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Individual reports and info sheets on implementation of EU Free Trade Agreements

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on Implementation of Free Trade Agreements

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Individual reports and info sheets on implementation of EU Free Trade Agreements

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DATA USED FOR THE COMPILATION OF INDIVIDUAL REPORTS AND INFORMATION SHEETS

General trade statistics used for the Report reflecting the evolution of **trade and investment flows** rely, except where indicated otherwise, on EUROSTAT data (COMEXT) as was available on 15 July 2018.[1] For trade in goods the most recent annual data available is for 2017. For services and investment the most recent year available is 2016 (except for Switzerland, where 2017 is available).

Statistics on **preference utilisation rates (PURs)**[2] are based on administrative data collected by the importing country. PURs show to what extent trade flows make use of preferences under a trade agreement. The PUR reflects the share of imports entering under trade preferences as a share of the total value of imports *eligible* for preferences by partner country. Preference eligible imports exist if the applied preferential tariff is lower than the applied MFN tariff. Subsequently MFN-duty free trade is not taken into account in the calculations.

The **PUR of EU imports** is based on Eurostat figures. Eurostat merges tariffs and trade flows to build a dataset from which we extract information on both the treatment a product is eligible for and the extent to which this eligible treatment is made use of. **The obtained dataset is harmonised[3] and consistent** and allows for comparison across partner countries and years.

By contrast, when it comes to **calculating PURs on EU exports** to FTA partners the Commission has to rely on administrative data collected by the respective importing third country. Submitted data were used if fulfilling a set of conditions as regards level of detail, accuracy, completeness and consistency to ensure a minimum level of harmonisation. E.g. to systematically exclude from PUR calculations all products not benefiting from preferential treatment (such as products offered duty free on an MFN basis) eligibility has to be determined but this can only be done with data available at tariff line level ; - import values need to be comparable with levels found in other sources (e.g. UN Comtrade).

Statistics on PURs for EU exports are not harmonised. Hence, direct comparisons between partner countries or with EU imports should merely be seen as indicative.

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1 As regards the Association Agreement with Central America, there are significant differences between EUROSTAT and Central American statistics; only Eurostat data are therefore used.

2 Information on preference utilisation rates per partner country can be consulted in Annexes 1 and 2.

3 However, some margin of error is still possible since the data does not capture certain changes in the preferential status of imports, such as claims for preferences made by importers after the goods have been declared to customs and denial of preferences decided by customs after verification post-release of the goods

PART I: NEW GENERATION FREE TRADE AGREEMENTS

For the purpose of this report "**new generation**" FTAs are comprehensive FTAs negotiated after 2006 with selected third countries. Of the applied agreements, the ones with Canada, South Korea, Colombia, Peru, Ecuador and Central America belong to this category. These agreements typically go beyond tariff cuts and trade in goods and also cover services and public procurement. The agreement with South Korea and Canada also contain provisions on heightened investment liberalisation and CETA in addition covers investment protection (although not yet provisionally applied) and regulatory cooperation. Solid provisions on trade and sustainable development (TSD) are a core part of all "new generation" trade agreements concluded since 2010.

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

1. INTRODUCTION

The Comprehensive Economic and Trade Agreement ('CETA') was signed on 30 October 2016 and the European Parliament gave its consent to CETA during its Plenary session of 15 February 2017. CETA entered into force provisionally[4] on 21 September 2017.

2. EVOLUTION OF TRADE

At the time this report is being drafted the agreement has not been applied for a entire calendar year so it is too early to draw any meaningful conclusions on its impact on trade flows of goods and services or the development of FDI. This information will be included in the next report to be delivered in 2019.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

CETA establishes a number of **institutional bodies** to facilitate the implementation of the agreement. **The CETA Joint Committee** is meant to supervise and facilitate the implementation and application of the Agreement. The CETA Joint Committee is co-chaired by the Minister for International Trade of Canada and the Member of the European Commission responsible for Trade.

In addition, CETA establishes a number of **specialised committees** and **dialogues** to ensure overlook the implementation of the Agreement in specific areas, the work of which is supervised by the CETA Joint Committee. These are the following:

Specialised Committees:

- ✓ Committee on Trade in Goods
- ✓ Committee on Agriculture
- ✓ Committee on Wines and Spirits
- ✓ Joint Sectoral Group on Pharmaceuticals
- ✓ Committee on Geographical Indications
- ✓ Joint Management Committee for Sanitary and Phytosanitary (SPS) Measures
- ✓ Joint Customs Cooperation Committee
- ✓ Committee on Government Procurement
- ✓ Committee on Services and Investment
- ✓ Joint Committee on Mutual Recognition of Professional Qualifications
- ✓ Financial Services Committee
- ✓ Committee on Trade and Sustainable Development

[4] In accordance with Article 218(5), following authorisation by the Council, the EU may provisionally apply a trade agreement or any other international agreement, in whole or in part, between the signature and the entry into force. Provisional application of treaties reflects a longstanding international treaty practice.

- ✓ Regulatory Cooperation Forum

Bilateral Dialogues and cooperation:

- ✓ Bilateral Dialogue on Forest Products
- ✓ Bilateral Dialogue on Raw Materials
- ✓ Bilateral Dialogue on Biotech Market Access Issues
- ✓ Enhanced Cooperation on science, technology, research and innovation.
- ✓ Dialogue on Electronic Commerce
- ✓ Bilateral Dialogue on Motor Vehicle Regulations

In line with the Commission's commitment to a more transparent and inclusive trade and investment policy and to allow all relevant stakeholders to follow and be informed about the implementation of CETA, the Commission has created a specific "CETA – Meetings and documents[5]" webpage where the schedules, agendas and reports of all above mentoned specialised committees and dialogues can be found.

In the course of 2017 the EU and Canada have been working to make operational **the administrative and institutional provisions** of CETA. This work, which was initiated in 2017, with just over three months of provisional application, continued in 2018 including the setting up of the various CETA committees and dialogues agreeing on co-chairs and contact points for the various committees, timelines for the meetings and rules of procedure.

The specialised committees and dialogues did not meet in 2017; the following committees and dialogues met in the first half of 2018 and the reports of these meetings are available on the above mentioned webpage:

- ✓ Committee on Government Procurement (15 March 2018)
- ✓ Enhanced Cooperation on science, technology, research and innovation (23 March 2018)
- ✓ Joint Management Committee for SPS Measures (26-27 March 2018)
- ✓ Bilateral Dialogue on Biotech Market Access Issues (26 April 2018)
- ✓ Committee on Geographical Indications (17 May 2018)
- ✓ Bilateral Dialogue on Forest Products (23 may 2018)
- ✓ Financial Services Committee (19 June 2018)
- ✓ Joint Customs Cooperation Committee (22 June 2018)
- ✓ Committee on Wines and Spirits (5 July 2018)

Furthermore, the foundations of the Investment Court System (ICS) are already established in CETA but further work is required to operationalise the system. The contours of the further work on the ICS has been agreed between EU and Canada at the time of CETA ratification and is also reflected in Commission and Council Declaration No 36.[6] In the course of 2018, the Commission will consult with Member States to establish the EU position before

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

[6] Link to the Council Declaration: http://data.consilium.europa.eu/doc/document/ST-13463-2016-REV-1/en/pdf

discussing with Canada about the work that has been committed to during the CETA ratification process.

4. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

End of 2017, the EU and Canada launched a **review** on how to improve the effectiveness of the **TSD** provisions in CETA. A first expert level meeting took place on 1 December 2017, with the objective to inform each other on latest developments and public debate on issues. The EU's position on this review has since been informed by the Commission Non-Paper[7] published, summarising **15 action points to strengthen the enforcement of TSD chapters**. The Non-Paper reflects the results of a seven-month EU wide debate with Member States, European Parliament and with a broad range of civil society organisations and defines the EUs revamped approach to trade and sustainability in its trade agreements.

CETA establishes a Civil Society Forum – a consultation mechanisms for the TSD chapters composed of representatives of civil society organisations on both sides. In the EU, in February 2018, the Commission launched a call for expressions of interest to become an EU CETA Domestic Advisory Group (DAG) Member. As a result of this call, the EU DAG under CETA was established and met for the first time on 13 July 2018. The Civil Society Forum will meet back-to-back with the CETA TSD Committee to be held in the third quarter of 2018.

5. AGRICULTURE

CETA opened new opportunities to access the Canadian market for EU exporters of agricultural and food products. C**ETA has eliminated duties on 91% of all agricultural tariff lines** at the entry into force of the agreement. The Agreement **significantly increases the quotas for the export of duty free cheese** to Canada to 32 000 tons. It tackles some of the non-tariff barriers facing the wines and spirits sector and establishes a robust framework to continue work to address them. In addition under CETA, Canada has agreed to protect 143 distinctive food and drink products from specific towns or regions in the EU. The Commission has been closely following the implementation of afore mentioned areas in the field of agriculture.

Increased duty free quota for Cheese is one of the major gains for the EU in CETA. The EU therefore pays particular attention to ensure that the administration of this quota by Canada is in line with the principles agreed in CETA. The EU will continue to closely monitor the utilisation of the quota in subsequent years (5 900 tons in 2018 and up to 17 700 tons as from 2022). The Commission will continue to raise concerns related to the Canadian quota management system.

[7] http://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf

Table 1. Utilisation of the CETA quota for EU cheese

Tariff Code	Product	Quota 2017 (kg)	Utilisation 2017 (kg)	Utilisation rate
0406	Cheese	824 384	765 820	92.9%
	of which:			
	high quality	*745 299*	*719 521*	*96.5%*
	industrial	*79 085*	*46 299*	*58.5%*

Source: Global Affairs Canada.

In relation to **dairy products**, Canada eliminated its tariff on milk protein concentrate. The EU is following closely the developments in Canadian market and regulations linked to dairy products and in particular the compositional standard issue, which could affect EU exports of milk protein concentrates.

Alcoholic beverages, in particular wines and spirits, top the list of EU agricultural exports, accounting for over 40%. A number of discriminations were maintained against imported wines and spirits, notably at provincial level. In particular, Ontario and Quebec maintained ad-valorem cost of service differential fees after the entry into provisional application of CETA, despite a commitment in the agreement to move to volume-based fees. In addition, the federal government introduced an automatic yearly escalation of the federal excise duty on wine, while maintaining the exemption for wine made from 100% Canadian grape. The Commission is working with the Canadian authorities to seek mutually agreed solutions to the concerns related to the alcoholic beverages sector.

Since the entry into force of CETA 143 EU food and drink GIs enjoy full protection in Canada from imitations at a level comparable to that offered by EU law. This means that Canada will have to prevent (a) the use of a geographic name for products that do not originate in the place of origin specified for the protected names; (b) the use of any means in the designation or presentation of a good that indicates or suggests that the good in question originates in a geographical area other than the true place of origin in a manner which misleads the public as to the geographical origin of the good; and, (c) any other use which constitutes an act of unfair competition. Also the use of any of these GI names in Canada is now prohibited even when the true origin of the product is indicated or in translation or with an expression such as ‘kind’, ‘type’, ‘style’, ‘imitation’ or the like. For 8 EU GIs, including some very iconic European GIs such as Asiago, Gorgonzola, Feta, Fontina or Munster, the use of these protected denominations is prohibited except for companies which already used the name on the Canadian market (‘grandfathering’ clause). The Commission will insist with Canada that the protection of these particular GIs is fully enforced and that Canada develops the means to ensure that companies which continue to use these terms do comply with CETA requirements.

SPS measures

The 1st CETA Joint Management Committee (JMC) meeting for SPS measures took place on March 26-27. The purpose of the meeting was to further expand the existing bilateral dialogue and cooperation on SPS issues affecting agri-food trade in light of CETA.

- With regard to SPS related market access issues, in 2017, **progress was seen on several SPS EU export files:**

Processed animal protein export was authorised from 7 Member States as a result of a positive outcome of an audit carried out by Canada and coordinated by the Commission. Two harmonised EU export certificates (for porcine blood and rendered products of non-animal origin) were negotiated by the Commission on behalf of the Member States and are used for export.

The EU and Canada agreed to amend the harmonised export certificate for **ornamental bird feed** that allows for Member States to export from storage centres located in other provincial control units than were the manufactures are based.

Exports were unduly restricted by *Lobesia botrana* (European grapevine moths) related requirements. Since 1 Jan. 2018, **kiwi fruit** (and some other fruits) are no longer covered by *Lobesia* rules.

Under the first SPS JMC meeting both sides identified a path forward to further identify ways to **continue the important cooperation on animal welfare and antimicrobial resistance**.

- **Several SPS issues are still outstanding** and are being further discussed with Canada with a view to finding a solution. Some examples are:

Canada is not recognising the EU Member State Meat Inspection Systems despite a positive follow-up of the Canadian inspection carried out in 2015. As a result of one third of the Member States do not have access to the Canadian market for **meat**, produced under the EU control systems and complying with the additional Canadian import requirements.

Export of EU **bovine semen** is limited only to Schmallenberg Virus serologically negative animals, while no distinction from serological positive and serological negative animals should be applied. Work on harmonised EU export certificates is slowed down by Canada on **equine semen, porcine semen, hatching eggs, day-old-chicken, poultry meat and its products**. Export from the EU to Canada is not authorised for **potato mini-tubers and fresh tomato with vines, stems, and calyces** due to restrictive plant health Canadian import conditions. Also, for some plant commodities no alternatives are recognised by Canada for the use of methyl bromide as a pest mitigating measure for trade.

Canada does not accept labelling requirements for the origin of grains used in preparation of dried pasta introduced by Italy.

6. CONCLUSIONS AND OUTLOOK

CETA is the most ambitious and progressive trade agreement the EU has concluded to date and the most far reaching, both in terms of market access and trade rules, in particular in setting new standards for investment rules.

CETA provides for significant savings on customs duties by eliminating duties on 99% of all tariff lines, of which 98% have been scrapped at entry into force. It opens the Canadian market for EU agricultural products, in particular for processed agricultural products and cheeses where the EU has strong economic interests. It also offers the protection of 143 distinctive EU food and drink products labelled with GIs.

CETA provides for a significant further opening of the Canadian procurement market, including at provincial and local level, and gives unparalleled services market access for the EU, including new market access in maritime services, and more globally establishes legal certainty in all key economic sectors. It also includes provisions to facilitate the movement of professionals and the recognition of qualifications.

The Commission will continue its work to ensure correct 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.

ANNUAL REPORT ON THE IMPLEMENTATION OF THE EU-SOUTH KOREA FREE TRADE AGREEMENT[8]

1. INTRODUCTION

1 July 2018 marked the 7th anniversary of application of the Free Trade Agreement (FTA; referred to as 'the Agreement') between the EU and its Member States and the Republic of Korea (in this report referred to as "Korea"). 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 entered into force on 1 January 2016.

The EU-Korea FTA is the **first of a new generation of comprehensive FTAs** and the EU's first trade deal with an Asian country.

This is the 6th Annual Report on the implementation of the EU-Korea FTA. It is prepared in accordance with the provisions of Regulation (EU) No 511/2011 of the European Parliament and of the Council of 11 May 2011 implementing the bilateral safeguard clause of the Free Trade Agreement between the European Union and its Member States and the Republic of Korea[9]. According to Article 13(1) of this Regulation, the Commission shall make public an annual report on the application and implementation of the Agreement. This report responds to this requirement (see section 5 below).

On 18 May 2017 the European Parliament adopted a resolution[10] to take stock of the first five years of implementation of the FTA between the EU and Korea, acknowledging the very positive economic results of the agreement for the EU, while also expressing concerns on some outstanding points and in particular as regards labour rights in Korea.

2. EVOLUTION OF BILATERAL TRADE

2.1. Trade in Goods

1.1.1. Overall Evolution

Overall, Korea was the EU's 8th largest partner in terms of total EU external trade in 2017 and the 4th largest FTA trade partner. Imports from Korea represented 2.6% of total imports into the EU in 2010, and 2.7% in 2017, making Korea the EU's 8th largest import origin in 2017. EU exports to Korea represented 2.1% of total EU exports in 2010, and 2.7% in 2017. On the Korean side, the EU's share in total Korean imports increased from 9.1% before the start of application of the FTA to 12.2% in 2017, making the EU the 2nd largest Korean import origin (after China). Over the same period of time, the EU's share in total Korean exports declined

[8] OJ L 127 https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=OJ:L:2011:127:TOC

[9] OJ L 145, 31.5.2011, p. 19.

[10] http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0225&language=EN&ring=A8-2017-0123

from 11.5% to 9.3%%[11], making the EU the 3rd largest Korean export market. The EU was Korea's 3rd largest partner in terms of total trade (after China and US).

Between 2010 and 2017, EU exports to Korea increased by a significant 77%, from some EUR 28 billion to EUR 49.5 billion. EU imports from Korea increased by some 27% over the same period. As illustrated in Graphic 1 below, the initial EU deficit in goods trade with Korea of EUR 11.5 billion turned into a trade surplus in 2013 but in 2017 Korea again shows a small surplus of EUR 506 million.

Graph 1: EU Exports to and Imports from Korea, 2010-2017

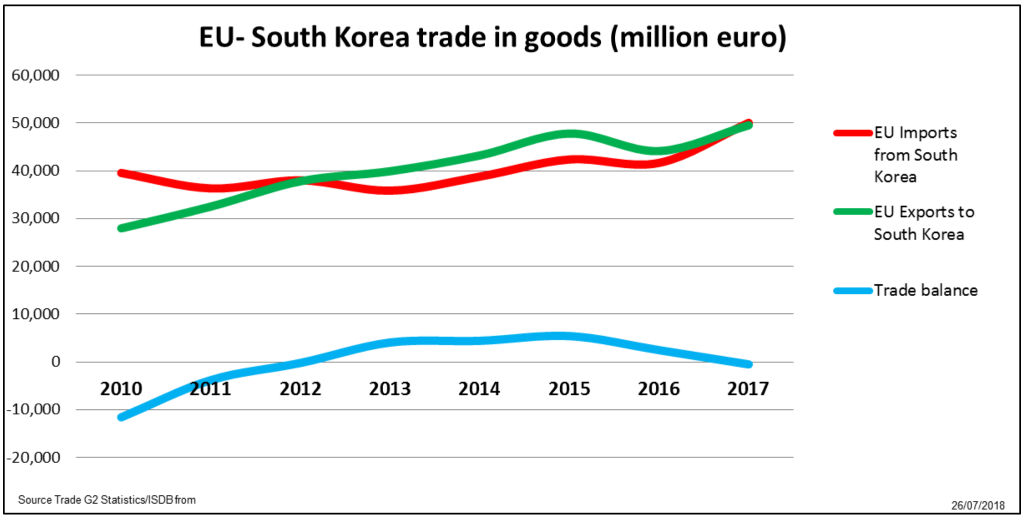

Table 1: EU-Korea trade in goods, 2010- 2017

EU28 merchandise trade with South Korea (in million euro)								
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
EU imports from South Korea	39,534	36,312	38,014	35,837	38,780	42,370	41,654	50,026
EU exports to South Korea	27,961	32,515	37,815	39,911	43,206	47,787	44,127	49,519
trade balance	-11,573	-3,797	-199	4,074	4,426	5,417	2,473	-506

Source: Eurostat June 2018

Between 2016 and 2017, total EU exports to Korea increased by 12.2% while EU imports from Korea increased more strongly, by 20.1% supported by the revival of the EU economy and strong domestic demand on the EU side. Buoyant bilateral trade between the EU and Korea is in line with the overall strong global trade dynamics observed in the recent past. EU trade with Korea accelerated more robustly (16% on average) in 2017 compared to overall external trade of the EU which increased by 8% in 2017 compared to 2016, potentially indicating i.a. the positive impact of the EU-Korea FTA in place.

Sector wise, the strongest increase of EU exports to Korea was registered i.a. in mineral products, arms and ammunition and optical and photographic instruments while the strongest increase in EU imports was in chemical products and transport equipment.

[11] The EU's share in total Korean imports refers to Korea's imports from the EU as a share of Korea's imports from the world. The EU's share in total Korean exports describes Korea's exports to the EU as a share of Korea's exports to the world.

1.1.2. Trade in agricultural goods

With respect to trade in **agriculture goods**, last year saw a more dynamic growth in EU-Korea bilateral flows, compared to the EU overall external trade in this sector. **Between 2016 and 2017,** EU exports to Korea and imports from Korea **in the agri-food sector** increased by 10% and 11% respectively, that is a more robust growth rate than the one observed for EU agri-food exports and imports across all FTA partners taken together (which corresponded to 4% and 5% respectively). In 2017, the EU registered a surplus of 2.6 billion EUR in agri-food trade with Korea. Looking at the time period between 2010 and 2017, EU agri-food exports to Korea have increased by 113%, imports from Korea by 212% (albeit the latter from a very low value, from 65 to 203 million EUR). Main products exported by the EU are pork (22% of EU agricultural exports to Korea), followed by beer, cheese, chocolate, confectionery and ice cream, spirits and liqueurs and wine.

The **main impediments** to expanding trade remained unchanged in 2017: Approvals of EU beef (due to a Bovine Spongiform Encephalopathy (BSE)-related import ban) are still pending, for some Member States since 2004, and also for poultry there was no progress in eliminating market access barriers. Also for pork exports from the EU, the country-wide ban for pork imposed on Poland due to African Swine Fever (ASF) has not been lifted by Korea. South -Korea recently filed applications for beef exports to the EU, which might indicate a stronger trade orientation in the Korean administration.

Table 2. EU-Korea trade in agrifood (2016-2017)

Agrifood trade EU28 with South Korea				
South Korea	2016	2017	Growth	
			mio €	annual %
EU28 imports	183	203	20	10.9%
EU28 exports	2 631	2 891	260	9.9%
Balance	2 448	2 688	240	
Total trade	2 815	3 094	279	9.9%

Source Trade G2 Statistics/ISDB

Agrifood trade EU28 with South Korea				
South Korea	2016	2017	Growth	
			mio €	annual %
EU28 imports	183	203	20	10.7%
EU28 exports	2,630	2,981	350	13.3%
Balance	2,447	2,778	331	
Total trade	2,814	3,183	370	13.1%

Source: ISDB

For agricultural products that are sensitive, the EU-Korea FTA created specific **tariff rates quotas (TRQs)**. The fill rate of the import quotas applied by Korea to goods originating in the EU improved for 8 out of 11 product groups. Only in case of oranges the TRQ was not used in the two reference periods.

