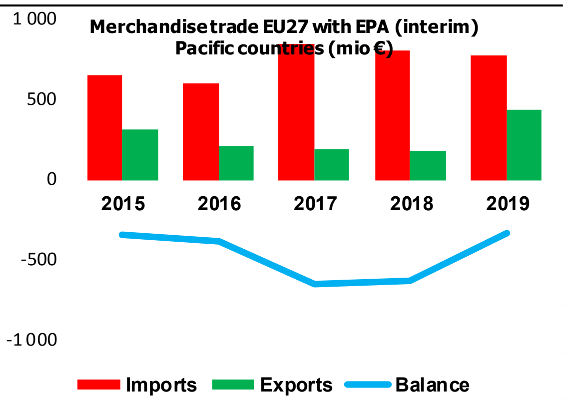


7. STATISTICS

EPA PACIFIC COUNTRIES

Merchandise trade EU27 2015-2019	2015	2016	2017	2018	2019
Merchandise trade EU27 with EPA (interim) Pacific countries (mio €)					
Imports	655	599	844	809	774
Exports	312	211	192	180	437
Balance	-343	-389	-652	-630	-337
Share EPA (interim) Pacific countries in EU27 trade with Extra-EU27					
Imports	0.0%	0.0%	0.0%	0.0%	0.0%
Exports	0.0%	0.0%	0.0%	0.0%	0.0%
Total (I+E)	0.0%	0.0%	0.0%	0.0%	0.0%
Share EU27 in trade EPA (interim) Pacific countries with world					
Imports					
Exports					
Total (I+E)					

Source Trade G2 Statistics/ISDB 18-Mar-20
Trade EU27: Eurostat COMEXT; Trade EPA (interim) Pacific countries: IMF Dots



Total merchandise trade EU27 with EPA (interim) Pacific countries (mio €)

EPA (interim) Pacific countries	2018	2019	Growth mio €	Growth annual %
Imports	809	774	-36	-4.4%
Exports	180	437	257	142.7%
Balance	-630	-337	293	
Total trade	989	1 210	221	22.3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Total merchandise trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	1 907 565	1 934 944	27 379	1.4%
Exports	2 059 882	2 132 015	72 133	3.5%
Balance	152 317	197 071	44 754	
Total trade	3 967 447	4 066 959	99 512	2.5%

Agrifood trade EU27 with EPA (interim) Pacific countries (mio €)

EPA (interim) Pacific countries	2018	2019	Growth mio €	Growth annual %
Imports	446	417	-29	-6.5%
Exports	22	22	0	-0.7%
Balance	-424	-395	29	
Total trade	469	439	-29	-6.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
Imports	118 891	121 644	2 753	2.3%
Exports	169 000	181 825	12 825	7.6%
Balance	50 109	60 181	10 072	
Total trade	287 891	303 469	15 578	5.4%

Definition AMA UR AoA

NAMA trade EU27 with EPA (interim) Pacific countries (mio €)

EPA (interim) Pacific countries	2018	2019	Growth mio €	Growth annual %
EU27 imports	363	356	-7	-1.9%
EU27 exports	158	415	257	163.0%
Balance	-206	58	264	
Total trade	521	771	250	48.0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2018	2019	Growth mio €	Growth annual %
EU27 imports	1 788 674	1 813 300	24 626	1.4%
EU27 exports	1 890 882	1 950 190	59 309	3.1%
Balance	102 208	136 890	34 682	
Total trade	3 679 556	3 763 491	83 935	2.3%

Definition NAMA UR

Services trade EU27 with EPA (interim) Pacific countries (mio €)

EPA (interim) Pacific countries	2017	2018	Growth mio €	Growth annual %
Imports	175	148	-27	-15.4%
Exports	185	171	-14	-7.5%
Balance	9	23	13	
Total trade	360	319	-41	-11.4%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

Extra-EU27	2017	2018	Growth mio €	Growth annual %
Imports	824 543	824 015	-528	-0.1%
Exports	928 420	968 648	40 228	4.3%
Balance	103 877	144 633	40 756	
Total trade	1 752 963	1 792 662	39 700	2.3%

Services trade EU27 with EPA (interim) Pacific countries (mio €)

	2014	2015	2016	2017	2018
Imports	137	117	94	175	148
Exports	137	164	172	185	171
Balance	0	47	78	9	23
Total trade	273	280	266	360	319

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
Imports	642 682	776 924	784 743	824 543	824 015
Exports	750 713	849 023	855 477	928 420	968 648
Balance	108 031	72 099	70 734	103 877	144 633
Total trade	1 393 395	1 625 948	1 640 220	1 752 963	1 792 662

FDI EU27 with EPA (interim) Pacific countries (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	22	19	30	50	169
Outward	458		921	1 648	1 671
FDI Flows					
Inward					
Outward					

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU27 with Extra-EU27 (mio €)

	2014	2015	2016	2017	2018
FDI Stocks					
Inward	5 402 531	6 647 447	7 199 779	7 275 893	7 196 848
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