Table 3 EU-Korea FTA TRQ Fill Rates

Product	Fill Rate	
	07.2015-06.2016	07.2016-06.2017
Flat fish	46.2	55.9
Milk powder, condensed milk (cream)	100.0	99.9
Butter	99.9	100.0
Food whey	97.9	98.3
Cheese(s)	98.0	99.9
Prepared dry milk	93.3	99.8
Natural Honey	66.9	98.9
Oranges	0.0	0.0
Malting barley, malt	90.6	99.0
Supplementary Feeds	99.5	99.0
Dextrin	84.6	78.7

Source: Korean authorities

1.1.3. Preference Utilisation Rates

In 2017, the PUR on **exports from the EU to Korea** reached 74.3%, **the highest rate ever**. This compares to 71% in 2016, 68% in 2015, and 65% in 2014.

The PUR on **imports into the EU from Korea** reached 88% in 2017, increasing gradually from 87% in 2016, 85% in 2015 and 84 % in 2014.

2.2. Trade in Services and Foreign Direct Investment (FDI)

EU trade in services with Korea represents approximately 1% of extra-EU trade in services. The EU has a trade surplus in this field of some EUR 6 billion in 2016.

In 2016 EU exports of services amounted to EUR 12.6 billion. This represents an increase of 70% compared to 2010 (though a decrease of 3.6% compared to 2015). In the same year 2016, EU imports of services from Korea amounted to EUR 6.6 billion. This represents an increase of 38% compared to 2010 (but a 3.3% decrease compared to 2015).

Table 4: EU-Korea trade in total services (million EUR)

EU28 services trade with South Korea (million euro)							
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
EU28 imports	4,778	4,697	5,023	5,703	6,286	6,829	6600
EU28 exports	7,416	7,899	9,028	10,787	11,888	13,060	12587.1
Balance	2,638	3,202	4,005	5,084	5,602	6,231	5987.1
Total trade	12,194	12,595	14,050	16,491	18,173	19,888	19187.1

Source: Eurostat (BOP)

As regards **FDI**, in 2016, EU outward FDI stocks to Korea were equal to EUR 50.3 billion and EU inward FDI stocks from Korea totalled EUR 19.3 billion thus the EU stocks in Korea were about 2.5 times bigger than Korean stocks in the EU. EU inward FDI stocks increased by 46% and outward FDI stocks increased by 34% between 2010 and 2016.

Table 5: EU-Korea FDI (million EUR)

Foreign direct investment EU28 with South Korea (million euro)						
	Inward			Outward		
	2014	2015	2016	2014	2015	2016
Stocks	17,928	18,666	19,232	42,936	44,853	50,339
Flows	4,326	1,811	989	7,766	-4,287	3,426

Source: Europsat (BOP)

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The institutional provisions of the EU-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. From January 2017 till May 2018, most meetings of committees and working groups, including the Trade Committee, took place in the EU, as summarised below.

The **Trade Committee** met for the 7th time on 19 January 2018 in Brussels, co-chaired by Commissioner for Trade, Ms Malmström, and Korea's Minister for Trade, Industry and Energy, Mr. Kim. Taking stock of the last six years of the FTA implementation the EU side mentioned the more balanced trade flows between the EU and Korea, also pointing to the EU's industries perception of a deteriorating business environment in Korea. A trade surplus in goods on the EU side remains a concern on the Korean side.

As regards FTA amendment discussions, the EU reiterated its interest in amending provisions of the FTA even in a form of a small amendment package limited to the Rules of Origin Protocol. Korea would like to see a discussion on implementation of rules of origin issues in the Customs Committee and of amendments issues in the informal FTA amendment working group.

The EU reiterated serious concerns on insufficient progress on the ratification and implementation of International Labour Organization (ILO) conventions and on protection of labour rights in Korea, pointing to the European Parliament and Civil Society call for a formal dispute settlement procedure under the TSD chapter of the FTA. The EU also strongly emphasised the need to allow EU beef exports to Korea. Other issues addressed included: clarifications on the EU modernisation of Trade Remedy rules; other SPS and customs related issues, including Korean market access of chicken soup with ginseng, Surimi (fish); IPR issues including Public Performance Rights and the addition of 46 EU GIs to the list of protected GIs under the FTA; and services related issues.

Both sides agreed to follow-up the discussed implementation and market access issues in the context of the respective Specialised Committees and Working Groups.

On 7 April 2017, the **Customs Committee** met in Seoul. It addressed issues related to the rules of origin, such as the interpretation of primary ingredient of surimi base, origin verification procedures and the approved exporter system, as well as the technical update of product specific rules from HS2007 to HS2017. The parties also discussed cooperation on European Anti-fraud Office (OLAF) investigations on the circumvention of trade defence measures concerning stainless steel tube and solar panel modules originating in Chin. The EU provided a general explanation on the legal and practical requirements that need to be fulfilled for the mutual recognition of Authorised Economic Operators.

The 6th meeting of the **Working Group on Pharmaceuticals and Medical Devices** took place on 12 June 2017. In the area of pharmaceuticals, both sides discussed possibilities to enhance regulatory cooperation via various channels, both bilaterally and multilaterally via the ICH (International Council for Harmonisation of Technical Requirements for Pharmaceuticals) platform. Moreover, upon EU request the Korean side defended their revised pricing policy for pharmaceuticals, notably with regard to their new so-called '7.7 pricing policy' which amends the conditions to satisfy for selecting "Innovative Pharmaceutical Companies" (IPCs) to reward innovation for new pharmaceutical products. Concerning medical devices, the WG offered the opportunity to exchange information and provide clarification i.a. on new UDI (Unique Device Identifier) rules of both Korea and the EU.

The **Working Group on Motor Vehicles and Parts** met in Seoul on 13 June 2017 and addressed environmental issues, technical standards, harmonization, convergence and market access issues. EU and Korea concluded an agreement on the technical update of Annex 2-C. During the Working Group, the parties discussed further sharing of information on Real Driving Emissions and EU clarified aspects of the EU Whole Vehicle type approval (ECWVTA). Market access issues discussed included, inter alia, truck-tractors, self-certification and marking of car parts, restricted market access for certain vehicle types, vehicle width limit, homologation certificates, policies affecting imports of motorbikes and extended producers responsibility for end of life vehicles .

The **Working Group on Chemicals** met for the 5th time on 14 June 2017, following a break since 2015. Both sides engaged in useful exchanges on chemicals-specific issues of interest to both sides, including the functioning of the EU's REACH regulation and the Korean 'K-REACH' legislation. Furthermore, the Korean side replied to a set of specific EU questions concerning the planned adoption of the draft K-BPR (Biocidal Products Regulation) legislation which – in case it is successfully adopted by Korea's National Assembly – is expected to be implemented as of January 2019. Importantly, the Korean side confirmed that there will be a 10-year transition period following the entry into force of the K-BPR legislation, which will allow industry to adapt to the new K-BPR regime.[12]

The **Committee on SPS Measures** met in Sejong/Korea on 6 September 2017. The Parties discussed pending applications for import of EU beef, the recognition of regionalisation measures for avian influenza and African swine fever, and policies related to the control of hepatitis E. The EU also raised certification issues related to goods sourced or manufactured in one EU Member State and shipped to Korea via another Member State as well as the quantity of sample collection for compliance testing at Korean border controls. Korea requested to discuss the pending application for export of chicken-ginseng soup to the EU as well as new applications related to Korean beef and dairy products. The EU informed about the revised phytosanitary law laid down in Regulation (EU) 2016/2031[13] and offered a one-

[12] This is problematic due to its large scope: the draft Korean BPR Act covers even sellers and distributors whereas under the EU's BPR only manufacturers and importers (or "Only Representatives" designated by foreign companies) have to comply with the approval and authorisation requirements as regards active substances and biocidal products.

[13] OJ L 317, 23.11.2016 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016R2031

day seminar to discuss measures related to the prevention and control of BSE that was held in Seoul on 7 September 2017.

On 14 June 2017, the 6th meeting on the **Trade in Goods Committee** took place in Seoul. Regarding the overall implementation of the FTA both sides assessed it as an exemplary FTA that realises a high level of comprehensive market opening, playing a significant role as a useful platform for bilateral economic cooperation. Next, the results of the **Electronics Dialogue** that took place beforehand were discussed, which covered a wide range of issues (risk assessment review of Articles 4 and 5 of Annex 2-B of the FTA, extension of the scope of Annex 2-B to include radio equipment testing, state of play of the implementation of the EU Eco-design Directive for TV and Display, EU Eco-design regulations implementation, notification of list of laboratories/acceptance of test reports and EU Energy labelling regulations implementation). Market access issues of the EU cosmetics industry were raised again, namely the amendment of Korean law related to the reporting of cosmetic ingredients. Furthermore, new alcohol labelling requirements in Korea and labelling restrictions on EU imported foods and livestock products were raised. The EU side also requested more information on the Korean legislation regarding prohibited subsidies, expressing concerns on Korean support plans for the local shipbuilding industry. Information was also requested on safety certification for machinery in Korea. Finally, the Parties discussed preparations of the Trade Committee.

On 7 July 2017, back-to-back with the International KTC Seoul Forum on Trade Remedies, the EU and Korea held their annual meeting of the bilateral **Trade Remedy Cooperation Working Group,** established under the EU-KOR Free-Trade Agreement, in Seoul. The two sides updated each other on latest developments in domestic trade remedy laws, policies and practice. The EU side notably informed Korea of the progress on two EU draft legislative proposals, namely the so-called 'modernisation of trade defence instruments' and the 'new anti-dumping methodology' which entered into force in the meantime.[14]. The two sides shared statistics on Trade Defence cases and exchanged views on global trends in trade remedy investigations, and related WTO litigation.

The meeting of the **Working Group on Government Procurement** took place in Seoul on 13 September 2017. The Parties provided information on recent legislative developments, discussed market access issues, in particular concerning the railway sector, and exchanged views on cooperation on SME policy now that Korea's Small and Medium Business Administration has been transformed into a fully-fledged ministry with policy-issuing capabilities. Among other issues, the EU inquired about a possible interest from the Korean side to integrate a machine translation tool for tender notices in its e-procurement portal. The Parties agreed to further enhance their cooperation.

On 13 April 2018, the **Committee on TSD** met in Seoul. The parties exchanged views on their respective environmental and labour policies. Chapter 5 below presents these issues in more detail.

The 5th EU-Korea meeting of the **Cultural Cooperation Committee** was held on 9 April 2018 in Brussels and it was followed by a 2 day study visit to Leuven and Brussels. The

[14] OJ L 338/1 2017 and OJ L148 2018

topics discussed were cultural exchange, culture and cities, new developments in the cultural and creative sectors and the protection of cultural heritage sites and historic monuments.

The **Intellectual Property Dialogue** took place in Brussels on 29 May 2018. Both sides provided updates on their legislative and policy developments as well as relevant court cases, in particular on copyright, patents and enforcement. The EU side expressed its concerns about the lack of implementation of the FTA provisions on public performance rights, pending the revision by Korea of the Copyright Act, and underlined the economic importance for both the EU and Korea of this issue.

The 6th meeting of the **Working Group on GIs** was held in Brussels, on 30 May 2018. The extension of the initial list of EU GIs remains a significant irritant with respect to the implementation of the FTA provisions on protection of intellectual property. With the approximation of both sides' positions on the draft rules of procedures of the said Woking Group, the EU is now expecting Korea to now examine the 2014 EU request to add 46 GIs to the list of GIs protected under the FTA.

4. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT[15]

The Commission stepped up its engagement with the new Korean administration on implementing commitments under the TSD Chapter related to labour and environment.

The sixth meeting of **the TSD Committee** was held in Seoul on 13 April 2018, back-to-back with the sixth **Civil Society Forum**. This allowed the EU and Korea to continue their dialogue and cooperation on implementing the TSD Chapter.

With regard to the discussion on labour policies, the EU strongly emphasized the need of ensuring progress in the implementation of the shared labour commitments under TSD Chapter of the Korea-EU FTA, notably commitment to *'respect and realise in their laws and practices'* the ILO fundamental rights, including the freedom of association and the right to collective bargaining and the commitment to make *'continued and sustained efforts'* towards ratifying of outstanding ILO conventions (that is, Convention 87 on freedom of association; Convention 98 on the right to organize and collective bargaining; Convention 29 on forced labour; and Convention 105 on abolition of forced labour).

In this context and ahead of the sixth TSD Committee meeting the Commission used a multitude of other channels to communicate its concerns regarding the labour rights situation in Korea and to press for further progress. The concerns were raised at the Trade Committee, in correspondence from the Commissioner for Trade to her Korean counterpart and in numerous bilateral contacts, including by the EU Delegation in Korea.

In response to a series of detailed EU questions Korea provided information on the domestic context and the efforts the government is making towards ratification of four outstanding fundamental ILO conventions on their reforms on freedom of association.

In this context Korea informed that the government established an **Expert Committee with the task of analysing of differences between national laws and the outstanding**

[15] For the latest report of the TSD Committee see: http://trade.ec.europa.eu/doclib/html/157105.htm

fundamental ILO conventions, and of producing recommendations by July 2018. Based on these recommendations, the tripartite partners[16] are supposed to discuss specific ways to improve laws and systems necessary for the ratification of the ILO fundamental conventions. The Korean government expects that the outcome of these tripartite discussions at the end of 2018 will allow the government to submit a legislative package to the National Assembly at the earliest possible moment.

The EU welcomed this move and emphasized that it will monitor the process closely and will react accordingly. The Commission considers that further enhanced bilateral engagement in this regard as necessary. The EU also provided information on the EU Pillar of Social Rights.

The TSD Committee meeting also discussed **environmental policy issues**, where the EU and Korea exchanged information on their respective actions on **green growth, circular economy and climate change.**

Korean provided a general overview of the Framework Act on Resource Circulation, which entered into force as of 1 January 2018. The EU explained its strategy for plastics while emphasizing the need for a new approach to the management of micro plastics. Both sides mutually agreed to provide various types of information in the follow-up to the meeting and deepen cooperation on plastic management.

As regards the climate policies, Korean explained how Paris Agreement is being implemented in Korea and both parties further discussed ways to strengthen cooperation on climate change. The EU side mentioned that the cooperation on the Emissions Trading Scheme between the EU and Korea has been successfully operated so far, yet more profound policy discussions on carbon pricing would be desired. The EU also referenced to initial discussions on the new cooperation project on the implementation of the Paris Agreement discussed at the Joint Committee in Brussels in December 2017 and proposed to advance together this project with the target of organizing the relevant events in 2019, possibly at the margins of next UNFCCC National Adaption Plans (NAP) Expo in April 2019. Both sides agreed to share policies and information on carbon pricing and other relevant areas in the follow-up to this meeting.

The implementation of the TSD Chapter was also supported by an active participation from civil society through the EU and Korean Domestic Advisory Groups (DAG) which have held a series of regular meetings and exchanges over last year. The EU DAG was particularly active in presenting members' opinions regarding the labour rights situation in Korea.

The sixth meeting of the **Civil Society Forum**, which brings together the EU and Korean DAGs, took place on 11 April 2018 in Seoul. It had insightful discussions and made recommendations to the parties on circular economy, environmental risk factors, gender pay gap and on labour standards. The Forum issued recommendations in the form of a Joint Statement by the Chairs of the Korea DAG and the EU DAG to the EU and Korea on the implementation of the TSD Chapter.

[16] Government, representatives of the business community and representatives of the workers (trade unions).

5. SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

In accordance with article 3 (3) of Regulation (EU) No 511/2011 of the European Parliament and of the Council of 11 May 2011 implementing the bilateral safeguard clause[17], the Commission shall present an annual monitoring report to the European Parliament and the Council on updated statistics on imports from Korea of products in sensitive sectors and those sectors to which monitoring has been extended. The evolution of **EU imports from Korea in the sectors covered by the monitoring (cars, textiles, electronics**) and the results of the specific monitoring on duty drawback and TRQs are presented below.

In order to apply a unified methodology across the Annual Report on FTA Implementation, the current report data is presented in calendar years and not in July-June intervals unlike in the previous monitoring reports. Furthermore, for sake of completeness and to get a better assessment of the situation and trends of exports, this report uses statistical regime 4 of Eurostat (representing total trade including trade under inward and outward processing procedures) unlike previous monitoring reports, which were based on statistical regime 1 (normal trade). The comparison under the monitoring exercise is based mainly on quantities imported from Korea to the EU, i.e. units in the case of cars and 1 000 kg in the case of car parts, textiles and electronics.

(i) Car sector

EU imports of cars from Korea increased by 16% in 2017 in number of cars, compared to the previous year. The current level of car imports is significantly higher (by 55%) compared to 2010, the last year before the implementation of the FTA.

Table 6. EU-Korea trade in cars

		2010	2011	2012	2013	2014	2015	2016	2017
Passenger cars		Total trade (R4)							
EU imports	million euro	2,477	3,424	3,915	4,086	4,006	4,234	4,684	5,575
	million kgs	372	500	543	556	487	495	539	625
	000 units	298	387	407	405	348	370	396	461
EU exports	million euro	1,682	1,955	2,497	3,127	4,686	6,894	5,782	6,291
	million kgs	108	127	159	197	292	381	305	314
	000 units	64	75	95	116	173	224	176	184

(ii) Textile sector

The decreasing trend in textile imports observed since 2013 stabilised in 2017. EU imports of textiles from Korea increased slightly in value terms in the 7th year of FTA implementation compared to 2016 but remained unchanged in terms of volume, hovering at around 2 million kg. on a quantitative basis. Imports in 2017 were lower compared to 2010, the last year before the implementation of the EU-Korea FTA.

[17] OJ L 145, 31.5.2011, p. 19.

Table 6 EU-Korea trade in textiles

		2010	2011	2012	2013	2014	2015	2016	2017
Textiles		Total trade (R4)							
EU imports	million euro	19	22	21	20	21	18	15	16
	million kgs	3	4	3	3	3	2	2	2
EU exports	million euro	9	10	10	7	6	8	10	9
	million kgs	1	1	1	0	0	1	1	1

(iii) Electronics Sector

EU imports of electronic goods from Korea have been decreasing in quantitative terms for the last three years. Imports at around 4 million kg in 2017 were lower compared to the previous year, and significantly below the level of some 9 million kg reached in the reference base year of 2010.

Table 7 EU-Korea trade in electronics

		2010	2011	2012	2013	2014	2015	2016	2017
Consumer electronics		Total trade (R4)							
EU imports	million euro	270	233	231	211	290	349	263	214
	million kgs	9	8	7	5	9	8	6	4
EU exports	million euro	20	18	19	19	18	16	26	20
	million kgs	0.2	0.2	0.2	0.1	0.2	0.3	0.6	0.3

Source: Comext (to be confirmed by G2)

Duty drawback

In line with the Article 14 of the Rules of Origin Protocol, a specific monitoring has been carried out on key car parts and electronics.

Korea import value (1000 US$)							
CN code	Description	from China			from Japan		
		2016	2017	% increase	2016	2017	% increase
Electronic sector							
8522	Parts and accessories for pictures and sound reproducing and recording	29,325	20,894	-28.7%	3,567	1,991	-44.2%
8527	Reception apparatus	93,472	89,383	-4.4%	376	223	-40.8%
8529	Parts for reception apparatus	335,278	699,436	108.6%	71,482	53,691	-24.9%
Core car parts							
8407	Spark-ignition reciprocating or rotary internal combustion piston engine	28,468	14,952	-47.5%	39,804	65,950	65.7%
8408	Diesel or semi-diesel engines	57,906	53,887	-6.9%	382,107	367,842	-8%
8409	Parts for engines of 8407 or 8408	191,496	190,986	-0.3%	229,279	244,395	6.6%
8706	Chassis fitted with engines	0	0		91	0	
8707	Bodies	30	176	478.8%	52	23	-55.4%
8708	Parts and accessories for motor vehicles of headings 8701 to 8705	1,064,663	1,108,612	4.1%	857,048	788,173	-8%

Source: Comext

In conclusion, there was no significant increase in imports of car components and key electronics from China and Japan to Korea in 2017 compared to 2016. Based on these trade statitics, it is not possible to establish a link between the allowance of duty-draw back and the increase in EU imports of cars from Korea.

6. PROGRESS, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Enforcement of the **TSD** chapter of the FTA, i.e. insufficient progress on the ratification and implementation of ILO conventions and on protection of **labour rights** in Korea remains a serious concern to the EU. The Commission stepped up the engagement with Korea in order to address them, and continue its cooperation with the EU DAG and with the Civil Society Forum comprised of stakeholders from all sides.

The EU has a particular interest in exporting again **beef** to the Korean market which has been closed to all EU imports since January 2001. The acceptance of the principle of regionalisation for animal diseases by Korea is another important topic in the sanitary and phyto-sanitary area.

In the area of **Intellectual Property**, Korea needs to establish a remuneration system for public performance rights. It also needs to agree to protect additional GIs and accept the principles of the regulatory framework for postal services. Other market access and implementation issues relate inter alia to electronics, cars and machinery.

Korea also needs to accept the **principles of the regulatory framework for postal services**. Other market access and implementation issues relate inter alia to electronics, cars and machinery.

Improvements in the areas of **customs procedures** could contribute to increase the PUR, and further facilitate the participation of small and medium sized enterprises (SMEs). Technological changes, for instance in the area of electronics, will require adaptations.[18]

7. CONCLUSIONS AND OUTLOOK

Over the seven years of application, the EU-Korea FTA brought tangible results as illustrated by the strong and balanced bilateral trade flows. Though some difficulties persist as outlined in section 7, in the vast majority of areas the implementation works well and strongly supports economic development on both sides. This was also recognised in the resolution of the European Parliament which was adopted on 18 May 2017[19].

Full and correct implementation of the EU-Korea FTA continues to be of key importance, in order to bring the expected benefits to both sides. The specialised **committees and working groups** established under the EU-Korea FTA will continue to discuss and seek solutions to the remaining implementation and market access issues, with the aim to produce tangible results. They have also proven to be useful fora to discuss current and up-coming regulatory developments and areas of future cooperation.

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[18] Such is the case of radio equipment given that the use of radio components in electronic products is exponentially increasing and many devices now use this technology for connection purposes.

[19] http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0225&language=EN&ring=A8-2017-0123

Furthermore, the Commission will pursue exploratory discussions with Korea on a package of **amendments** to the FTA or its protocols, with the aim of reaching a balanced and mutually agreeable outcome.

ANNUAL REPORT ON THE IMPLEMENTATION OF THE EU-COLOMBIA/ECUADOR/PERU TRADE AGREEMENT[20]

1. INTRODUCTION

2017 marked the **fifth year of implementation** of the Trade Agreement between the European Union and its Member States, of the one part, and **Colombia and Peru**, of the other part[21], as amended by the Protocol of Accession of **Ecuador** ('the Agreement'). The Agreement has been provisionally applied with Peru since March 2013, with Colombia since August 2013, and with Ecuador since 1 January 2017. Ratification by Member States of both the Trade Agreement and the Protocol of Accession of Ecuador is ongoing[22]. This is the first report which accounts for the implementation of the Agreement with all three Andean partner countries.

The Agreement was also amended through the **Protocol of Accession of Croatia** to the EU. After completion of the ratification procedure by Peru on 6 April 2017, this Protocol entered into force with Peru on 1 May 2017. The ratification process by Colombia is ongoing.

This report shows that the **results after almost five years of provisional application** in the case of Peru and Colombia, and one year in the case of Ecuador, **are positive**. Bilateral trade in 2017 increased with all three countries, and the Agreement had a stabilising effect in the context of declining commodity prices which affected the economy of Andean Community countries. The Agreement offers tariff-free access for virtually all industrial and fishery products from the three countries, and substantial tariff preferences for the few agricultural products which were not fully liberalised, with very few exceptions. This improved market access, more predictable trade and investment relationship and the better rules have helped partner countries diversify trade and notably Andean Community country exports. Regarding EU exports, several industrial sectors including pharmaceuticals, machinery and vehicles, have also strongly benefitted from the improved market access.

The Parties are dedicating important resources to the implementation process through the work in the bodies under the Agreement, notably the Trade Committee and its eight specialised Sub-committees. The Trade Committee and its Sub-Committees have met on an annual basis since the provisional application of the Agreement with Colombia and Peru in 2013. In 2017, Ecuador attended the meetings for the first time. The Trade Agreement with Colombia, Ecuador and Peru is based on commitments on liberalisation of goods, services and procurement markets taken bilaterally between the EU and each Andean partner.. The institutional structure of the Agreement is common and the Trade Committee and the Sub-committees take place in the presence of all Parties, with an agenda addressing the bilateral issues that may arise between the EU and each Andean FTA partner country, or between the EU and the three Andean partner countries, as relevant. In November 2017, the Trade Committee and Sub-committees met in Lima (Peru). While not all market access issues have been solved, constructive discussions on issues such as spirits, tariff-rate quotas management

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[20] See more information at: http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/

[21] OJ L 354, 21.12.2012, p. 3.

[22] Trade Agreement with Colombia and Peru (http://www.consilium.europa.eu/en/docuents-publications/agreements-conventions/agreement/?aid=2011057) and Protocol of Accession of Ecuador (http://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2016044).

and vehicles have contributed to facilitating trade in both directions and increasing EU market access in a concrete manner in all the three Andean markets. In addition, the EU and Colombia adopted a Decision in the Trade Committee on public procurement clarifying the coverage in Colombia at sub-central level, which should improve market access for EU companies.

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 and Peru, of the other part[23] ('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. This report responds to this requirement (see section 5 below).

2. EVOLUTION OF TRADE

2.1. Trade in Goods

The present section focuses on bilateral trade in goods as well as on Non-Agricultural Market Access (NAMA) products. As per the definition in the WTO Agreement on Agriculture, these non-agricultural products include industrial goods, manufactured goods, textiles, fuels and mining products, footwear, jewellery, forestry products, fish and fisheries, and chemicals.

Colombia

Overall evolution

The EU remains Colombia's second trading partner, after the US but ahead of China. The negative trend in bilateral trade in 2015-2016 was reversed in 2017 with a 7% increase. This positive result is due to increased domestic demand in the EU and a slight recovery of commodity prices, and despite the fact that Colombia's economy slowed markedly in recent years. Compared to 2012, the year before the application of the Agreement, bilateral trade was 18.2% lower, in line with the decrease of Colombia's total trade with the rest of the world of 20.8% during the same period. In 2017, the EU accounted for 14% of total merchandise trade of Colombia, up from 13.2% in 2016.

In 2017, bilateral trade amounted to EUR 11.6 billion, compared to EUR 10.8 billion in 2016. While historically Colombia ran a trade surplus with the EU, this trend reversed somewhat and the EU now posts a slight trade surplus of EUR 367 million.

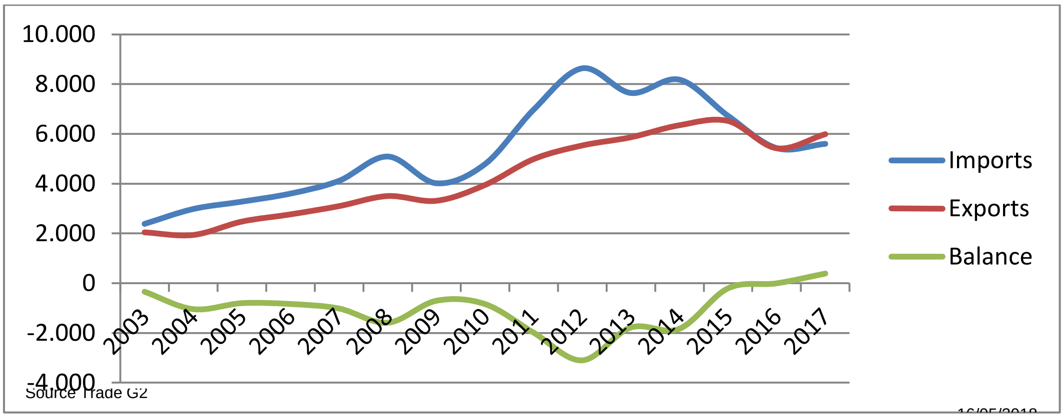
EU exports to Colombia increased by 10.5% in 2017 to EUR 5.9 billion. This increase is driven by a better export performance of industrial goods, notably machinery products, plastics, aluminium and steel, as well as paper products. Imports to Colombia from the rest of the world had an increase of 1.9% during the same period.

EU imports from Colombia amounted to EUR 5.6 billion in 2017, increasing from EUR 5.4 billion in 2016, representing a 3.5% growth. It is noteworthy that overall exports

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

from Colombia into the EU increased despite a strong decline in Colombia's exports of mineral products to the EU.

Figure 1: EU-Colombia bilateral trade in goods 2012-2017 (million EUR)



Source: Eurostat

EU-Colombia trade in non-agricultural products

EU exports to Colombia of NAMA products amounted to EUR 5.58 billion in 2017, increasing by 10.8%. The most important categories in 2017 were:

- Machinery and mechanical appliances, representing 19.6% of EU exports, increasing by 34.6% compared to 2016. Notably, turbojets, turbopropellers and other gas turbines increased by 747% to EUR 159 million;
- Pharmaceutical products, accounting for 12.1% of exports, increasing by 4.1%;
- Vehicles and parts, 7.9% of EU exports, increasing by 2%.

EU imports from Colombia of NAMA products amounted to EUR 3.2 billion in 2017, decreasing by 2.8% compared to the previous year. The main categories in 2017 were:

- Minerals, representing 46.1% of EU imports from Colombia, versus 52.1% in 2016;
- Machinery and mechanical appliances, representing 1.7% of EU imports, an increase of 187% compared to 2016.
- Semi-precious stones (mainly emeralds and gold); increased by 32.9%, now representing 1.6% of imports.

Peru

Overall evolution

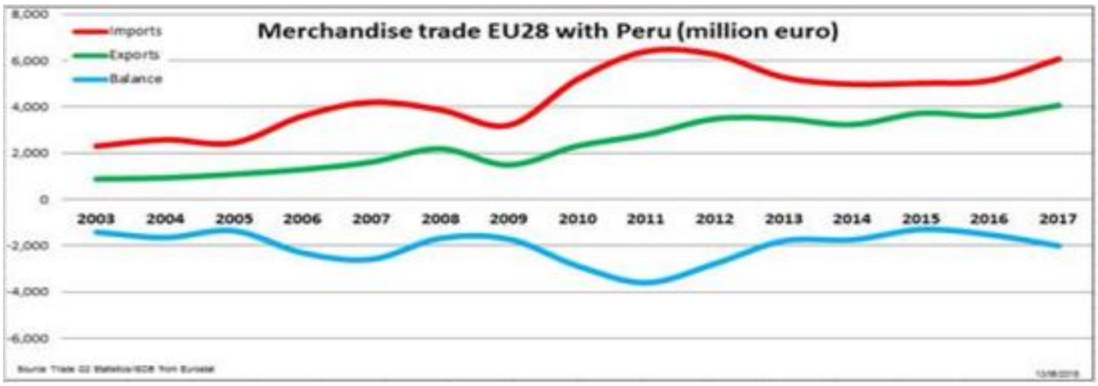
The EU is Peru's third trading partner, after China and the US. In 2017, bilateral trade increased by 16% compared to 2016, while Peru's overall trade with the rest of the world increased by 13% during the same period.

Bilateral trade amounted to EUR 10.2 billion in 2017, a 16% increase compared to 2016, with the EU's trade deficit increasing from EUR 1.5 billion to EUR 2 billion.

EU imports from Peru increased by 18.7% compared to 2016, thus growing twice as fast as Peru's total exports (9%).

EU exports to Peru have grown by 12.2% over the same period, while Peru's total imports increased by 19%.

Figure 2: EU-Peru bilateral trade in goods 2012-2017 (million EUR)



Source: Eurostat

EU-Peru trade in non-agricultural products

EU exports to Peru of NAMA products amounted to EUR 3.8 billion in 2017, increasing by 12.9% (from EUR 3.37 billion in 2016). The most important categories in 2017 were:

- Machinery and mechanical appliances, notably spare parts, pumps and valves, representing 24% of EU exports; Electrical machinery and equipment, accounting for 12% of total exports to Peru increased by 31% compared to 2016;
- Vehicles and parts, 7% of EU exports, remaining equal compared to 2016;
- Pharmaceutical products, accounting for 5% of exports, increasing by 13% compared to 2016.

EU imports from Peru of NAMA products have increased strongly by 32.9% amounting to EUR 3.93 billion in 2017 (from EUR 2.96 billion the previous year). The main categories in 2017 were:

- Minerals have increased by 41.8% compared to 2016 and represent 29.5% of EU imports from Peru, versus 24.5% in 2016;
- Mineral fuels, representing 11% of EU imports, an increase of 81% compared to 2016 (mainly gas);
- Copper articles increased by 20%, now representing 4.5% of imports;
- Fish and crustaceans, representing 4.3% of imports, increased by 5% compared to 2016.

Ecuador

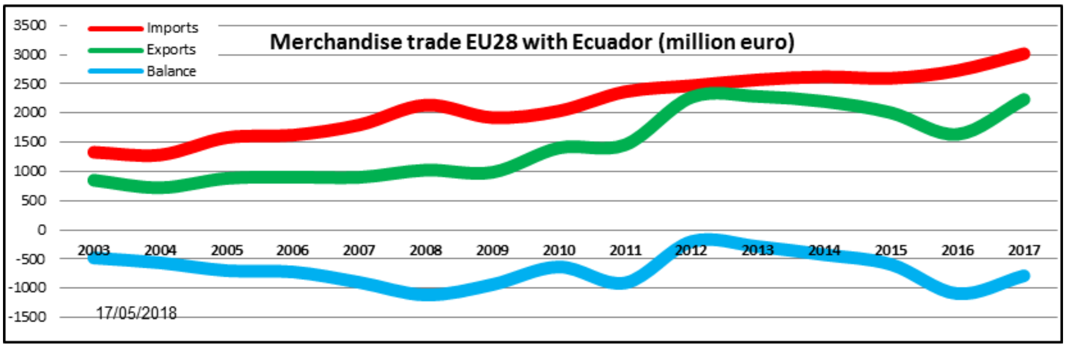
Overall evolution

The EU remains Ecuador´s second trading partner, behind the US and ahead of China, and represents 15% of Ecuador total trade with the world. The results of the first year of implementation of the Agreement have been very good. Bilateral trade increased by 20.4% from EUR 4.36 billon to EUR 5.25 billon over the 2016-2017 period. The immediate elimination of tariffs for most of Ecuador's exportable supply and the progressive elimination of tariffs on EU products have surely been an important factor in this. The elimination of safeguards and other unilateral restrictions in Ecuador also helped to encourage trade and sent a positive signal to investors. Ecuador maintains a trade surplus with the EU (EUR 803 million).

EU exports to Ecuador increased by 36.2% year-on-year (from EUR 1.64 billion in 2016 to EUR 2.23 billion in 2017), recovering from the fall observed between 2014 and 2016, but still under 2012 figures, when EU exports registered a peak.

EU imports from Ecuador also increased but by lower percentage, 10.8% year-on-year (from EUR 2.72 billion in 2016 to EUR 3 billion in 2017), reaching a record high.

Figure 3: EU-Ecuador bilateral trade in goods 2012-2017 (million EUR)



Source: Eurostat

EU-Ecuador trade in non-agricultural products

EU exports to Ecuador of NAMA products amounted to EUR 2.1 billion in 2017, increasing by 36.6%. The most important categories in 2017 were:

- Machinery and mechanical appliances representing 18.2% of total EU exports, increasing by 10.7% compared to 2016; Electrical machinery represented 6.3% of exports, increasing by 10.3%;
- Mineral fuels exports accounted 17.6% of the market share, increasing significantly by 119.8%;
- Pharmaceutical products represented 6.9% of total exports, however exports decreased by 2%;
- Other products such as ceramics and vehicles also recorded significant increases in 2017 (110% and 138% respectively) as a result of tariff dismantling and the elimination of domestic fees or quotas.

At the same time, EU imports of NAMA products from Ecuador amounted to EUR 1.45 billion, or 48.1% of total EU imports from Ecuador, increasing by 17.2% compared to 2016. The key categories in 2017 were:

- Fish and crustaceans (shrimps) registered a small increase of 2.2%, accounting for 22.4% of Ecuador's total exports to the EU;
- Preparations of meat and fish (tuna) registered a strong increase of 45.2% accounting for 22.1% of total EU imports from Ecuador;
- Mineral products increased by 514.7% in 2017, but account for only 0.6% of Ecuador's exports to the EU.

Preference Utilisation Rates for EU-Colombia, Ecuador, Peru

In the context of the Sub-committee on Market Access, the Parties agreed in 2015 to exchange on an annual basis data on PUR. The EU stressed the need to have reliable data to get a better overview of the effect of the Agreement so far and explore means to assist economic operators, in particular SMEs, to make better use of its opportunities.

For 2017, EU statistics indicate that approximately 97% of Colombia's and Ecuador's exports to the EU are made using the tariff preferences established by the Agreement, while 96% of Peru's exports make use of these preferences. The PUR on exports from the EU to Colombia for 2017 was 68%, a slight decrease from 71% in 2016. For Peru, PUR of EU exports have been rising over the past three years, albeit from a rather low level (28% in 2015; 47% in 2016 and 52% in 2017). The PUR on exports from the EU to Ecuador in the first year of the application of the agreement was 42%.

2.2. Trade in agricultural goods

This section focuses on agricultural products as defined by Article 2 of the WTO Agreement on Agriculture and as listed in Annex 1 of the same agreement.

Colombia

EU exports to Colombia of agricultural products increased by 6% in 2017, and were dominated by:

- Beverages and spirits (HS22) at EUR 88 million, or 22% of EU exports of agricultural products to Colombia;
- Preparations of a kind used in animal feeding (HS2309) increased by 48 times, now representing 0.9% of EU exports;
- Preparations of cereals, flour, starch (HS19) and vegetables, fruits, nuts & plants (HS20) account for 0.6% of exports each.

EU imports of agricultural products from Colombia increased by 13% from 2016 to 2017, reaching a total of EUR 2.4 billion. The most important categories in 2017 were:

- Fruits (HS08), accounted for 19.4% of total imports, up by 12% compared to 2016. Bananas represent 84.3% of all fruits exported, followed by avocados with 5.4%. From 2016 to 2017 there was a strong increase in exports of bananas (10%), plantains (10.1%), dried pineapples (56.5%), avocados (40.2%), guavas, mangoes and mangosteens (26.7%), oranges (80.3%), and lime (54.1%);
- Coffee (HS09), increasing by 4%, represents 10.8% of EU imports;
- Crude palm oil (HS151110), 5.17% of imports, and crude palm kernel, 1% of imports, posted increases by 75.5% and 6.7% respectively.

Total EU imports of agricultural products from Colombia increased by 55.3% since 2012, and now account for 42.7% of Colombian exports to the EU, versus 17.8% in 2012.

Peru

EU exports to Peru of agricultural products increased by 4% in 2017. The most important categories in 2017 were:

- Beverages and spirits (HS22), accounting for 25% of total EU exports of agricultural products to Peru;
- Preparations of vegetables (HS20), increased by 32% compared to 2016;
- Dairy products (HS04), posting a strong 51% increase compared to 2016 thanks to the introduction of a harmonized import certificate.

EU imports of agricultural products from Peru decreased by 2.1% from 2016 to 2017. The most important categories in 2017 were:

- Fruits (HS08), accounted for 16.3% of total imports, up 9% compared to 2016; Avocados accounted for 38% of all fruits exported, a 21% increase, followed by mangos with 15% (-0.4%), fresh grapes for 14% (-3%), fresh cranberries for 9% (-7.6%), fresh bananas for 9% (+1.7%);
- Coffee (HS09) now represent 6.6% of total Peruvian exports to the EU;

Total EU imports of agricultural products from Peru increased by 39.5% since 2012. Agricultural products now account for 35.2% of Peruvian exports to the EU, versus 24.4% in 2012.

Ecuador

EU exports of agricultural products to Ecuador grew by 34% year-on-year. This should hopefully further increase once the SPS chapter of the Agreement has been fully implemented, and that certain barriers to imports on the Ecuadorian side are eliminated. Key EU exports of agricultural products were:

- Miscellaneous edible preparations exports (HS21) grew by 19% corresponding to a 0.86% of total exports;
- Beverages and spirits (HS22) exports increased substantially by 262% and occupied 0.8% of EU total exports.

EU imports of agricultural products from Ecuador reached a total of EUR 1.57 billion. The EU consolidated its position as the first trading partner for Ecuadorian non-oil exports. The most important categories were:

- Fruits (HS08) grew by 17% year-on year, and represented 31.5% of total EU imports, with banana imports accounting for almost 94% and growing by 17% in 2017. Other fruits grew as well: pineapple by 27% and tamarind by 49%;
- Live trees and other plants (mainly fresh cut flowers) (HS06), remained stable and accounted for 6.2% of Ecuador's exports to the EU;
- Cocoa and cocoa preparations (HS18) decreased by 13%, and account for 6.1% of total EU imports.

Ecuador exports of agricultural to the EU increased by 5% in 2017 compared to 2016; and represent 55% of total Ecuadorian exports to the EU.

Use of Tariff-rate quotas

The Agreement provides for TRQs (TRQs) which grant the other Party preferential tariff treatment up to the quota's quantitative threshold, above which imports are subject to the applicable Most-Favoured Nation tariff.

Colombia

Colombia's use of the TRQ for cane or beet sugar and chemically pure sucrose has increased from 88.4% in 2013 to 94.8% in 2017. Other TRQs are hardly or not utilised.

Table 1: Rate of utilisation of EU TRQs by Colombia

	2013	2014	2015	2016	2017
Cane sugar and chemically pure sucrose	88.4%	85.7%	93.8%	96.2%	94.8%
Other sugar confectionery	1.4%	1.3%	1.2%	1.5%	1.5%

Source: TAXUD, Surveillance Database

The EU is fully using the TRQs established for mushrooms, preparations for infant use and sweetcorn, to a somewhat lesser extent TRQ on yogurt, ice cream (though increasingly through a better implementation of the Agreement), and barely its TRQs on cheese (possibly due to a slowdown in domestic demand in Colombia) and on sugar confectionery (less than 4% in 2017).

Table 2: Rate of utilisation of Colombia TRQs by the EU	2013	2014	2015	2016	2017
Mushrooms	1.6%	5%	100%	100%	100%
Milk and cream in powder	0%	34.9%	100%	100%	82.6%
Whey	57.6%	50%	92.9%	No more TRQ	No more TRQ
Preparations for infant use	40.4%	67.5%	99.1%	100%	100%
Yogurt	0%	0.5%	0.8%	100%	99%
Sweetcorn	0.42%	54.2%	100%	100%	100%
Ice cream	5.26%	13.4%	7.4%	25.9%	45.7%
Cheese	9%	8%	8.2%	7.9%	3.1%
Sugar confectionary	1.8%	3.4%	3.1%	3.8%	3.9%

Source: DIAN (Dirección de Impuestos y Aduanas Nacionales)

Peru

TRQ for cane sugar has been almost fully utilised by Peru. TRQ for corn has also a high rate of utilisation. Peru is starting to take advantage of the TRQ on garlic. Other TRQs have very low utilisation rate.

Table 3: Rate of utilisation of EU TRQs by Peru

	2013	2014	2015	2016	2017
Cane sugar	100%	100%	3.5%	99.8%	100%
Sweetcorn	21%	76%	83.2%	87.3%	35.4%
Garlic	0%	0%	2.4%	53.8%	54.2%
Rum	0%	0%	0%	7%	0%
Maize (corn)	0.7%	2.9%	1.8%	6.1%	1.7%
Sugar confectionery	0.02%	0.01%	0.16%	0.1%	0.2%

Source: TAXUD, Surveillance Database

The EU is fully using the TRQ established by Peru for milk powder and almost fully for ice cream and butter thanks to the harmonized certificate for dairy products. Other TRQs are barely used.

Table 4: Rate of utilisation of Peru TRQs by the EU

	2013	2014	2015	2016	2017
Butter	0%	0%	96.0%	100%	82%
Cheese	0%	0%	0%	4.3%	5.4%
Ice cream	58.6%	89.6%	98.5%	95.6%	94.2%
Milk powder	0%	4.1%	99.7%	100%	100%
Milk for babies	0%	0%	0%	29.9%	0.0%
Chewing gum	0.3%	0%	0.1%	2.20%	3.4%
Sugar	0%	0%	0%	0.8%	0.0%
Rum	3.5%	0.0%	3.5%	5.8%	4.2%

Source: SUNAT (Superintendencia Nacional de Aduanas y de Administración Tributaria)

Ecuador

Few of the EU's TRQs for Ecuador's exports have been used during the first year of implementation of the Agreement. Only TRQs that were used are mentioned.

Table 5: Rate of utilisation of EU TRQs by Ecuador in 2017

Products	Size of the quota (tons)	Fill rate (%)
Sweet corn and other vegetables	300	3.28%
Sugar cane	15000	4.3%
Confectionary products (high sugar content): Juices, Chocolate, Coffee, Tea, others	10000	1.59%

Source: TAXUD, Surveillance Database

The limited use of TRQs by the EU is partly due to the still pending implementation of the pre-listing system of Member States' establishments allowed to export animal products to Ecuador, including some covered by TRQs. Some Ecuador TRQs have been used by the EU, due to the fact that these products have historically been imported and consequently trade flows have not been interrupted. Furthermore, the delay in the opening by Ecuador of its TRQs for the EU, as well as its complex management is also likely to have played a role in the non-use of TRQs by the EU.

Table 6: Rate of utilisation of Ecuador TRQs by the EU in 2017

Products	Size of the quota (tons)	Fill rate 2017
Preparations for animal feeding	800	6.13%
Dairy products: Powder milk, butter milk serum, whey	400	12.50%
Dairy products: Evaporated milk; condensed milk	600	1.02%
Dairy products: Yoghourt, cheeses: grated or powdered, melted, others	500	2.74%
Dairy products: Blue-veined cheese, mature cheese	1 000	3.93%
Processed sweet corn: Sweet corn: Frozen, canned	400	21.85%
Porcine products: Cured ham, Bellies (streaky), Sausages and similar meat products	800	5.65%
Confectionary products (high sugar content): Juices, Chocolate, Coffee, Tea, others	750	0.90%

Source: Ministry of Agriculture of Ecuador

2.3. Trade in Services and development of investment

1.1.4. Trade in Services

Bilateral trade in services between the EU and **Colombia** increased by 0.7% in 2016 compared to 2015, totalling EUR 4.25 billion. While EU exports increased by 4%, Colombian exports decreased by 5.6% over this period. According to Colombian statistics (DANE), EU share in Colombia's total trade in services represented 18% in 2017.

Table 7: EU-Colombia bilateral trade in services 2011-2016 (million EUR)

	2011	2012	2013	2014	2015	2016
EU28 imports	1 347	1 446	1 440	1 529	1 429	1 349
EU28 exports	2 638	2 855	2 564	2 416	2 793	2 906
Balance	**1 290**	**1 409**	**1 124**	**888**	**1 365**	**1 557**
Total trade	**3 985**	**4 300**	**4 004**	**3 945**	**4 222**	**4 254**

Source: Eurostat

For **Peru**, bilateral trade in services decreased by 6% in 2016 compared to 2015. Based on Peru's statistics, **EU share** in Peru's total trade in services represented almost **30%** in 2016.

Table 8: EU-Peru bilateral trade in services 2011-2016 (million EUR)

	2011	2012	2013	2014	2015	2016
EU28 imports	846	855	835	897	894	862
EU28 exports	1 094	1 509	1 707	1 999	1 669	1 541
Balance	**248**	**654**	**872**	**1 101**	**775**	**679**
Total trade	**1 940**	**2 364**	**2 542**	**2 896**	**2 563**	**2 403**

Source: Eurostat

EU bilateral trade in services with **Ecuador** increased significantly by 56.5% in 2016 to a record high of EUR 2.24 billion. As in the case of Colombia and Peru, the EU posts a substantial surplus in the trade in services. The **EU share** in Ecuador´s total trade in services represented almost **79.7%** in 2016.

Table 9: EU-Ecuador bilateral trade in services 2011-2016 (million EUR)

	2011	2012	2013	2014	2015	2016
EU28 imports	423	405	375	406	374	454
EU28 exports	1 055	1 152	1 148	1 268	1 060	1 790
Balance	**632**	**747**	**733**	**862**	**686**	**1 337**
Total trade	**1 478**	**1 557**	**1 523**	**1 674**	**1 434**	**2 244**

Source: Eurostat

1.1.5. FDI

For the third year in a row, the EU remains the **first foreign investor in Colombia**, totalling EUR 14.7 billion of FDI stocks in 2016. According to Colombian statistics, EU FDI accounted for 36% of the total FDI in flows to Colombia in 2017 with an amount of EUR 5.4 billion. Colombian FDI stocks in the EU decreased by 18.4% since 2015, totalling EUR 2.7 billion in 2016, and according to Colombian statistics, 30.8% of its outward flows went to the EU in 2017.

Table 10: EU-Colombia investment flows and stocks 2014-2016 (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	3 828	3 379	2 757	16 566	16 957	14 731
Flows	-214.3	1 885.7	-373.3	45.4	587.6	-985.5

Source: Eurostat

The EU is the **first foreign investor in Peru**. EU FDI stocks in Peru increased by 30% between 2015 and 2016, totalling EUR 13.2 billion in 2016. Peru’s FDI stocks in the EU increased to EUR 2 billion in 2016, a 1139% increase compared to 2014.

Table 11: EU-Peru investment flows and stocks 2014-2016 (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	159	1 493	1 971	9 384	10 146	13 150
Flows	-362	563	449	-1 516	1 366	3 702

Source: Eurostat

EU FDI stocks in Ecuador have remained almost constant in 2016 year-on year, at around 6 billion EUR. Ecuador´s FDI stocks in the EU experienced a 45% decline over the 2014-2016 period and reached EUR 300 million in 2016.

According to the Central Bank of Ecuador, **EU FDI accounted for 21% of total FDI inflows in 2017** (EUR 116 million), a sharp contraction compared to 72% in 2016. Ways to increase EU investment in Ecuador could include less complex regulations for businesses, a better judicial enforcement of contracts and streamlined legal procedures.

Table 12: EU-Ecuador investment flows and stocks 2014-2016 (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	538	351	298	5 265	6 001	5 929
Flows	-233	-141	-109	2	865	-99

Source: Eurostat

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The fourth meeting of the ***Trade Committee*** took place on 24 November 2017 in Lima, Peru. It was preceded by meetings of all **eight Sub-committees** under the Agreement. The main conclusions of the Trade Committee and Sub-committees can be summarised as follows:

a) Trade Committee

The EU and Colombia signed a **Decision to modify Colombia's public procurement market access schedules** at sub-central level[24]. The modification will result in a clarification of coverage of certain municipal entities.

The Trade Committee was able to take stock of progress achieved in the Sub-committees. The EU reiterated some of its main concerns, including most notably: change in the provision defining direct transport to allow for the splitting of consignments for products transiting a third country, continued discrimination of imported spirits in Peru, lack of enforcement for GIs (Oporto and Feta) in Peru, obligation for imported beers to attach strip stamps in some departments in Colombia, exploitation charge levied on spirits introduced in the Colombian departments, the anti-dumping investigation against frozen potatoes from Belgium, Germany and the Netherlands in Colombia, the service tax for customs control in Ecuador. Colombia,

[24] Decision No 1/2017 of the EU-Colombia-Peru Trade Committee of 24 November 2017 amending Appendix 1 of Annex XII ('Government Procurement') to the Trade Agreement between the European Union and its Member States, of the one part, and Colombia and Peru, of the other part. OJ L 1, 4.1.2018, p.1 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22018D0001&from=EN).

Peru and Ecuador raised concerns about the potential impact of some EU SPS measures on their exports of agricultural products.

The EU gave an update on the state of ratification process by the Member States of both the Agreement and the Protocol of Accession of Ecuador. Colombia and Peru 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 Parties welcomed the provisional application of the Protocol of Accession of Ecuador to the Trade Agreement as from 1 January 2017 and completion of the ratification process by both Colombia and Peru.

b) Customs, Trade Facilitation and Rules of Origin

The Sub-committee discussed the interpretation of the provision defining direct transport to allow the splitting of consignments for products transiting a third country, but without any conclusive outcome. Colombia, Ecuador and Peru expressed interest in receiving help and assistance from the EU on a wide variety of issues, including Authorised Economic Operators (AEO) and customs laboratories. In this context, the EU underlined the importance of advancing on the issue of direct transport. With Ecuador, the EU mentioned issues of reclassification of goods.

c) Government Procurement

In 2017, good progress was made with Colombia to address a problem of interpretation in relation to market access in government procurement at sub-central level. The solution consisted in modifying the chapter on government procurement by including a clarification of the coverage of certain municipal entities. With Peru, the EU continued exchanging views on the use of international standards and obligations in respect of technical specifications in government procurement. Given that it is the first time Ecuador undertakes international commitments on government procurement, Ecuador provided information on the activities undertaken to implement the government procurement chapter, including awareness-raising activities to the procuring entities on the obligations arising from the Agreement and required amendments of specific laws and regulations.

d) Technical Barriers to Trade (TBT)

With regard to Colombia, the EU raised the issue of recognition of EU testing and certification in Colombia, and Colombia confirmed that test results issued in the country of origin are accepted provided that the results originate from an accredited laboratory and the accreditation entity forms part of an international accreditation body. With Ecuador, the EU raised the issue of prohibition of labelling of alcoholic beverages at destination. In the case of Peru, the EU reiterated its interest regarding the recognition of Member States as having ‘strong health monitoring’, as it facilitates the recognition of their certification for pharmaceutical and medical devices products to be exported to Peru.

e) SPS Matters

The EU discussed with Colombia, Peru and Ecuador their respective advance towards implementing the provisions of the SPS chapter of the Agreement to ensure better market access for EU products. With Peru, the EU welcomed the positive impact of the harmonised certificate for dairy products by which all EU establishments have access to the Peruvian market (pending registration in their system). Progress remains to be done with the approval of a harmonised certificate for the import of meat products. The EU also welcomed the lifting of trade restrictions related to avian influenza. With Colombia, the EU noted considerable advance since the implementation of a single procedure for market access of EU exports of animal-based products, where pre-listing is applied. There is still progress to be made with the adoption of harmonised certificates on dairy products and on cooked meat products. There is progress towards the approval of fruits and vegetables although at a slower pace as phytosanitary import conditions in Colombia imply a lengthy process. With Ecuador, there is a continued dialogue to ensure the full implementation of the provisions of the SPS chapter. In 2017, the EU and Ecuador discussed constructively on a procedure for the approval of exports of products from Member States, including prelisting for animal products (procedure which was agreed in February 2018 but is yet to be implemented by Member States). Colombia, Ecuador and Peru raised concerns related to some EU legislation on certain maximum residue levels for some pesticides, maximum levels of cadmium in cacao-based products, endocrine disruptors, and novel food.

f) Agriculture

The Parties took stock of trade flows and utilisation of quotas during the four years of implementation of the Agreement and welcomed the increase of exports of agricultural products on both sides. The EU and Ecuador reviewed trends in bilateral trade of agricultural products for the first nine months of 2017. The Parties discussed the bilateral safeguard clause and the stabilisation mechanism for bananas, as well as the implementation of the spirits' fiscal reform in Colombia (in particular the EU took issue with the exploitation charge that is levied solely on products introduced in the departments). The EU raised its concerns regarding the discrimination against EU spirits in Peru and the issues of TRQ management and rejection of EU imports of agricultural products in the case of Ecuador.

g) TSD

The Parties held the meetings of the institutions in charge of monitoring the implementation of the TSD provisions of the Agreement (see section 4 below).

h) Intellectual Property

The Parties addressed specific issues regarding the protection and enforcement of a number of GIs, including matters relating to the addition of new GIs to be protected. With Colombia, the EU informed of work under way to protect nine additional Colombian GIs and welcomed the start of an investigation in Colombia regarding the usurpation of EU cheese GIs. With Peru, the EU referred to the usurpation of GIs names (Oporto and Feta). Peru referred to the protection of Pisco in the EU in relation to registration of trademarks. With Colombia, the EU welcomed the start of an investigation regarding the usurpation of EU GIs on cheese but stressed the importance of an effective and timely solution to ensure the protection of EU GIs.

The EU informed of the internal procedures under way to register nine additional Colombian GIs. Peru expressed concerns about what it considers as inadequate protection of Pisco in the EU given the registration of trademarks (TM) containing the name Pisco.

Other issues discussed included the overall enforcement of intellectual property rights, patentability of medicines in Colombia, exceptions to copyright and related rights as well as plant variety rights in Ecuador, and possible cooperation projects.

i) Market Access

The Parties exchanged statistics on trade flows, including use of preferences and tariff rates quotas. With Colombia, the EU raised its concerns regarding truck scrappage, vehicle taxation, the implementation of the spirits law, an ongoing anti-dumping case against EU frozen potatoes, and discrimination against imported beers. In relation to Peru, the EU raised concerns about the application of the duty drawback in Peru, which appears to be a subsidy. With Ecuador, discussions focused on discriminatory treatment against imported spirits and the service tax for customs control, implemented in November 2017. It should, however, be noted that the service tax was discontinued in June 2018.

4. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

4.1. Sub-Committee on Trade and Sustainable Development

The fourth meeting of the **Sub-Committee on TSD** was held in Lima on 22 and 23 November 2017. While discussions on labour and environmental issues were constructive, it was clear that a number of critical issues require follow-up and further action and that more dialogue on priority TSD issues is needed. To step up monitoring the Parties agreed to engage more regularly on this on the basis of questions submitted by the EU in early 2018.

On **labour**, important issues of concern with all three countries remain in relation to freedom of association and collective bargaining, the high levels of informality and the inadequate labour inspection capacities. Peru and Colombia informed about their plans to increase the human and material resources to strengthen labour inspection. They also informed they have started the process to ratify the Protocol to the ILO Convention 29 on forced labour. Concerns about the persistence of high levels of child labour were also highlighted by the EU, in particular in Peru. Ecuador participated for the first time, and showed constructive engagement to achieve implementation of this Chapter. It informed about the preparation of the labour law reform and advances in occupational health and safety, among others.

On **environment**, the focus was on: measures taken by Colombia to control exports of brown caiman *Caiman crocodilus fuscus* skins to implement the CITES convention, the tools and measures in Colombia and Ecuador to monitor deforestation, and the strategies of Colombia and Peru to combat trade of illegal timber. Peru's simplification of administrative procedures for licensing on the environmental sector was also highlighted as an important issue to follow as well as the use of mercury in gold mining in the region.

The EU and Peru touched upon the submission in October 2017 by a group of European and Peruvian civil society organisations of a report to the European Commission challenging Peru's compliance with the labour and environment provisions of the TSD chapter. The European Commission has since been assessing the allegations made therein while consulting the relevant authorities in Peru, the civil society organisations responsible for the submission and the ILO.

4.2. Domestic consultation

Since its establishment, the EU civil society consultation mechanism ('domestic advisory group') has met regulary, with the European Economic and Social Committee providing three members as well as the Secretariat. As part of its work, it submits opinions and makes recommendations on the implementation of the TSD chapter of the Agreement.

A main advance in terms of the institutional set up for the participation of civil society in TSD issues came from Colombia who announced the creation of a DAG to complement its existing consultative mechanisms. This initiative responds to repeated demands by civil society in Colombia, which the EU consistently echoed.

Ecuador, at this early stage of implementation informed of its decision to use existing domestic mechanisms, while indicating that civil society will have the freedom to determine the agenda.

4.3. Session of the Sub-Committee on TSD with civil society

In line with Article 282 of the Agreement, the Sub-Committee on TSD held an open session with civil society organisations and the public on 23 November 2017 in Lima, to carry out a dialogue on matters related to the implementation of the TSD chapter. Around 50 representatives of civil society were present either in the room (mostly from Peru, Ecuador and the EU) or via videoconference from Colombia and Ecuador. The views expressed on the results achieved in Peru and Colombia were generally critical. An important point of discussion was how to better ensure civil society consultation in the area of labour and environment and on how to improve channels of communication to discuss TSD-related issues. The most vocal interventions came from Peru's civil society who alleged insufficient dialogue with the government and inadequate functioning of the domestic mechanisms in place. Participants welcomed Colombia's proposal to create a dedicated domestic advisory group to discuss TSD issues of relevance to the Agreement.

4.4. Further work and other activities

In 2017, there was good progress on cooperation activities aimed to assist Colombia and Peru in the implementation of various facets of the TSD chapter and to promote higher levels of social and environmental standards. .

In Colombia, the following activities took place: a circular economy business mission aimed at strengthening ties between EU and Colombian institutions in the field of environment, a workshop on business development topics such as Corporate Social Responsibility, organic production and fair trade, as well as a TAIEX-funded mission on international trade in brown caimans aimed to improve conservation efforts. It was also agreed with Colombia to pursue new actions on labour inspection as well as responsible supply chains in the mining sector.

In Peru, several financing instruments were mobilised for projects in the area of labour: a TAIEX-financed workshop took place on labour conflicts resolution and several technical assistance projects on labour inspection and labour formalisation financed via Eurosocial+ and Socieux+. There were also activities to support Peru in implementing multilateral environmental agreements and policies: a TAIEF-funded workshop on conservation of the vicuña addressing regulatory measures and climate change challenges as well as EU expert mission to support capacity building and exchange of experiences with site investigations, remediation techniques and sustainable management of sites contaminated by hydrocarbons.

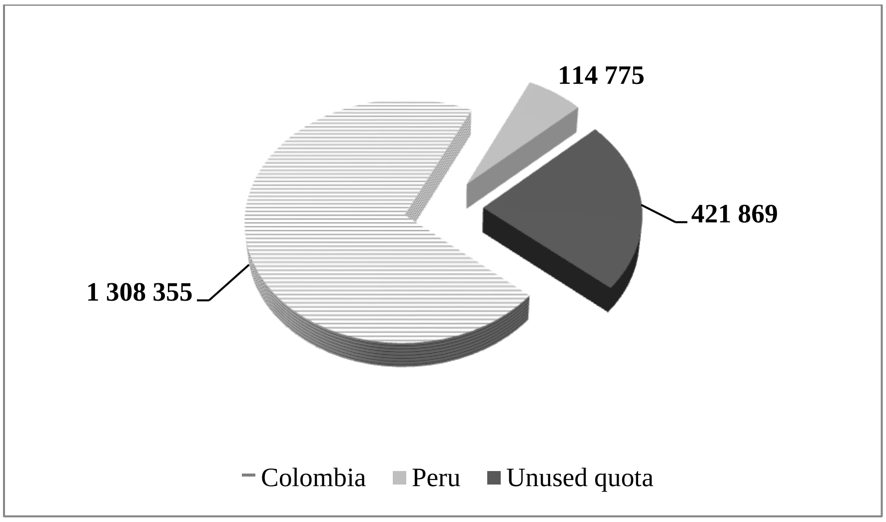
With Ecuador, actions were put in place throughout the year to raise awareness and build capacity to prepare the initial stages of implementation of the TSD chapter in the country. In addition, other areas of common interest were identified with Ecuador notably in field of both the environmental law and labour law reforms.

5. SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

Implementation of Regulation (EU) No 19/2013

In 2017, Regulation (EU) No 19/2013 implementing the above mentioned bilateral safeguard clause and the stabilisation mechanism for bananas was amended by Regulation 2017/540 to reflect the accession of Ecuador to the Agreement[25]. The amended Regulation provides for the possibility to initiate a safeguard investigation or to introduce prior surveillance measures under certain conditions. In accordance with Articles 3 and 13 of the Regulation, the Commission has been monitoring the evolution of imports of fresh bananas (HS code 08039010) from Colombia, Peru and Ecuador.

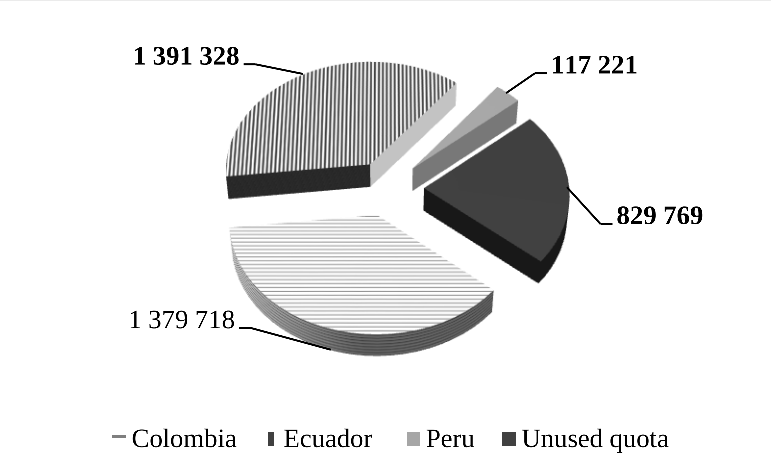
Figure 4: 2016 EU imports of fresh bananas from Colombia and Peru (in tons)



Source: Eurostat

[25] Regulation (EU) 2017/540 of the European Parliament and of the Council of 15 March 2017, Regulation (EU) 2017/540 of the European Parliament and of the Council of 15 March 2017 amending Regulation (EU) No 19/2013 implementing the bilateral safeguard clause and the stabilization 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, and amending Regulation (EU) No 20/2013 implementing the bilateral safeguard clause and the stabilization 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 (O.J. L 88, 31.03.2018, p.1).

Figure 5: 2017 EU imports of fresh bananas from Colombia, Ecuador and Peru (in tons)



Source: Eurostat

In 2017, **EU imports of fresh bananas from Peru reached** 117 221 metric tons, a 7% increase compared to 2016. The **trigger volume** established in the Agreement (93 750 metric tons) was reached in October 2017. In line with Article 15(3) of the Regulation, the Commission examined the impact on the EU market taking into account *inter alia* the effects on price level, developments of imports from other sources and the overall stability of the EU market.

As a result, the Commission concluded that the **suspension of the preferential duty on fresh bananas originating in Peru was not appropriate**[26]: (1) imports from Peru represent only 2.25% of total EU imports of fresh bananas, (2) imports from large exporting countries, notably Colombia, Ecuador and Costa Rica, amounted to about 60% each of their respective thresholds under the stabilization mechanism, and the 'unused' quantities (approximately 2.3 million metric tons) are significantly higher than the total imports from Peru, (3) import from Peru did not have a downward effect on the import price of bananas of all origins and finally, (4) there were no indications of a negative effect for the stability of the EU market, EU producers, or the EU outermost regions.

Imports of fresh bananas from **Colombia** amounted to 1 379 718 metric tons in 2017. In 2017, Colombia remained below the trigger volume of 1 822 500 metric tons established by the Agreement.

In 2017, **Ecuador** exported 1 391 328 metric tons of fresh bananas to the EU, with imports remaining 22% below the trigger level established for Ecuador in the Agreement for 2017 at 1 801 788 metric tons.

[26] Commission Implementing Decision (EU) 2017/2277 of 8 December 2017 determining that a temporary suspension of the preferential customs duty pursuant to Article 15 of Regulation (EU) No 19/2013 of the European Parliament and of the Council is not appropriate for imports of bananas originating in Peru (OJ L 326, 09.12.2017, p.53).

6. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

In the fifth year of provisional application of the Trade Agreement with Colombia and Peru, important progress has been made with regard to a number of implementation issues.

In 2017, and after the EU brought a challenge against Colombian measures at the WTO, the **modification of fiscal system for spirits entered into force** in Colombia. The new law also eliminated certain market access restrictions that distorted competition in the market to the detriment of EU spirits. Colombia also modified its laws to create a level playing field for imported heavy trucks, although these commitments are still to be implemented. In addition, last year Colombia clarified its commitments under the government procurement annex of the Agreement, which should improve access for EU companies for tenders at the local level. Work will be needed to reduce technical barriers to trade such as sanitary registrations, and as well as to further facilitate trade.

More specifically on **SPS** issues, substantial progress has been obtained with Colombia since the implementation of a **single procedure for market access of EU products** in 2015. There is smoother procedure for exports of animal-based products, where pre-listing is applied. Several Member States and products now benefit from pre-listing: a total of 1080 EU establishments exporting products of animal origin have been approved by Colombia without prior individual inspection. For example, in 2017, Colombia opened its market for fresh pig meat from Spain with pre-listing. Some of the pending activities on the animal side are the conclusion of harmonised certificates on dairy products and on cooked meat products. On both cases, the EU has already submitted counterproposals to Colombia. On fruits and vegetables, although there is progress (e.g. pears from Portugal), this comes at a slower pace, as phytosanitary import conditions are cumbersome.

Furthermore, there are certain systemic issues where the Trade Agreement framework has brought added value to EU exports both in Colombia and Peru. To name some of the main examples: i) the issue of the 'born and raised' clause has been or is being overcome (with Colombia and Peru accepting that animals and their products may move throughout the EU, and are eligible to export, whereas previously they insisted that these products should originate from animals "born and raised " in only one EU Member State); ii) the issue of regionalisation has seen much progress (with Colombia and Peru now accepting in their import conditions that products may originate from a free zone in a Member State, without the absolute obligation of the whole Member State being totally free of certain diseases); and iii) Audit costs are now borne by the importing Party, hence removing a constraint for Member States and producers.

With **Peru**, the main success on SPS issues has been a **nearly full market access for EU dairy products.** In the past, Peru required in its dairy products certificate certain conditions that were not justified from an animal health and food safety point of view and were considered as unnecessarily trade restrictive due to the harmonised SPS framework in place in the whole EU. In 2017, after the negotiation of a harmonised certificate and associated conditions, all EU establishments have market access to Peru (pending registration in their system). Several products from different Member States have been approved by Peru (e.g. genetic material, plant products). At the same time, progress needs to be made with the approval of a harmonised certificate for the import of meat products which is still pending. The Trade Agreement context has also been conducive to faster solving country wide bans as that imposed to France over certain outbreaks of avian influenza.

At the same time, **progress remains limited on trade irritants such as the proper protection of EU GIs in Peru**, the **tax discrimination** of imported spirits if compared to Pisco which has been magnified in May 2018 by a sudden and steep increase in the excise tax that does not affect Pisco, or the approval of harmonized certificate for the import of meat products.

The **first year of implementation of the Agreement with Ecuador** has seen **an important increase of trade in both directions**. At the same time, some internal procedures have not yet been brought in line with the provisions of the Agreement. For instance, agri-food exports still face restrictions through cumbersome obligatory import licenses and arbitrary limits on TRQs. All issues have been raised and some solved through bilateral dialogue, including in the Trade Committee, while others, notably the prior licensing system to use TRQs, remain unresolved. A discriminatory customs service charge was introduced in November 2017, but was scrapped in June 2018. It needs to be noted though that the implementation of the Trade Agreement with Ecuador is still in its initial stages, that the commitment of Ecuador seems strong and that the bilateral dialogue remains very constructive. On SPS issues, a continued dialogue has led to the agreement of a procedure for approving exports of products from Member States, including prelisting for animal products. This procedure will involve *inter alia* certain questionnaires that should be now filled-in by interested Member States. There is still work to be done to ensure full implementation. The regular dialogue in place will offer a better framework to tackle any export difficulty. As an example, this dialogue has facilitated the approval of exports of Italian ham, although this process was outside of the Trade Agreement provisions.

The EU will continue to seek a solution with the three Andean partners with regard to the acceptance of **splitting of consignments** for originating products transiting a third country.

The implementation of the Agreement also shows a very **positive impact on SMEs in Colombia**. According to Colombian statistics, a total of 1 155 Colombian companies exported products not related to mining to the EU. These exporting companies include 328 SMEs and 582 are microenterprises. In Colombia, SMEs are defined as companies exporting between USD 500 000 and USD 5 million, while micro-enterprises export less than USD 500 000 in total. SMEs and exporting microenterprises accounted for 11.3% of the total non-minerals exports to the EU in 2017.

According to **Peru's** Export and Tourism Promotion Board, since the entry into force of the Agreement, 2 328 new companies have exported to the EU, of which 1 381 were from the agro-industrial sector and 635 from metalurgical, textile and fishing sectors. More than 90% of these new exporting companies are SMEs.

Ecuadorian statistics indicate that 450 companies have either started to export or resumed their exports to the EU. Half of these companies are micro and small enterprises. According to the same source, Ecuador exported 200 new products to the EU which include: treated bovine hides, ceramic tiles, mango jam, fine steel fish, lemon juice, strawberry pulp, among others.

7. CONCLUSIONS AND OUTLOOK

The Trade Agreement with Colombia, Peru and Ecuador **functions well and has created important business opportunities**, which are being increasingly seized by both businesses and exporters from both sides. The negative trend in trade flows linked to the decline of commodity prices and slow growth of domestic demand in the EU have been reversed during the reporting period, with all three partners reporting an increase in bilateral trade with the EU – 6.8% for Colombia, 15.7% for Peru, and an impressive 20% in the first year of implementation with Ecuador.

In the case of Colombia, the Agreement contributed to an important diversification of the country's exports, notably in favour of the agricultural sector, thus creating regional employment opportunities positive for the implementation of the country's peace agreement.

In the case of Peru, the Agreement has contributed to a significant increase in the volume and variety of Peruvian exports to the EU, helping Peru to diversify its export base and its economy beyond its strong dependence on mineral commodities, and has thereby offered opportunities to capture higher layers of added value. Fresh agricultural products, fishery products and metallurgical products are the Peruvian products which have benefited most from increased opportunities. This trend of increased exports of agri-food products has had a positive impact on Peruvian SMEs. EU exports have also generally improved, notably for products such as machinery, electrical appliances, vehicles, pharmaceuticals and medical devices.

EU imports from Ecuador are at a record high, while EU exports to Ecuador have increased by an impressive 36% in 2017. The Agreement has already shown benefits for Ecuadorian SMEs. Alike its Andean neighbors, the Agreement provides Ecuador a potential for growth and diversification.

Full implementation of the Agreement remains a priority for the EU. It is a positive point that the institutions under the Agreement work well. The discussions with the three partner countries in the Trade Committee and specialised Sub-committees have been constructive and have helped solve a significant amount of issues. The Decision adopted by Trade Committee with regard to public procurement in Colombia should effectively improve EU market access.

As reported earlier, Colombia reformed its market for domestic and imported spirits. While this creates a more level playing field, challenges remain and some measures are questionable from a national treatment perspective. Several sectors continue to need to be monitored closely, most importantly SPS measures, market access for EU spirits, Intellectual Property Rights and pharmaceuticals, and measures related to imported cars and trucks. In the case of Peru, SPS market access remains restricted despite progress achieved. Remaining trade barriers are mainly in the spirits sector or in the form of non-tariff and regulatory barriers. In the case of Ecuador, discussions regarding discriminatory measures in the pharmaceutical sectors were fruitful, and resulted in better protection of EU intellectual property. In 2017, the EU and Ecuador agreed on a single procedure for agri-food imports, which in the future should yield some positive results. Besides, early 2018, both sides finally concluded outstanding discussions leading to the approval of imports of Italian ham. At the same time, the low percentage of EU use of agricultural TRQs in Ecuador shows that more work needs to be done to improve EU market access.

The implementation of the TSDchapter has progressed and there has been an increasingly open and inclusive dialogue on labour and environmental matters. It is for example noteworthy that Colombia and Peru are increasing their financial and material resources to enhance their labour inspection capacities, but close follow up will be needed as important challenges remain in that regard. In the case of Peru, the submission to the EU by a group of civil society organisations with allegations of non-compliance by Peru of its labour and environmental commitments under the TSD Chapter illustrates the strong interest of civil society in the effective implementation of the Agreement and the importance of effective mechanisms for the consultation of civil society. Overall, there is significant scope for improvement from Peru, with regard to both the consultative mechanism setup and the implementation of substantive obligations, and on which it is important to progress rapidly. With Ecuador, there has been a constructive engagement in the first year of discussions on the implementation of the TSD chapter and work will now focus on concrete points of action and progress. It is therefore clear that important challenges remain for all three Andean partner countries in this area and that this will need to remain an important focus of the implementation work.

Regarding the stabilization mechanism for bananas, there is no indication that the stability of the EU market or the situation of the EU producers have been affected by the level of Peruvian exports. Nevertheless, the Commission will continue its reinforced monitoring of banana imports and evaluate the market situation.

In conclusion, the Agreement creates important benefits for business, consumers and civil society in general on both sides. The Commission will continue its efforts to promote the Agreement and to work with Colombia, Ecuador and Peru to ensure the full implementation of the Agreement in all its aspects. The Commission will continue to keep EU Member States and the European Parliament fully informed.

ANNUAL REPORT ON THE IMPLEMENTATION OF PART IV OF THE ASSOCIATION AGREEMENT BETWEEN THE EU AND ITS MEMBER STATES AND CENTRAL AMERICA[27]

1. INTRODUCTION

2018 is the fifth year of implementation of the Trade Pillar (Part IV) of the European Union - Central America (CA) Association Agreement establishing an Association between the EU and its Member States, on the one hand, and the six countries of CA on the other (hereinafter, "the Agreement")[28].

Under Article 13 of 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[29], 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 report responds to this requirement.

2. OVERALL ASSESSMENT: EVOLUTION OF BILATERAL TRADE

2.1. Trade in Goods overall

In a change to the methodology used in previous reports on the implementation of the Agreement[30], the present report only uses Eurostat data on trade flows between the EU and CA. Eurostat and Central American trade statistics register significant differences in their respective figures. The effect of the Free Trade Zone (FTZ) of Panama, one of the largest in the world, may be significant in this regard, as Eurostat counts EU goods transitting through the FTZ as exports to Panama, while CA statistics count them as direct imports of their country of final destination when in CA. The need to have consolidated and comparable data in a timely fashion and with an adequate level of detail requires reverting to the exclusive use of Eurostat data for this and subsequent reports.

2017 data confirmed that **CA continued to enjoy an overall surplus with the EU** (EUR 638 million, 5.5% of total trade). It should, however, be recalled that the bulk of this surplus is with Costa Rica and Honduras, while Panama and Salvador have deficits.

Overall, **EU imports from the region have seen a very solid upward trend** in five of the six countries in the region – with double figure growth in the case of four of them. The outliers are Panama with a fall of 14% in its exports to the EU and Honduras with exports

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[27] More information can be found at: http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/

[28] OJ L 346, 15.12.2012, p. 3. Additional information on EU – Central America trade relations can be found at http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/.

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

[30] COM (2017) 160 final.

growing by almost 22% year-on-year. The **evolution of EU exports to CA has been more modest,** with a slight decrease in the case of Honduras, but rising overall and reversing the decrease of 2016.

EU trade flows worldwide recovered in 2017, growing by 8% after having suffered a fall of 1.8% in 2016. This overall rise in trade flows of the EU with the rest of the world was reflected in its trade with CA, which grew by 7.2% year-on-year, but with a more vigorous growth of EU imports from the CA region (up 11.5%) than in exports from the EU to the region, which nevertheless grew by almost 3% in 2017 after falling by 7.4% in 2016.

As we reach the fifth anniversary of the provisional entry into force of the trade pillar of the Association Agreement, **EU imports of Central American goods in 2017 remain almost 11% below their level of five years before**. This is mainly due to the steep reduction in exports of computer parts from Costa Rica (after the rellocation to Asia of the international company producing the IT components). In 2012 Computer parts represented 38.6% (EUR 2 627 million) of all Central American exports to the EU, while in 2017 the figure was less than 0.1% (EUR 3.6 million). This is an important element to take into account because if one were to disregard trade in this category, EU imports would in fact have grown by almost 45% - when EU import growth from the rest of the world for the same period was just 3.2%.

EU exports to CA increased by 2.5% between 2012 and 2017, which is significantly below the 11.5% increase the EU reached with the rest of the world as a whole. This **modest increase** is mainly due to a **severe drop in EU exports of aircraft and ships to the region**, which are high unit value items that can have a distorting effect on trade trends in a small market. The year 2012 happened to be a record one for these exports – representing 19% (EUR 1 028 million) of all EU exports to CA that year, while the corresponding amounts were very modest in 2017 (2.2%, EUR 120 million). Not counting these two chapters, EU exports would in fact have risen by 24% between 2012-17, more than double the rate with the rest of the world for the same time period.

Table 1. Trade flows between EU and CA and annual growth in 2017 (million EUR)

Country	EU Exports(*)		EU Imports(*)		Balance	Total flow	
Costa Rica	1 097	4.3%	2 649	12.3%	-1 552	3 746	32.5%
Guatemala	992	9.5%	1 033	13.9%	-41	2 025	17.6%
Honduras	437	-3.3%	1 265	21.8%	-828	1 702	14.8%
Nicaragua	244	3.4%	376	9.3%	-132	620	5.4%
Panama	2 195	1%	512	-14%	1 683	2 707	23.4%
El Salvador	481	2%	249	16%	232	730	6.3%
TOTAL	**5 447**	**2.9%**	**6 085**	**11.5%**	**-638**	**11 530**	**100%**

* Source: EUROSTAT

1.1.6. *Sectoral structure of trade*

CA continues to rely on a handful of key agri-food products for its exports to the EU. Five main product categories[31] accounted for nearly 64% of total exports from the region to the EU in 2017, with exports from the whole agri-food sector reaching 74%. Nevertheless, exports from two non-agricultural sectors also saw significant growth: Medical devices and instruments, up almost 23% year-on-year and 242% over 5 years to 10.6% of all EU imports from CA, and knitted clothing up 28% in 2017 (62% over 5 years) at 2.3% of all EU imports from CA. The main import product categories from CA (by HS chapter) for 2017 were: Fruits 30.8%, Coffee and Tea 16%, Optical and Medical instruments and devices 10.6%, Fats and Oils 9.6% and Fish & Crustaceans 5%.

In particular, significant changes in value of Central American exports to the EU in 2017 were identified for the following products:

- **Fruit** – a traditional export from the region, 2017 saw record exports with an annual 20% rise lifting the sector to almost 31% of total exports to the EU. The main products are bananas and pineapples, and Costa Rica is the main exporter of fruit with 76% of the region's exports to the EU.

- **Coffee** – imports from CA suffered a significant decline in 2016 (-14.5%) but recovered in 2017 rising almost 18% (from EUR 830 to EUR 977 million) to the best year since 2012, now representing 16% of total EU's imports from the region. Honduras was the star coffee exporter to the EU in 2017 with 65% of CA's coffee exports.

- **Medical instruments and devices** – EU imports continued their impressive trajectory rising by a further 23% in 2017 to stand at EUR 648 million (more than three times the figure of 2012) and representing 10.6% of total EU imports from CA. Costa Rica is the source of 99.5% of the region's exports under this heading to the EU.

As for the EU, the range of exported products is rather more diverse with the five main product categories representing little more than 46% of all EU exports to the region. Mechanical machinery represents 18.2% of all EU exports to CA and rised 8.2% in 2017 to EUR 990 million and almost 20% over the 2012-17 period. Electrical machinery also rose by 5.4% in 2017 (and by almost 31% over five years) to EUR 446 million representing 8.2% of CA's imports from the EU. Other significant categories are: Pharmaceuticals, down 4.2% to EUR 550 million (10% of EU exports) although up 24% over a five year period; Vehicles, down 7.7% to EUR 303 million (5.6% of exports) and +3.3% over five years; Perfumes & Cosmetics, down by 5.7% to EUR 239 million (4.4% of exports) and -7.7% over five years; Medical instruments and devices fell marginally (-2.3%) to EUR 221m but grew 42% between 2012 and 2017.

[31] Fresh fruit (mainly bananas and pineapples), coffee, fats and oils (mainly crude palm oil), fish & shrimp, and sugar.

1.1.7. Country-by-Country analysis

On a national breakdown, following Eurostat figures, the main destination for **EU exports to CA** in 2017 is Panama (40%) followed by Costa Rica and Guatemala (20% and 18% respectively), then El Salvador (9%), Honduras (8%) and Nicaragua (5%). The main source of EU imports from CA continues to be Costa Rica by a wide margin (44%) followed by Honduras (21%), Guatemala (17%), Panama (8%), Nicaragua (6%) and El Salvador (4%).

EU trade with **Costa Rica** rose by almost 10% between 2016 and 2017 consolidating the country's position as the main commercial partner in the region. EU exports to Costa Rica continued the positive trend of previous years (up 4.3%), while EU imports from the country jumped by 12.3% to EUR 2 649 million.

Costa Rica mainly exports to the EU fruits (bananas and pineapples) which grew 11% to EUR 1 439 million, and prepared vegetables and fruits which have grown 157% to EUR 192 million over the last five years. Following the collapse in 2014 of the main export item of the country (computer parts), exports of medical devices and instruments have risen at a rapid pace (a 247% rise since 2012) reaching EUR 644 million and 24% of EU imports from the country.

EU exports to Costa Rica rose 4.2% to EUR 1 097 million but had mixed performances in 2017. Mechanical machinery remained the main category at 15% of exports – EUR 165 million – but fell 13%; Electrical machinery rose 11% to EUR 86 million. Vehicles is the second most important export (12.3%) but equally fell 9% to EUR 135 million. Plastics and alcoholic beverages are other significant exports.

Panama continues to be the main gateway for EU goods into the region with EU exports totaling EUR 2 195 million, or 40% of all exports to CA. Although overall annual growth has been below 1%, certain segments have seen significant growth or simply represent a large percent of all EU exports to the region as a whole.

Pharmaceutical products is the largest export segment at EUR 365 million and although growth has been marginally negative year on year (-1.7%) Panama still absorbs 66% of all EU exports to the region under this heading. Other important products include beverages at EUR 123 million, having fallen 8% in 2017 but still accounting for 74% of EU exports to CA, perfumes & cosmetics down 22% to EUR 168 million – 70% of all EU exports to the region and jewelery up 10% to EUR 72.5 million, accounting for 95% of EU exports to CA. Mechanical machinery jumped 21.4% to EUR 321 million, while ships, traditionally a significant EU export to the country, fell to an historic low of EUR 96 million in 2017.

EU imports from Panama fell 14% in 2017 to EUR 512 million and were heavily concentrated in fruits at EUR 251 million, mainly bananas, and fish & crustaceans, which together with EUR 52 million of new tyres) account for 70% of EU imports from Panama in 2017.

Guatemala's exports to the EU grew by 14% from EUR 908 million in 2016 to EUR 1 033 million in 2017. Significant growth took place for a number of products. Palm Oil has become the top export growing by 20% in 2017 to EUR 224 million, with a tenfold increase over the 2012-17 period. Export of bananas rose by 9% to EUR 64.6 million – 26 times higher than in 2012 – and frozen fish jumped 82% in 2017 to EUR 28 millon, as did iron & steel 122% up on the year to EUR 60 million. Sugar, a traditional export, fell 4% to EUR 44 million but still represents 44% of all sugar imported by the EU from CA. Finally coffee, another staple export, rose 11% to EUR 142 million, although still 30% below the value exported to the EU in 2012.

Guatemala's imports from the EU in 2017 grew at the fastest rate of any country in CA, up 9.5% on the year to EUR 1 033 million. Aluminium shot up 238% to EUR 47.6 million – 15 times its level in 2012 –, electrical machinery was up 54% to EUR 77 million, and mechanical machinery managed a significant rise of 11% to EUR 212 million.

Trade flows between **Honduras** and the EU saw the highest overall percentage increase at 14% in 2017 but exclusively due to the very significant rise of Honduran exports to the EU which jumped by almost 22% in the year (from EUR 1 039 million in 2016 to EUR 1 265 million), while EU exports were down -3.3%.

Export concentration is very high, with coffee accounting for over 50% of total exports to the EU, having risen 19% in 2017 to EUR 636 million and representing 65% of all coffee exported by CA to the EU. Palm oil and kernel rose 34% and 19% respectively, to EUR 299 million equivalent to 51% of CA exports of these products to the EU, fruits rose 17% to EUR 59 million, and knitted apparel and clothing also grew by 21% to EUR 58 million. In short, these four categories represented over 90% of EU imports from Honduras in 2017.

EU exports to Honduras were almost three times smaller than its imports and represented 8% of its total exports to CA in 2017. The main headings are electrical and mechanical machinery, pharmaceutical products and plastics.

EU trade flows with **El Salvador** rose by 6.4% over 2017 to EUR 730 million, with a 16% rise in EU imports, which concentrate in a few key sectors: prepared fish and frozen fish accounted for EUR 100 million of exports to the EU and rose by 33% over 2017; electrical capacitors grew 35% to EUR 46 million and knitted apparel clothing climbed 78% to EUR 16 million. Export values of more traditional exports such as sugar (EUR 31 million) and coffee (EUR 27 million) remained essentially unchanged. These five headings represented almost 90% of EU imports from El Salvador in 2017.

El Salvador is the fourth market for EU exports in CA at EUR 481 million, at just 9% of all exports to the region. In 2017 these grew by 2%, with double-digit growth in mechanical machinery (EUR 116 million) and plastics (EUR 16 million), but a 12% fall for electrical machinery.

Nicaragua's overall trade with the EU increased in 2017 (almost 7%) although EU imports grew at almost three times the rate (9.3%) of EU exports to the country (3.4%). It is the smallest EU trade partner within the region, with bilateral trade representing 5.4% of total trade with the region.

Coffee regained its traditional positon as the main export product of Nicaragua to the EU, with a growth in 2017 of 30% to EUR 100 million. On the other hand, EU imports of frozen seafood – mainly crustaceans – fell 8% to EUR 85 million in 2017, but still 40% above their level in 2012. These now traditional products were supplemented by fast growing areas such as bananas, groundnuts, or T-shirts.

EU exports to the country reached a modest EUR 244 million. The main segments remain mechanical machinery (EUR 55 million, 23% of imports) and electrical machinery (EUR 44 million, 18% of imports), but other areas showed significant growth: pharmaceuticals, medical instruments and devices, and vehicles.

2.2. Trade in agricultural goods

The Agreement defines a number of TRQs with parties granting each other a preferential tariff treatment up to the quota's quantitative threshold. Imports over this threshold are subject to the applicable Most-Favoured Nation (MFN) tariff.

The Association Agreement grants eight TRQs in favour of CA on products that did not enjoy preferential access to the EU market prior to the entry into force of the Agreement. In 2017 as in previous years, TRQs for products originating in CA were used for only two of the eight categories available (cane sugar and rum).

Table 2: TRQs granted by the EU to CA – Utilisation in 2017

Origin	Products	Unit	TRQ volume	EU Import	Utilisation rate
CA	Garlic	Tons	550	0	0%
	Rice		24 000	0	0%
	Bovine meat		11 400	0	0%
	Mushroom		275	0	0%
	Manioc starch		5 000	0	0%
	Sweetcorn		1 920	0	0%
CA except Panama	Sugar		168 000	167 686	100%
	Rum in container > 2 l	hl pure alcohol	8 200	8 200	100%

Source: European Commission

CA granted the EU TRQs on four products. EU exporters continued to make use of the opportunities offered by these TRQs, with 2017 seeing a marked improvement in the rate of utilisation jumping to 91% for powdered milk (from 56% in 2016) and 56% in the case of cheese (slightly above the 48% the previous year). Thus, although a margin of growth in these products remains, there has been an improvement in their use in 2017.

Table 3: TRQs granted by CA to the EU – Utilisation in 2017

Products	Quota (tons)	Annual increase	Volume (tons)	Utilisation rate
Cured hams	1 080	65	363	34%
Powdered milk	1 335	95	1 218	91%
Cheese	2 495	150	1 401	56%
Prepared swine meat	1 080	65	77	7%

Source: Data collected at national level in the six CA countries

2.3. Preference Utilisation Rates (PURs)

The PUR on imports into the EU from Central America was again high with an average of 95%. While it is above 90% for 5 of the 6 countries, it remains at 82% for Panama.

As in previous years, CA has informed the EU that the databases managed by their respective customs authorities are not currently adapted for a regular exchange of detailed statistics that can enable such an analysis of the tariff preference to take place for imports from the EU. This was again discussed at the Association Committee meeting in June 2018.

2.4. Trade in Services and FDIs

1.1.8. Trade in Services

Trade in services between the two regions continued to increase in absolute and relative terms and in 2016 represented almost 40% of the value of total trade in goods and services. **Total trade in services** in that year amounted to EUR 6 857 million, an **increase of almost 9%** concentrated in the **two main markets** – **Panama and Costa Rica** – which grew by 14% and 19%, respectively. Panama alone accounts for around 60% of EU trade in services with CA.

Table 4: Trade in services between the EU and CA in 2016 (million EUR)

Country	2015			2016			
	EU Exports	EU Imports	Total	EU Exports	EU Imports	Total	Total
Costa Rica	586	526	1 112	757	566	1 323	19%
El Salvador	268	105	325	252	93	374	5.5%
Guatemala	337	293	630	275	249	524	7.5%
Honduras	177	106	283	174	94	268	4%
Nicaragua	171	85	256	64	88	152	2%
Panama	1 743	1 949	3 692	2 155	2 061	4 216	62%
Total	**3 282**	**3 064**	**6 298**	**3 677**	**3 151**	**6 857**	**100%**

Source: Eurostat

As the trade in services becomes increasingly important, combining the EU – CA trade figures for goods and services in 2016 reveals certain patterns as regards total trade between both regions. Three countries concentrate about 80% of total trade, with Panama accounting for 37.7%, Costa Rica 27.7% and Guatemala 13.9%. The case of Panama is particularly relevant from the EU perspective in so far as it is the destination for over 40% of EU exports to the region and over 60% of total trade in services (which is relatively balanced in terms of imports and exports of the same).

1.1.9. Development of FDI

In 2016, three countries (Panama, Guatemala and Costa Rica) concentrated 97% of all EU FDI in the region. FDI stocks increased by 4% for the whole region with higher rates of increase in the case of Costa Rica (16%) and Guatemala (6.5%).

Table 5: EU – CA FDI (2016, million EUR)

Country	2015		2016			
	Inward	Outward	Inward	Outward	Total	Total

Costa Rica	1 114	2 537	1 347	2 899	4 246	11.5%
El Salvador	268	105	252	93	345	1%
Guatemala	2 916	2 098	2 840	2 501	5 341	15%
Honduras	26	498	23	461	484	1%
Nicaragua	83	305	91	331	422	1%
Panama	2 071	23 479	6 560	19 541	26 101	70.5%
Total	**6 478**	**29 022**	**11 113**	**25 826**	**36 939**	**100%**

Whilst the level of importance of FDI originating from the EU is extremely varied depending on the the CA country in question, the overall level of investment in the region is relatively high. In 2016 EU FDI stocks in CA were double or more those in Colombia or Peru, with similar or lower trade values, and were closer to those with Argentina which in 2016 had a 50% higher trade flow with the EU.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

3.1. Association Committee

On 14 June 2018, the Association Committee held its fourth meeting to review the work carried out by the different subcommittees (see in more detail further below 3.2-3.8) and to discuss other trade related issues.

The Parties reached an agreement on the **incorporation of Croatia to the Association Agreement,** including the offer of compensation covering bananas as submitted earlier by the EU. They shall start the administrative and institutional procedures to adopt the relevant Protocol, the text of which has been agreed with the exception of the precise compensations related to bananas, which will be added to the final decision before initiating legal proceedings.

The **EU stressed the need to have reliable data on the use of tariff preferences** to get a better overview of the effect of the agreement so far and explore means to assist economic operators, in particular SMEs, to make better use of its opportunities. It was agreed that the Market Access subcommittee would work on this issue, with a view to identifying the reasons for the lack of data and possible solutions, including the possibility of establishing cooperation programmes.

The EU equally noted the **importance of effectively implementing the sustainable development chapter** in the Agreement. The EU will therefore be requesting regular bilateral monitoring on specific issues with certain countries, as it has already been doing in some cases.

The EU noted that there was a delay in the compliance with the commitment to adopt a competition law by Guatemala. The latter explained that the preparation of the law had been more difficult than originally expected, but that the aim of adopting it was maintained, although it was not in a position provide a date.

CA pointed out the importance of swift progress with the preparation and adoption of several procedural decisions pending in the area of customs and rules of origin.

CA also insisted on the need to establish clear and workable procedures for cumulation of origin with other countries of Latin America.

Other issues of interest to either of the parties were discussed more in detail at the meetings of the subcommittees (see below).

It was agreed that the next meeting of the institutions of the Association Agreement would take place in June 2019 in Guatemala.

3.2. Sub-Committee on Market Access for Goods

On 7 and 8 June 2018, during the fourth meeting of this sub-committee, the Parties reviewed pending issues of interest to either party.

CA main requests were:

- Systematic control by European customs of export certificates issued by the authorities of CA regarding the use of quotas, as provided for in the Agreement, in order to allow an adequate follow-up of such use by the Central American countries.

- Request by Costa Rica for the redistribution of products within the quota applied to the textile sector.

- The establishment of clear and applicable procedures for cumulation of origin, in particular with Mexico and Chile regarding tuna.

The main outstanding market access issue for the EU refers to the taxes on beers and spirits in Costa Rica which the EU considers discriminatory and in contradiction to the Joint Statement attached to the Agreement. The EU also reminded Nicaragua of the longstanding problem with scanner fees at customs.

The parties also shared information and their analyses on the recent evolution of trade flows and on the use of tariff preferences and quotas.

3.3. Sub-Committee on Customs Procedures, Trade Facilitation and Rules of Origin

The fourth meeting of the sub-committee took place on 4 and 5 June 2018, and the main following issues were discussed.

- After detailed discussions, the parties came close to agreeing the text of decisions on the Explanatory Notes and Filling Instructions of the EUR.1 certificates, on guidance relating to Annex II (rules of origin) of the Agreement, and regarding the transposition of rules of origin to the VI Amendment of the Harmonised System. It was agreed that once finalised these decisions will be adopted through written procedure.

- CA reiterated the importance it attaches to clarifying the conditions for the possible cumulation of origin with other countries in Latin America, as provided for in the Agreement. The EU noted that cumulation of origin is subject in particular to adequate administrative cooperation arrangements between the parties concerned.

- The EU insisted on its interest in relation to the proposed amendment to the text of the Agreement with regard to direct transport. CA is in the process of defining a common position on how best to address this issue, which shall be notified to the EU.

The parties also exchanged information on recent developments of their customs legislation and procedures, on customs related aspects of their ongoing trade negotiations, and on the current state of play of regional integration commitments of CA.

3.4. Sub-Committee on Technical Barriers to Trade (TBT)

On 6 June 2018, the sub-committee on TBT reviewed the following topics:

- CA requested an update on the ongoing modifications of EU legislation on the promotion of the use of energy from renewable sources and in particular as to its potential effects on the export of palm oil from CA.
- Nicaragua enquired about the practical effects for exporting countries following the establishment of a traceability system for tobacco products in the EU.
- The EU raised specific trade concerns on registration processes in CA, internal processes of technical harmonisation, and on the implementation of CA commitments on regional economic integration.

3.5. Sub-Committee on SPS Matters

The fourth meeting of the sub-committee on SPS, held on 4-5 June 208, delivered positive outcomes and consolidated progress made to date. The EU highlighted the following issues:

- The importance for CA to fulfil 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 verifications, among others.
- The importance of complying with standards, guidelines and recommendations of the international standard setting organisations.

3.6. Sub-Committee on Intellectual Property

On 6 June 2018, the fourth meeting of the sub-committee on Intellectual Property Rights (IPR) took place via video-conference to review in particular the following issues.

The Parties reviewed the state of play concerning future Geographic Indications (GIs) of CA countries as included in the Joint Declaration of the Association Agreement as well as registration and protection of EU GIs (all registered in the six countries, except parmigiano reggiano in Guatemala).

The EU indicated its concerns with several pending cases, in particular on Parmigiano in Guatemala, Manchego in Costa Rica and the publication of a list of generic terms in Honduras. Guatemala explained that in the Parmigiano case a court decision is pending. Costa Rica indicated that the existence of certain local manchegos preceded the Agreement and would therefore be covered by Article 246 of the AA. However, it took note of the EU's concerns and indicated that it would follow-up, particularly on possible cases of evocation of the region of La Mancha. Honduras confirmed its availability to discuss in detail the list of generics and requested additional documentation from the EU.

The parties agreed to continue the discussions on the EU proposal for simplified procedures for registration of new GIs. El Salvador stated its interest in registering within a short period of time seven new GIs and requested information on the EU's registration process.

3.7. Board on Trade and Sustainable Development

From 11-12 June 2018, the EU and CA held the meetings of the institutions in charge of monitoring the implementation of the TSDprovisions of the Agreement (see part 4 below).

3.8. Ad hoc meeting on Government Procurement

Following the Parties' agreement to create a temporary technical ad hoc working group on government procurement in 2016, this group met again on 7 June 2018 via videoconference.

- The EU requested information on the status of the single point of access and stressed the importance of the single point of access for EU operators to access information in the region.
- The EU addressed the importance of disseminating information regarding the commitments in the Government Procurement Title of the AA to public entities, in order to make them aware of the obligations stemming from the chapter if different from national legislation.
- Information on recent developments in the field of government procurement was exchanged between the parties, who also confirmed the usefulness for this group to continue meeting annually.

4. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

Important challenges remain in the implementation of labour provisions, particularly related to freedom of association and collective bargaining in some CA countries. Guatemala has made some progress by creating the national tripartite body, Honduras informed about the preparation of the labour law reform and El Salvador showed some efforts to re-establish the High Labour Council. However, stronger cooperation among the social partners is needed as well as more efforts to address the violence against trade unionists. Panama informed about the measures on gender equality in employment and Costa Rica on the new formalisation strategy. The EU also highlighted the issue of child labour in CA countries.

Following a recommendation of the 2016 TSD Board meeting the **EU funded two events on responsible business conduct / corporate social responsibility** (RBC/CSR) in the region. The first was held in San José, Costa Rica in May 2017, with an emphasis on responsible global value chains. The second was held in Guatemala City, Guatemala, in May 2018 and focussed on decent work. Speakers from the International Labour Organisation (ILO) and the OECD as well as the business network CSR Europe spoke at both events, which also involved participants from CA countries and were held in partnership with national organisations promoting responsible business conduct.

Civil society advisory mechanisms under the TSD chapter are now established in all Central American countries. These mechanisms have an important role to inform and involve civil society groups in the application of the TSD chapter.

Furthermore, **funding was provided by the EU to the ILO Regional Office** to support the effective implementation of ILO fundamental conventions in El Salvador and Guatemala – a key obligation under the TSD chapter. Bilateral exchanges were held with both countries to follow up on specific issues identified by the ILO ahead of meetings of the ILO in Geneva.

Last but not least, in 2018 the EU launched a new project with the Netherlands' Centre for the Promotion of Imports (CBI)[32] to promote agricultural and fishery product exports from CA to Europe, with a strong emphasis on corporate social responsibility and decent work in value chains.

5. SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

The Agreement provides a **preferential customs duty on bananas** under heading 0803.00.19 (fresh bananas), progressively reduced since the date of entry 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 serious injury to the EU banana sector, the Regulation establishes the appropriate procedures to be adopted to avoid serious harm to this sector.

The Commission has been monitoring the evolution of imports of bananas from Central American countries (as per Articles 3 and 13 of the Regulation) to assess whether the conditions set out in the Regulation are met so as to initiate a safeguard investigation or introduce prior surveillance measures. In 2017 Central American countries as a whole did again not come close to reaching their trigger level under the stabilisation mechanism. At the end of the year the overall total volume that had benefitted from preferential treatment in CA was 74.4% of the established annual limit. These imports, very close to the 75% reached the previous year, did not threaten the EU banana sector as a result of the tariff reduction. **Nevertheless, banana imports from both Guatemala and Nicaragua exceeded their trigger level for 2017**, as they did the previous year, by 61% and 277% respectively. Notwithstanding these individual countries' level of exports, the **Commission did not initiate, nor receive requests to initiate, any safeguard investigation** or introduction of prior surveillance measures.

2017 import of bananas under the stabilisation mechanism (in kg)

Country	Used Volume	Trigger Level	%
GUATEMALA	108 878 512	67 500 000	161
HONDURAS	13 934 652	67 500 000	21
NICARAGUA	50 940 735	13 500 000	377
PANAMA	250 962 430	506 250 000	47
COSTA RICA	1 093 186 696	1 383 750 000	79
EL SALVADOR	0	2 600 000	0
TOTAL	**1 517 903 025**	**2 039 100 000**	**74.4**

[32] https://www.cbi.eu/projects/connecting-central-america/

6. CONCLUSIONS AND OUTLOOK

Five years after its entry into force, **the Association Agreement between the EU and CA** has seen a **new vitality in the evolution of trade flows**. In 2017 EU trade flows with Central Amercia grew by 7.2%, at a similar pace as the EU's trade with the rest of the world (i.e., 8%). This growth has been particularly remarkable as far as exports from the region to the EU are concerned, which have been growing at an average of 8% annually since 2015.

CA exports use the Agreement to a very high degree, with an average PUR of 95%. By contrast, there continues to be no available data on the use of tariff preferences by EU exporters; the EU side has raised this issue in the Association Committee and it was agreed that the Market Access subcommittee would work on it, with a view to identifying the reasons for the lack of data and possible solutions.

The use of TRQs improved for both regions, although for CA this use remains centred on sugar and bulk rum (both at 100%) while other quotas are not utilised. EU exporters improved their use of available TRQs, particularly in the case of powered milk (at 91%), but fluctuated in relation to the other products where opportunities for further growth continue to exist.

With regard to **bananas**, total imports from CA increased to just under 75% of the established trigger levels (almost unchanged from 2016), with Guatemala and Nicaragua exceeding again their annual trigger levels by significant margins, 61% in the case of Guatemala and 277% for Nicaragua. However, these two countries' absolute **levels of exports remain modest and therefore did not have any significant impact** on the overall import figure from the region or on the EU banana market. It was therefore not deemed appropriate to apply the safeguard and suspend preferential duties.

EU exports of agri-food products have increased since the provisional application of the Agreement, rising from 471 M € in 2013 to 638 in 2017. They have benefitted from the facilitation of some SPS measures, particularly in the case of Costa Rica and Panama, with the pre-listing system correctly applied for several EU Member States/commodities. Since March 2017 export to Costa Rica of Pork meat products (cured) and Dairy products is taking place with no problems on certificates. For fruits and vegetables, there are also some success stories, like the approval by Costa Rica of apples from Poland, or barley seeds from Spain. The tools under the Agreement were very useful to get Nicaragua lifting the country wide ban imposed to Spain over certain avian influenza outbreaks. The regular contacts facilitate obtaining updated information and tackling irritants, as for example in the June 2018 SPS Subcommittee.

The correct functioning of the institutions created by the Agreement is necessary for its proper implementation. The meetings of the Association Committee and its Subcommittees took place in June 2018, after having skipped the previous year due to agenda difficulties on both sides. Following a long and arduous process, the Association Committee in 2018 agreed on a mutually satisfactory solution of principle that should pave the way for the full incorporation of Croatia into the Agreement, which will follow the necessary legal steps to become effective.

Building upon the positive cooperation now established with CA is an ongoing priority for the EU, so as to continue contributing to the common aim of achieving a complete and correct implementation of the Agreement by all relevant actors. This has allowed economic operators, consumers and civil society from both regions to take advantage of numerous opportunities provided by the Agreement.

As in previous years, the Commission continues to engage in discussing with CA any concerns raised by stakeholders on the implementation of the Agreement. The Commission reiterates its call on EU Member States and Members of the European Parliament to continue to actively contribute in this process and voice their opinion accordingly.

PART II: ANNUAL REPORT ON THE IMPLEMENTATION OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) BETWEEN THE EU AND UKRAINE, MOLDOVA AND GEORGIA

The DCFTAs with Ukraine, Moldova and Georgia provide for **deepening of political association and gradual economic integration** between the EU and its three partners, based on shared values and principles i.e. democracy and the rule of law, good governance, respect for human rights and fundamental freedoms, as well as a free market economy which would facilitate the participation in EU policies.

The DCFTAs cover two main components:

1. **Gradual, reciprocal market opening** (elimination/reduction of tariffs and elimination of non-tariff barriers to trade) by both Partners with a timeline asymmetry benefiting our DCFTA partners;

2. **Far-reaching and dynamic regulatory approximation** to the EU law, notably in trade-related areas, which should stimulate competition, create new predictable environment for business cooperation, development of trade and attracting foreign investments, and hence contribute to economic restructuring and modernization of the our partners' economies.

Our partner countries have to ensure the effective implementation and enforcement of the approximated domestic law and undertake any action necessary to reflect the development in the EU acquis in its legislation. Annexes to the Association Agreement which include the lists of EU laws, as well as the deadlines for approximation agreed by Ukraine, Moldova and Georgia are regularly amended with the aim to bringing them up to date with the EU legislation.

The **main body under the institutional framework of the EU-DCFTAs is the Association Council** (at ministerial level), which is supported by the Association Committee (at senior civil servant level) in supervising and monitoring the application and implementation of AA. For Title V - Trade and Trade-Related Matters - a dedicated Association Committee in Trade configuration (ACTC) has been established. The ACTC is assisted by 4 specialised Sub-Committees at experts' level: (1) the SPS Sub-Committee; (2) the Customs Sub-Committee; (3) the GIs Sub-Committee; and (4) the TSD Sub-Committee. Civil society is involved in the monitoring of the implementation of the TSD Chapter of the DCFTA through the respective Domestic Advisory Groups (DAGs) foreseen in the TSD chapter and the Joint Civil Society Dialogue Forum (JCSDF), which involves civil society at large.

The upcoming **fourth Macro Financial Assistance (MFA) program** of EUR 1 billion is not only a token of continued political support from the EU and recognition of reforms already undertaken but also an encouragement for continued reforms aimed at strengthening a market-oriented economy in our DCFTA partners, where the rule of law and fight against corruption are in the centre of authorities' attention for the sake of creating transparent and predictable policy framework for business operators and investors.

ANNUAL REPORT ON THE IMPLEMENTATION OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) BETWEEN THE EU AND ITS MEMBER STATES AND UKRAINE[33]

The DCFTA with Ukraine entered fully into force on 1 September 2017 after being applied provisionally since 1 January 2016. In general, implementation of the Agreement and approximation of legislation are advancing at reasonable pace. EU-Ukraine trade has grown substantially in 2017 with both import and exports increasing in both directions. The Autonomous Trade Measures adopted in 2017 for a period of 3 years have also been a contributing factor (see section 1.1.6). **The Joint Government - Parliament Legislative Road Map for the Implementation of the Association Agreement**[34] presented by Ukraine in February 2018 complementing the **Governmental Association Agreement Action Plan**, adopted in October 2017, are important and welcome steps to ensure speedy implementation of the DCFTA.

1. EVOLUTION OF TRADE

1.1. Trade in goods overall

1.1.10. Scope of trade liberalisation

The elimination and reduction of customs duties are taking place over a transitional period which in the case of Ukraine runs until 2026 and will ultimately result in market opening for 96.5% of tariff lines for products imported from the EU (97.7% in terms of import value). The EU will open its market earlier than Ukraine, implementing its liberalisation commitments by 2023 for 95.8% of tariff lines (97.9% in value) for products imported from Ukraine.

The reduction and elimination of customs duties are taking place in different staging categories depending on the specific product. Certain products are subject to annual duty-free TRQs applied indefinitely by both sides which include annual increases for some product over a five year transition period. A supplementing Annex I-A to Chapter 1 of Title IV (Trade and Trade-related Matters) which sets out in detail the staging of liberalisation will be formally added to the Association Agreement.[35]

A review clause related to trade in goods may be requested by either Party 5 years after the entry into force of the Agreement whereby both sides may consider accelerating and broadening the scope of the elimination of tariffs on trade between themselves.

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33 See the following website to find more information on Ukraine: http://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/

35 Council Decision (EU) 2018/156 of 22 January 2018 determines the EU position in the Association Council. The EU-Ukraine Association Council will adopt a formal decision to that effect in 2018.

1.1.11. *Overall evolution of EU-Ukraine trade in goods*

EU-Ukraine trade in goods increased significantly in 2017 and the positive economic growth seems to have settled after the crisis in 2014 and 2015. GDP growth in 2016 was 2.4%, a positive trend which continued in 2017 when GDP grew by 2.5%. The EU reinforced its position as Ukraine's most important trading partner.

In 2017, the EU remained Ukraine's first trading partner with 42% of its total trade. Russia was the second partner of Ukraine with 12%, followed by China (8%), Belarus (5%) and Turkey (4%). The EU has been Ukraine's top trading partner since 2013 when the share was around 31%. Ukraine is the 25th trade partner of the EU with around 1% of its total trade.

Ukraine's total trade in goods with the EU increased by more than 24% in 2017, reaching EUR 37 billion, up from EUR 30 billion in 2016. Ukraine's total trade with the world also increased from EUR 68.2 billion in 2016 to EUR 80 billion in 2017 confirming a consistent evolution in trade globally, following a steep decline in overall trade in 2015 and 2016.

Table 1: EU trade in goods with Ukraine, 2013-2017 (million EUR)

	2013	2014	2015	2016	2017
EU imports	13 882	13 734	12 844	13 159	16 740
EU exports	23 899	16 988	14 033	16 565	20 217
EU-UA total trade	37 781	30 722	26 877	29 725	36 957
EU-UA trade balance	10 017	3 255	1 190	3 406	3 478

Source: Eurostat

1.1.12. *Sectoral structure of EU-Ukraine trade in goods*

The EU continues to have a trade surplus with Ukraine as a result of the trade structure characterized by growing share of goods with higher value added. The main product categories[36] exported by the EU to Ukraine in 2017 were machinery and appliances, chemical products, transport equipment, mineral products, plastics, rubber and articles thereof, textiles and textile articles. Looking at the **sectoral split,** the m**ain increase in EU exports from 2016 and 2017 was recorded for mineral products** increasing by 49% from EUR 1.1 billion to EUR 1.6 billion. Transport equipment and machinery and appliances rose by respectively 33% and 21.5%. Live animals and animal products increased by 21% although from a lower level from EUR 250 million to EUR 304 million. Exports of foodstuffs, beverages and tobacco increased by 19.5% to EUR 940 million while vegetables saw an increase of 13.4% to EUR 537 million hence an increasing appetite for EU agricultural produce.

The traditional driving forces in **imports from Ukraine to the EU** are the sectors **of raw materials and semi-finished products** mainly from the agro-food sector and metallurgical industry, while exports have increased in most sectors, although in some from relatively low levels. Looking at the sectors concerned, the main products Ukraine exported to the EU in

[36] By Sections of the Harmonized System Nomenclature (HS).

2017 were base metals, mineral products vegetable products, machinery and appliances, animal or vegetable fats and oils and wood, charcoal and cork and articles thereof.

From the categories of products most widely imported from Ukraine, machinery and appliances increased by 25% from 2016 indicating that the significant increase from the 2015 may be a lasting trend and a positive sign as it represents higher added value goods compared to the large portion of the other imported products.

Table 2: EU trade with Ukraine by HS Sections (million EUR and % growth)

HS Section	EU imports			EU exports		
	2016	2017	Annual %	2016	2017	Annual %
Total Goods	13.159	16.740	27%	16.565	20.217	22%
I Live animals; animal products	153	238	55%	250	304	21%
II Vegetable products	2.103	2.978	42%	505	573	13%
III Animal or vegetable fats and oils	1.117	1.418	27%	41	42	2%
IV Foodstuffs, beverages, tobacco	703	813	16%	787	940	19%
V Mineral products	1.708	2.532	48%	1.088	1.620	49%
VI Products of the chemical or allied industries	364	404	11%	2.764	3.243	17%
VII Plastics, rubber and articles thereof	110	151	37%	1.179	1.333	13%
VIII Raw hides and skins, and saddlery	98	121	23%	169	211	25%
IX Wood, charcoal and cork and articles thereof	860	881	2%	119	138	16%
X Pulp of wood, paper and paperboard	88	102	16%	530	537	1%
XI Textiles and textile articles	383	427	11%	951	1.093	15%
XII Footwear, hats and other headgear	90	97	8%	138	156	14%
XIII Articles of stone, glass and ceramics	111	141	26%	230	238	4%
XIV Pearls, precious metals and articles thereof	14	20	43%	26	23	-9%
XV Base metals and articles thereof	2.891	3.496	21%	789	950	20%
XVI Machinery and appliances	1.509	1.886	25%	4.335	5.265	21%
XVII Transport equipment	82	108	32%	1.762	2.344	33%
XVIII Optical and photographic instruments etc.	22	37	67%	354	476	34%
XIX Arms and ammunition	24	3	-86%	20	13	-34%
XX Miscellaneous manufactured articles	284	386	36%	345	404	17%
XXI Works of art and antiques	0	1	110%	2	2	-17%
Other	444	502	13%	181	310	71%

Source: COMEXT

1.2. Trade in agricultural goods

Ukraine is a large producer and exporter of agricultural products which is reflected in its trade with the EU. In 2017, EU imports and exports of agricultural products from / to Ukraine increased by 32% and 17% respectively since 2016. **Ukraine became the EU's 4th biggest supplier of agricultural products in 2017**, and the first supplier among our FTA partners.

Table 3: EU trade in goods with Ukraine, split by AG and NAMA 2015-2017 (million EUR)

product category	EU28 imports				EU28 exports				EU28 trade balance	
	2015	2016	2017	17/16	2015	2016	2017	17/16	2016	2017
Total Goods	**12.844**	**13.159**	**16.757**	**27,3%**	**14.033**	**16.565**	**20.223**	**22,1%**	**3.406**	**3.466**
Agricultural products	4.063	4.116	5.517	34,0%	1.355	1.546	1.814	17,4%	-2.570	-3.703
Non-agricultural products	8.780	9.043	11.240	24,3%	12.678	15.020	18.409	22,6%	5.976	7.169
Fishery products	*10*	*12*	*21*	*80,5%*	*53*	*82*	*97*	*18,5%*	*70*	*76*
Industrial products	*8.770*	*9.032*	*11.219*	*24,2%*	*12.625*	*14.938*	*18.312*	*22,6%*	*5.906*	*7.094*

Source: Eurostat COMEXT.

The traditional products such as cereals, oil seeds, animal or vegetable fats and oils still dominate overall Ukraine exports to the EU. A closer look at trade data reveal overall increases for most products indicating that the trade preferences provided for under the DCFTA are starting to be noticed and being better exploited. For example, Ukraine's exports of dairy products increased by 30% from 2016 to 2017 while edible fruits and edible vegetables increased by respectably 44.6% and 51.8% over the same period. Cereals, oilseeds, fish, meat and edible meat offal exports also increased significantly. Similarly, important growth in EU's export to Ukraine was registered for meat and edible offal, dairy products, cereals, cocoa products, beverages and tobacco products.

Table 4: EU trade with Ukraine in agricultural goods (million EUR)

HS Chapter	EU imports		import growth		EU exports		export growth	
	2.016	2.017	total M€	annual %	2.016	2.017	total M€	annual %
Total Goods	13.159	16.740	3.580	27%	16.565	20.217	3.652	22%
01 Live Animals	1	1	- 0	-2%	54	50	- 4	-7%
02 Meat and edible meat offal	63	112	49	79%	72	98	26	36%
03 Fish and crustaceans	11	21	10	87%	65	78	13	19%
04 Dairy produce	75	98	23	30%	50	71	21	43%
05 Products of animal origin	3	6	3	77%	9	6	- 3	-35%
06 Live trees and other plants	1	1	0	5%	38	40	2	5%
07 Edible vegetables, roots & tubers	21	32	11	52%	22	23	1	5%
08 Edible fruits & nuts	103	149	46	45%	76	90	14	18%
09 Coffee, tea, mate & spices	3	3	1	24%	69	83	14	20%
10 Cereals	1.360	1.759	399	29%	96	118	22	23%
11 Products of the milling industry	14	15	1	6%	10	11	1	12%
12 Oil seeds & oleaginous fruits	568	992	424	75%	180	194	14	8%
13 Lacs, gums, resins & other veg. saps	0	0	- 0	-3%	15	13	- 1	-8%
14 Vegetable products n.e.s.	33	26	- 7	-20%	0	0	0	41%
15 Animal or vegetable fats & oils	1.117	1.418	301	27%	41	42	1	2%
16 Preparations of meat	5	2	- 3	-59%	22	27	5	21%
17 Sugars & sugar confectionery	37	45	9	23%	21	29	8	41%
18 Cocoa & cocoa preparations	24	35	11	44%	124	150	26	21%
19 Preps. of cereals, flour, starch, etc.	45	65	20	45%	57	74	18	31%
20 Preps. of vegetables, fruits, nuts & plants	76	86	10	13%	58	72	14	24%
21 Miscellaneous edible preparations	26	33	7	26%	165	177	12	7%
22 Beverages, spirits & vinegar	20	24	4	19%	137	176	39	28%
23 Residues and waste from food industry	470	523	53	11%	107	118	12	11%
24 Tobacco & tobacco products	0	0	0	1%	96	116	20	21%

Source: COMEXT

1.1.13. Use of TRQs

For products which have not been completely liberalised under the DCFTA, TRQs are in place. **Ukraine is starting to make better use of the quotas** granted by the EU, as the country diversifies its exports. While 12 out of the 36 TRQs in place are fully used, fill rates also increased for garlic, glucose and fructose, starches, dextrins and glues, milk powder, eggs and albumins. Still other quotas remain unused such as for example sheep, pork and beef meat (due to non-compliance with EU SPS regimes), and buttermilk, dairy spreads, sweetcorn, food preparations and flavoured syrup.

Ukraine grants five quotas to the EU for imports of agricultural goods (two quotas for pork, two quotas for poultry meat and one quota for sugars). One poultry quota is fully utilised while the other quotas had a relatively low to very low utilisation rate in 2017.

Table 5: Tariff rates quotas for EU exports to Ukraine in 2017

Product	Quantity (tons)	Utilisation rate
Pork	10 000	38.7%
Pork additional for: 0203 11 (10) 0203 12 (19) 0203 19 (11-15-59) 0203 21 (10) 0203 22 (19) 0203 29 (11-15-59)	10 000	9.7%
Poultry meat	8 400	99.5%
Poultry meat additional for: 0207 12	10 000	0.2%
Sugars	32 000	1.9%

Source: Ukrainian authorities

1.3. Preference utilisation rate (PUR)

The **PUR on EU imports from Ukraine** reached **87%** in 2017 slightly down from 89% in 2016. Data to calculate the PURs on EU exports were not available from Ukraine.

1.4. Autonomous trade measures

In view of the difficult economic and political situation in Ukraine the EU granted temporary autonomous trade measures (ATMs) for certain agricultural and industrial products for a period of three years, starting on 1 October 2017. This is in addition to the trade concessions available under the DCFTA and means that tariff elimination for 22 industrial products (ammonium sulphate and nitrate, fertilisers, footwear, aluminium and certain electrical machinery) will be accelerated and additional TRQs will be granted for 8 agricultural products (common wheat, maize, barley, barley groats and pellets, oats, natural honey, processed tomatoes and grape juice). The quotas for natural honey, common wheat, maize and processed tomatoes have already been fully used, while utilisation for the other quotas can only be determined by the end of 2018.

1.5. Establishment, trade in services and investments

1.1.14. Market access related to establishment and trade in services

The DCFTA contains the necessary arrangements for the progressive reciprocal liberalization of establishment and cross-border trade in services and for cooperation in electronic commerce. This includes the freedom of establishment by granting each other national treatment and most favoured-nation treatment (subject to several reservations specified by EU Member States and Ukraine) as well as liberalization of cross-border supply of services (by granting 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) both Parties recognized the importance of gradual approximation to the EU legislation. The internal market treatment may be envisaged for those four sectors once Ukraine effectively implements the EU acquis (foreseen within 2 to 7 years after the entry into force of the Agreement) and ensures adequate administrative capacity to implement and enforce it. Ukraine was notified of amendments to EU legislation in those sectors in early 2018.

The EU and Ukraine agreed on a review clause with a view of liberalizing establishment (regular review), cross-border supply of services (regular review) and capital movement (by end 2021, the fifth year following the date of entry into force of the DCFTA). This review shall take into account, *inter alia*, the process of gradual approximation foreseen in the Agreements and its impact on the elimination of remaining obstacles to cross border supply of services between the parties.

1.1.15. Trade in services

After the decline in 2014 for similar reasons as trade in goods, the **total bilateral trade in services between the EU and Ukraine continued its increasing trend** started in 2015 and rose to around EUR 10 billion in 2016. This is an increase of 4% from 2015 and above 7% from 2014.

Table 6: EU services trade with Ukraine (million EUR)

	2014	2015	2016
EU 28 imports	2 691	2 737	2 678
EU28 exports	4 716	5 006	5 467
Total	9 421	9 759	10 161

Source: European Commission, DG Trade.

EU exports of services grew in that period by 6.3% (to EUR 5.0 billion) compared to 2014 (EUR 4.7 billion). EU imports increased in the same time by 3% (from EUR 2.6 billion to 2.7 billion).

1.1.16. FDI

After a deep economic crisis in 2014 and 2015 with GDP decline of respectively 6.6% and 9.9%, Ukraine's economy progressively recovered in 2016 (GDP growth of +2.3%) and 2017 (+2.5%). However, the 2017 recovery was hampered, inter alia, by the cargo blockade introduced vis-à-vis the non-government-controlled areas (following the confiscation of Ukrainian companies by Russia-backed separatists), while the forecasts for 2018 suggest an acceleration of GDP growth to 3.2-3.5%. EU Foreign Direct Investment (FDI) in the country remains at a very low level as seen in table 7.

A number of key reforms were introduced in Ukraine in the recent years to improve the business climate and attract investors. Ukraine ranks 76 in the 2018 World Bank Doing Business Index. It considerably improved its position over the last years since it ranked 112 in 2014, but is still doing worse than its peers in the region. Ukrainian authorities have to make further efforts to address the long-standing barriers that affect negatively the process of attracting foreign investors who are preoccupied with corruption, lack of trust in judiciary and unpredictable regulatory changes. This would also stimulate investment by small and medium sized enterprises in Ukraine itself.

Table 7: EU FDI with Ukraine, 2015-2016 (million EUR)

FDI stocks	**2015**	**2016**
Ukraine in EU28 (inward)	456	175
EU28 in Ukraine (outward)	12700	9900
Net investment stocks	12244	9725
FDI flows	**2015**	**2016**
Ukraine EU28 (inward)	200	60
EU28 into Ukraine (outward)	500	-600
Net investment flows	300	-540

Source: Eurostat.

2. ACTIVITIES OF THE IMPLEMENTATION BODIES

2.1. Joint decisions of the Association Bodies

Resulting from preparatory work in 2017 the following two decisions were adopted in 2018 (date) by the Association Committee in Trade configuration:

- ✓ **Public Procurement**: Decision 1/2018 of the EU-Ukraine Association Committee in Trade configuration updating Annex XXI to Chapter 8 on **Public Procurement** of Title IV to the Association Agreement and giving a favourable opinion regarding the comprehensive roadmap on public procurement[37] of 14 May 2018. This is a first step

[37] Council Decision (EU) 2017/43 of 12 December 2016.

in obtaining market access to the public procurement market as provided for in the DCFTA.

- ✓ **Export duties, safeguards**: Decision 2/2018 of the EU-Ukraine Association Committee in Trade configuration recalculating the schedule of **export duty elimination and safeguard measures** for export duties set out in Annex I-C and Annex I-D to Chapter 1 of Title IV of the Association Agreement[38] of 14 May 2018. The following decision includes a new appendix that clarifies the staging categories for the reduction of customs duties.

A third decision containing a new appendix clarifying the reduction to the base rate of customs duties to be applied for staging category will also be adopted by the Association Council in 2018 via written procedure:

- ✓ **Customs duties**: Decision of the EU-Ukraine Association Council as regards supplementing Annex I-A to Chapter 1 of Title IV of the Association Agreement[39]

2.2. Meetings of the Association Bodies

The **2nd Association Committee in Trade configuration (ACTC)** met in Brussels on 28-29 September 2017. Both sides exchanged information on trade data, trade policies and took stock of the situation in all DCFTA chapters: competition, public procurement, intellectual property rights (including GIs), SPS issues, trade in services, trade related energy, trade and sustainable development. Discussions included also the wood export ban maintained by Ukraine, implementation of autonomous trade measures, business and investment climate and support to SMEs. Both sides also exchanged list of individuals to serve as arbitrators in dispute settlement proceedings (while the Ukrainian list remains incomplete, May 2018). Ukraine gave an overview of progress in the approximation of legislation and on the institutional capacity building in several areas, often supported by EU technical assistance. The operational conclusions from the ACTC guide work in monitoring commitments and implementation on both sides.

The **2nd EU-Ukraine High Level Industrial and Regulatory Dialogue** was held on the 27 March 2018 with the participation of Commissioner Bieńkowska. The main objectives were to 1) To strengthen EU-Ukraine industrial cooperation, 2) To encourage the reforms launched by the government to modernize the Ukrainian economy 3) To provide EU support to Ukraine in implementing its reform agenda. On this occasion five working groups held meetings - the **Dialogue on Technical Barriers to Trade** (as provided by the Article of 55 of the Association Agreement) as well as **Public Procurement Dialogue,** working groups on **SMEs**, **Space**, and **Industrial cooperation in Automotive**.

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38 Council Decision (EU) 2018/156 of 22 January 2018.
39 Council Decision (EU) 2018/156 of 22 January 2018.

The four sub-committees on GIs, customs, SPS and TSD held their first meetings in 2017 and reports from these meetings were included in the FTA Implementation Report of 2017. Three of the sub-committees have met since. The SPS sub-committee held its second meeting on the 19 October 2017 in Kiev. The main topics concerned the new import requirements of Ukraine, bilateral veterinary certificates for EU exports to Ukraine. Ukraine also provided an update on the animal health situation. Bilateral trade issues focussed in particular on the recognition of the regionalization principles on highly pathogenic avian influenza (HPAI) and the possibility of beef export to EU. The SPS strategy was also discussed. The GI Sub-committee held its second meeting on the 12 June 2018 in Brussels with discussions focussing on legislative developments in relation to GIs, the update of the list of GIs protected in the Association Agreement (AA), various enforcement issues and possible misuse of Asti and Prosecco respectively a protected and not protected GI under the Agreement. Both sides took stock of the work of the GIs technical assistance project financed by the EU. The 2nd Customs Sub-Committee held its meeting on 2 July 2018 in Brussels. The main topics discussed were (i) fostering Ukraine's efforts in the implementation of the Customs Chapter of the AA, and in particular advancing the preparation to accede to the Convention on a common transit; (ii) achieving initial accord on the draft texts of the new Annex XV and the new Protocol I; (iii) taking tangible measures by the Ukrainian Customs to more effectively combat tobacco smuggling and corruption

3. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The first and only meeting of the TSD Sub-committee took place in May 2017 and the second meeting is foreseen in October 2018. Ukraine has still not appointed its members to the joint Group of Experts, a group the parties agreed to consult on TSD matters if there is a need. Neither has the Ukraine appointed its members of the Advisory Group consisting of representatives of different groups of Ukrainian civil society. It is expected that these groups will be established in 2018 following the establishment in June 2018 of the Council on TSDin Ukraine

4. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

SPS aspects

The Comprehensive Strategy on alignment with EU legislation on SPS and animal welfare is expected to be formally adopted in 2018 following amendments and technical adjustments to the initial Union position on the SPS Strategy from 2017. Ukraine’s effort to align its legislation is ongoing. Ukraine still needs to step up efforts in lifting the remaining trade irritants (notably the recognition of regionalisation for African Swine Fever (ASF) as well as the one related to the draft Order 71 on adoption of requirements for importing (sending) into the customs territory of Ukraine of live animals, their reproductive material, food products of animal origin and products not intended for human consumption). Several video conferences and bilateral meetings including SPS Sub-Committee have taken place to make progress and we expect this to be finalised 2018 or early 2019.

In 2017, following EU SPS market access issues were solved: for poultry and poultry products, in January 2017, an agreement was reached on reciprocal recognition of regionalisation when outbreaks of avian influenza occur; for milk and dairy products, a harmonised veterinary certificate is in force as of mid –September 2017 (Born and raised clause has been eliminated); the temporary ban on EU eggs, poultry meat and offal due to fipronil contamination in the Netherlands, Belgium, Germany and France has been lifted in September 2017.

There is an on-going negotiation of other export certificates to Ukraine. Ukraine is interested in red meat export. So far, the relevant EU import requirements are not met.

Public procurement

After much preparatory work in 2017, a **comprehensive roadmap on public procurement was formally adopted by Ukraine on the 14 May 2018** (see Decision No 1/2018 of the ACTC on updating Annex XXI to Chapter 8 on Public Procurement to the Association Agreement). Ukraine has progressed towards building a transparent, non-discriminatory, competitive and open public procurement system and has introduced compulsory e-procurement in the public sector, which proves to be effective in enhancing efficiency and reducing corruption. Despite these solid reforms there have been attempts by certain members of the Parliament of Ukraine to amend the law by including discriminatory local content requirements which, if adopted, would violate both the provisions of the DCFTA and the revised WTO Government Procurement Agreement that Ukraine joined in 2016. The Commission has on several occasions expressed its concern and continues to work closely with the Government of Ukraine to avoid these amendments from being adopted.

Intellectual property rights

Ukraine made ambitious commitments in the DCFTA on alignment of its system of protection and enforcement of intellectual property rights (IPRs). Progress is monitored at technical level within the IPR Dialogue established under the DCFTA. Throughout 2017 the EU provided input and comments to several draft laws, including the draft patent law, the draft law on trademark and design and the draft law on copyright and related rights, among other things. **There are still problems in relation to collective right management organisations** and an analysis by the Commission of the law on collective right management adopted in 2018 is ongoing. Ukraine needs to step up efforts against counterfeiting and piracy, especially at its border. It should be noted that Ukraine improved its legal system of fighting against internet piracy. The adopted Law on Cinematography introduces better controls to prevent illegal content being shown on websites based in Ukraine, and the activities of the cyber-police to enforce the law in good cooperation with international bodies is very encouraging. Since its adoption, the law has not been properly enforced due to the lack of the IP inspectors. The importance of these aspects has been made clear to Ukraine and was raised again during the Intellectual Property Rights dialogue that took place in Ukraine the 20 June 2018. The

Commission is following this closely and are in a constructive dialogue with the Ukrainian authorities.

Ukraine's accession to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin

On 13th December 2017 the instrument of Ukraine's accession to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) was deposited at the General Secretariat of the Council of the EU. Ukraine acceded to the Convention on 1st February 2018. The Customs Sub-Committee will take a decision to replace Protocol I of the DCFTA by a new protocol which refers to the PEM Convention. This would make effective the cumulation of rules of origin between the EU and Ukraine under the PEM Convention. One sentence to explain what this means, pls.

Export ban on raw wood

The export ban on raw wood continues to be of concern to the EU since 2015. The Commission repeatedly raised this issue in meetings, including in the Association Committee in Trade configuration, and in writing, reminding Ukraine of its obligation under the DCFTA. In September 2017 the EU handed over a non-paper suggesting a number of initiatives surrounding the lifting of Ukraine's export ban on wood. The non-paper covers a possible communication campaign to increase knowledge among relevant stakeholders and help ensure a fact-based discussion. Furthermore, the EU offered technical assistance to implement the forestry roadmap 2020 and support a number of other activities, including the improvement and implementation of systems for wood certification/traceability and the improvement of facilities and equipment (GIS/IT databases) for effective forest monitoring and inspection/control. An important areas addressed in the non-paper also concerning the strengthening of cooperation with international organisations including INTERPOL and customs and law-enforcement agencies of timber importing countries, in particular EU Member States and TAIEX study visits by the Ukrainian authorities to EU Member States that have successfully addressed illegal logging. These have not materialised. The constructive approach by the Commission and Ukraine's reluctance to progress means that the Commission is now considering addressing this trade irritant through the dispute settlement mechanism provided for under the DCFTA.

Poultry imports

In 2017 the EU observed a large increase of imports of specific poultry cuts from Ukraine. The product in question is a traditional breast cap with the humerus bones of the wings attached, which is systematically deboned after import, turning it into traditional poultry breast. The bone-in cuts are classified under the tariff line 'other cuts', which is duty free under the DCFTA. The EU had limited its concessions under the DCFTA for poultry breast to the opening of a zero-duty tariff-rate quota explicitly because of the sensitivity of poultry breasts for the EU market. This situation may lead to potentially unlimited imports of poultry breast from Ukraine, which is of concern to the EU. The Commission has acted swiftly to address the issue and is in contact with Ukraine to find a solution agreeable to both sides.

5. EU SUPPORT TO DCFTA IMPLEMENTATION

EU Support to DCFTA-related reforms

EU assistance to the implementation of the DCFTA is embedded in a comprehensive support programme to systemic reforms, drawn up in response to the 2014 events as well as in view of the AA/DCFTA implementation. This so far notably includes a a substantive package on good governance with Public Administration Reform, decentralisation reform and the rule of law including the fight against corruption in the focus; private sector development; fostering of energy efficiency; support to the conflict-affected areas in Eastern Ukraine; skills development and people-to-people contacts. With an annual budget of up to 200 million euro, 965 million euro has been allocated bilaterally under the European Neighbourhood Instrument so far.

In the area of economic reform, including implementation of the DCFTA and the related approximation of Ukrainian legislation to EU acquis, EU support covers a wide range of sectors, including technical barriers to trade, customs, intellectual property rights, competition, financial services, food safety, sanitary and phyto-sanitary measures, and others. Most significat EU support operations to DCFTA-related reforms currently take place in the areas of customs, food safety and fiancial services. Ukraine benefits from EU support projects provided through a whole set of assistance modalities, including technical assistance, twinning and TAIEX projects.

Legal approximation of Ukraine's customs legislation with EU acquis is about to be supported under the EU public finance management support programme. The technical assistance project aims to support customs reforms in order to facilitate mutual trade. In addition, an ongoing EU twinning project focuses on reinforcing integrated border management elements in the area of customs.

The EU provides assistance to Ukraine in the sector of food safety, sanitary and phyto-sanitary measures in order to align Ukrainian standards to those of the EU. The EU supports Ukraine through a technical assistance project on improvement of food safety control system and a twinning project on approximation of Ukrainian legislation with the EU in the field of plant protection and plant health.

The EU supports reforms in financial services in Ukraine with a technical project in financial sector priority areas, which focuses on financial transparency, stability and better supervision. A further technical assistance project works towards strengthening the regulation and supervision of the non-bank financial market.

The EU supports alignment of the Ukrainian quality infrastructure system with that of the EU in order to remove technical barriers to trade. An EU technical assistance project works towards further regulatory harmonisation between the EU and Ukraine in the area of technical barriers to trade.

Alignment of Ukraine's national competition legislation with EU standards is being supported with a twinning project. In the perspective of the effective entry into force of the state aid control in Ukraine, a further technical assistance project started aiming to build institutional capacities with the state aid control bodies.

EU Support for SMEs

SMEs in Ukraine are benefitting from the EU support under the DCFTA Facility for SMEs which aims at increasing SMEs competitiveness, easing their access to finance, helping them to seize new trade opportunities and comply with new food safety, technical and quality standards, as well as with environmental protection measures implied by the DCFTA implementation.

The DCFTA Facility consists of a set of programmes implemented principally by EBRD and EIB. SMEs are benefiting from the EU support through four types of instruments:

1) risk sharing mechanisms (mostly first loss portfolio guarantees for local banks);

2) currency hedging (interest rate subsidies for loans in local currency);

3) investment incentives (grants provided to SMEs combined with investment loans to upgrade machinery or production processes in line with the EU standards) and

4) technical assistance (business advice to SMEs and local banks, assessment of the compliance with the EU standards, capacity building for local banks).

EU also supports private sector in Ukraine, in particular SMEs through capacity building and by facilitating access to markets. A flagship project is "EU4Business: Network of Business Support Centres in Ukraine" implemented by EBRD. It offers advisory support to SMEs (creation of 15 regional Business Support Centres, business advice to SMEs by local/international consultants) and investment preparation. Another relevant initiative is “Eastern Partnership: Ready to Trade (International Trade Centre)”. The EU provides also technical assistance to authorities on SME policy and better regulation: FORBIZ including the Better Regulation Delivery Office (BRDO), and EU4Business: From Policies to Action (OECD).

6. CONCLUSIONS AND OUTLOOK

The **economic situation in Ukraine has been stabilised** after the economic crisis of 2014-2015 when the illegal annexation of Crimea and Sevastopol and the conflict in the east of the country provoked by Russia's destabilising actions, coupled with an unfavourable global economic environment and measures introduced by Russia[40] resulted in an overall decline by

[40] As from 1 January 2016 Russia suspended (indefinitely) the application of the Russia-Ukraine Commonwealth of Independent States FTA i.e. reintroduced MFN tariffs on imports from Ukraine (as a direct response to the start of provisional application of the EU-Ukraine DCFTA

over 17% of GDP, having a negative impact on foreign trade, including with the EU. All these aspects strongly contributed to the drop in overall exports from Ukraine to the world, and in particular to the Russian Federation. The reversal of the negative trend in exports from Ukraine to the EU indicates the gradual reorientation of its exports towards the EU and an improvement of Ukraine's export performance overall.

The dynamic regulatory approximation and alignment are advancing and are being monitored closely. The **Joint Government - Parliament Legislative Road Map for the Implementation of the Association Agreement** adopted in February 2018 should speed up the process in 2018 while reforms in trade-related areas, financially and technically supported by the EU start to bring tangible effects. Ukraine should take full advantage of the financial incentives provided by the EU to strengthen the small and medium sized enterprises which are also important for job creation and economic growth.

Ukraine still needs to make **further efforts in IPR reforms and in institutional aspects** for the implementation of TSD Chapter. It also needs to better prepare for discussing the implementation of the labour provisions under the TSD chapter. Furthermore, policies and reforms related to **strengthening the rule of law and the business and investment climate** need to advance for the benefit of foreign and domestic investors alike. Capacities to enforce labour standards and rights need to be further enhanced. EU support to this effect has started. Getting rid of trade irritants such as the export ban on raw wood, which might be linked to the vested interests, and avoiding the adoption of discriminatory legislation as regards public procurement are very important.

Ukraine has made substantive progress in trade-related reforms under difficult circumstances over a short period of time and this important momentum has to be sustained.

). Furthermore, Russia introduced an embargo (extended until the end of 2018) on imports from Ukraine of agricultural products in the follow-up to Ukraine's adherence to EU sanctions against Russia as well as started to apply the road and railway transit restrictions on exports from Ukraine to Central Asia.

ANNUAL REPORT ON THE IMPLEMENTATION OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) BETWEEN THE EU AND ITS MEMBER STATES AND GEORGIA[41]

The DCFTA (DCFTA) of the EU-Georgia Association Agreemen (AA)[42] entered into force on 1 July 2016 after being applied on provisional basis since 1 September 2014.[43] This is the second report on the implementation of the EU-Georgia DCFTA. It responds also to the requirements of the Regulation implementing the anti-circumvention mechanism provided for in the EU-Georgia Association Agreement.[44]

To highlight that the Government of Georgia adopted in November 2017 an **Action Plan for the implementation of the DCFTA 2018-2020**[45]. It is a continuation of the Action Plan for 2014-2017, outlining the priorities of the Association Agenda, planned activities related to each priority with indicators, responsible implementing institutions and timeframe for implementation.

1. EVOLUTION OF TRADE

1.1. Trade in Goods overall

1.1.17. The scope of trade liberalization

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. Nevertheless market access for these products has been improved. To this end the EU has granted a duty-free TRQs for garlic originating from Georgia and, for 28 agricultural products (including fruits and vegetables) that are subject to **entry prices,** the EU has eliminated the *ad valorem* component of the import duty.

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,

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[41] See the following website to find more information on Georgia: http://ec.europa.eu/trade/policy/countries-and-regions/countries/georgia/

[42] 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

[43] 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, which is not the case at present.

[44] 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 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.

[45] See http://www.dcfta.gov.ge/en/implementation

starches and sugars as well as to processed agricultural products such as: sweetcorn, processed sugars and cereals and cigarettes.

Both Parties agreed on a **review clause,** i.e. that after five years from the entry into force of the DCFTA, they would consult (if there is a request from either party) to consider broadening the scope of the liberalization of customs duties in bilateral trade.

1.1.18. Overall evolution of EU–Georgia trade in goods

In accordance with 2017 Eurostat data, the **EU is the most important trade partner of Georgia with 27% share** in its overall trade (24% in total export and 28% imports) and is followed by Turkey (15%), Russia 11%), China (9%) and Azerbaijan (8%). **Georgia is the EU's 73rd trade partner** and accounts for only 0.1% of its total trade.

In 2017 the overall trade between the EU and Georgia increased on year-on-year-basis by 6% and amounted to EUR 2.66 billion. **EU exports to Georgia increased** in that time by 1.4% while **EU imports from Georgia noted an increaseof 23%** compared to 2016. Mineral fuels, nuts, fertilizers , and mining products account for over 63% of total Georgian export to the EU.

In the analysed period **the surplus in EU trade with Georgia** has decreased from EUR 1.41 billion to 1.32 billion.

Table 1: EU trade in goods with Georgia, 2015-2017 (million EUR)

EU trade with Georgia	2015	2016	% change 2016/2015	2017	% change 2017/2016	% change 2017/2015
EU Exports	1 840	1 960	6.5	1 989	1.4	8
EU Imports	736	543	-26.2	667	22.8	-9.3
Total trade	2 576	2 500	-3	2 656	6.2	3.1
Trade balance	+1 104	+1 417	-	+1 322	-	19.7

Source: Eurostat COMEXT.

1.1.19. Sectoral structure of EU-Georgia trade in goods

As concerns the **structure of EU exports to Georgia** in 2017, the most important product categories (by Sections of the Harmonized System Nomenclature – HS) were: **machinery and appliances, mineral and chemical products**. The observed shares and dynamics in 2017 in comparison to 2016 were as follows: machinery and appliances amounted to 18.8% of overall EU exports to Georgia and decreased by 12.6%; mineral products – 18.8%, increase by 3%; products of chemical or allied industries - 18%, increase by 6% (pharmaceutical products represented the largest proportion of EU exports to Georgia in this category, accounting for 12.5%). Other products categories that showed an increase in EU exports are transport equipment and prepared foodstuffs.

In terms of **structure of EU imports from Georgia** in 2017, the most important product categories were: **mineral products, fruits and vegetables (notably nuts), base metals and chemical goods**. The following shares and dynamics in 2017 comparing to 2016 were observed: mineral products accounted for almost 46% of the total EU imports from Georgia and increased by 110% (due to a sharp increase in EU imports of ores, slag and ash); vegetable products – 11.4%; a decrease by 61% (by far the largest sub-categories of imported products were edible fruits and nuts accounting for 11.3% of the total EU imports from Georgia); base metals and articles thereof – 10%; prepared foodstuffs, beverages, spirits and vinegar – 7.9%; products of chemical or allied industries – 6.8%; other categories of products that have shown an increase in EU imports from Georgia are textiles and textile articles, optical equipment..

Table 2: EU trade with Georgia by HS section (million EUR)

1.2. Trade in agricultural goods

In 2017, EU imports of agricultural products from Georgia have decreased by 36% since 2016. Fruit & nuts accounted for 42% of the EU's agri-food imports from Georgia in 2017, followed by wine and spirits (almost 30%). EU exports of agricultural products to Georgia have increased by 12% over the same period. The EU's key agri-food exports to Georgia consisted of spirits and liqueurs (15%), beet and cane sugar (10%) and food preparations, chocolate, confectionery & ice cream (10%).

Throughout the first three years of DCFTA implementation Georgia started to export some new products to the EU e.g. kiwi and blue berries. This shows a potential of the DCFTA to attract new product categories to be commercialized on the markets of both Parties.

Table 3: EU trade in goods with Georgia, split by AG and NAMA (million EUR)

Agrifood trade EU28 with Georgia				
Georgia	2016	2017	Growth	
			mio €	annual %
EU28 imports	183	118	-65	-35.7%
EU28 exports	221	248	27	12.0%
Balance	38	130	92	
Total trade	405	366	-39	-9.6%
Source Trade G2 Statistics/ISDB				

NAMA trade EU28 with Georgia				
Georgia	2016	2017	Growth	
			mio €	annual %
EU28 imports	360	549	190	52.8%
EU28 exports	1,739	1,741	2	0.1%
Balance	1,379	1,192	-188	
Total trade	2,098	2,291	192	9.2%
Source Trade G2 Statistics/ISDB				

1.3. Use of TRQs (TRQ)

In 2017 the EU annual duty-free TRQ of 220 tons for Georgian garlic was not used at all, mainly due to the lack of marketing for these products on the EU market.

1.4. Preference utilisation rate (PUR)

The preference utilization rate (PUR) on imports into the EU from Georgia amounted to 77% in 2017, down from 80% in 2016. At HS Section level, the highest overall PURs are found in animal and vegetable fats and oils at 100%, vegetable products at 98%, wood and wood products, prepared foodstuffs, beverages, spirits and vinegar at 95% and articles of stone, plaster, cement, asbestos at 95%. PURs for EU exports to Georgia increased from 71.3% in 2016 to 76.9% in 2017.

1.5. Establishment, trade in services and investments

1.1.20. 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 liberalization 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). **Cross-border supply of services** was also liberalised (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 recognized the importance of gradual approximation (over a period of 4 and 8 years – pls specify which time period applied to which sector) of its existing and future legislation to the list of 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 liberalizing establishment, cross-border supply of services (regular review) and capital movement (by the end of the fifth year following the date of the entry into force of the DCFTA). This review 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.

1.1.21. Trade in services

In general, trade in services between the EU and Georgia has more than doubled between 2006 and 2016, both in terms of imports and exports. In 2014-2016 the total trade in services between both Partners decreased from EUR 862 to 684 million.

Table 2: EU trade in services with Georgia, 2014-2016 (million EUR)

EU trade with Georgia	2014	2015	% change 2015/2014	2016	% change 2016/2015
EU exports	591	547	-7	393	-32
EU imports	271	290	7	291	0.0
Total trade	862	837	-3	684	-18
Trade balance	320	257	-20	102	-60

Source: European Commission, DG Trade.

The structure of exports of services by Georgia to the world is dominated by travel and transport services, in imports the most important sectors are transport, travel, insurance and pension services as well other business services.

1.1.22. FDI

In 2016 FDIs (FDIs) stocks in Georgia originating from the EU accounted for EUR 1.6 billion (a sharp decrease compared to 2015). Top EU Member States investing in Georgia are: the Netherlands, United Kingdom, France, Germany and the Czech Republic. Inward FDIs flows in that year amounted to EUR 25 million and were also considerably lower level than in 2015 when they reached EUR 123 million.

Table 3: EU FDI with Georgia, 2015-2016 (million EUR)

FDI stocks	**2014**	**2015**	**2016**
Georgia in EU28 (inward)	90	123	25
EU28 in Georgia (outward)	3 922	3 884	1 589
Stocks: balance	3 832	3 761	1 564
FDI flows)	**2014**	**2015**	**2016**
Georgia into EU28 (inward)	4	-30	-82
EU28 into Georgia (outward)	203	142	-1 351
Flows: balance	199	172	-1 269

Source: European Commission, DG Trade.

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 2018 World Bank Doing Business Index 2018 Georgia is on 9th position amongst 190 countries. In the 2017 Transparency International – Corruption Perception Index Georgia appeared on 44th position among 176 countries.

2. ACTIVITIES OF THE IMPLEMENTATION BODIES [46]

2.1. Joint decisions of the Association Bodies

In 2017, the following **amendments/updates** have been introduced in the Association Agreement:

- ✓ **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);[47]
- ✓ **SPS**: List of the EU SPS and animal welfare acquis (Annex XI-B) to which Georgia intends to approximate its domestic legislation.[48] This jointly agreed

[46] Official Journals of the EU where the decisions on the Rules of Procedure for the EU-Georgia Association bodies were published: of the Association Council and those of the Association Committee and of Sub-Committees (OJ L 321, 5.12.2015); of the Customs Sub-Committee (OJ L 114, 5.5.2015); of the Sanitary and Phytosanitary Sub-Committee (OJ L 123, 23.05.2017); of the Trade and Sustainable Development Sub-Committee (publication pending); of the GIs Sub-Committee (OJ L 134, 23.05.2017).

[47] OJ L 100, 19.4.2018.

SPS roadmap is to serve as a reference document for the implementation of SPS Chapter of the DCFTA.

- ✓ **Dispute Settlement:** Establishing the list of arbitrators for bilateral trade dispute settlement mechanism[49];
- ✓ **Rules of Origin**: Replacement of Protocol I concerning the definition of the concept of 'originating products' and methods of administrative cooperation, by a new protocol which refers to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention)[50];
- ✓ **Standardisation**: Annex III (rules applicable to standardisation, accreditation, conformity assessment, technical regulation and metrology); procedure is ongoing, and should be finalized before the report is published.
- ✓ **Public Procurement**: Annex XVI (public procurement); procedure is ongoing, and should be finalized before the report is published.

2.2. Meetings of the Association Bodies

The 4th meeting of the EU-Georgia **Association Committee in Trade configuration** was held on 6 December 2017 in Tbilisi. The meeting provided an opportunity to review all issues related to the comprehensive, timely and inclusive implementation of the EU-Georgia DCFTA. Both Parties 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, trade and sustainable development. The Committee assessed the development of bilateral trade after three years of implementation of the DCFTA. The Georgian side expressed concerns about their trade deficit with the EU.

Both Partners raised their respective concerns related to the implementation of the commitments on approximation with the EU law in particular in the area of SPS measures, technical barriers to trade, public procurement, intellectual property rights, TSD and instructed the specialized 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 the Georgian administration and the

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48 Decision No 1/2017 of the EU-Georgia Sanitary and Phytosanitary Sub-Committee of 7 March 2017 modifying Annex XI-B to the Association Agreement OJ L 98, 11.04.2017 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22017D0683&from=EN

49 Decision No 1/2017 of the EU-Georgia Association Committee in Trade configuration of 6 December 2017 establishing the list of arbitrators referred to in Article 268(1) of 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 1, 4.01.2018, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22018D0002

50 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 established by 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, as regards the replacement of Protocol I to that Agreement, concerning the definition of the concept of 'originating products' and methods of administrative cooperation, by a new protocol which refers to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin, OJ L 344, 23.12.2017; http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017D2433

small and medium-sized enterprises (SMEs) to align with the *acquis* and reap the benefits from the Agreement.

The 2nd meeting of the EU-Georgia Sub-Committee on Economic and Other Sector Cooperation – Cluster V "Agriculture and Rural Development, Fisheries and Maritime Governance, Regional Development, Cross-Border and Regional Level Cooperation" took place 16 March 2017. The discussions highlighted the implementation of the "Strategy for Agricultural Development in Georgia, 2015-2020" and the adoption of the first Rural Development Strategy of Georgia (2017-2020). The EU committed to continue providing assistance to Georgia, in particular through the European neighbourhood programme for agriculture and rural development.

The 3rd **Customs Sub-Committee** met in Brussels on 17 May 2017. The discussion focused on: the legislative and policy developments, including Georgia's progress report on the implementation of DCFTA customs provisions, information about initiatives in strengthening customs enforcement of intellectual property rights (IPR) to be shared by the Parties; strategic framework for EU-Georgia Customs Cooperation; Georgia's prospects for accession to the Convention on a Common Transit Procedure; prefe's replies to a questionnaire related to the Authorized Economic Operator program; risk management and fight against fraud; rules of origin. Georgia requested the relevant joint decision adopted with a view to reflecting the linkage of the EU-Georgia rules of origin to the PEM Convention.[51]

The 3rd **SPS Sub-Committee** met in Brussels on 9 October 2017. Both Parties discussed the approximation list in Annex XI-B which serves as a reference document for the implementation of Chapter 4 SPS Measures of Title IV of the Association Agreement. The discussion also focused on: progress in reforms in the SPS area and a timeframe for legislative approximation submitted by Georgian authorities (including analysis of the tables of correspondence for already approximated legislation prepared by Georgia); improvement in the food safety control system and animal health situation, in particular the strengthening the role of the National Food Agency (NFA) in ensuring overall food safety; as well as on a potential of Georgia in exports of goods to foreign markets.

The 3rd **GIs Sub-Committee** took place in Tbilisi on 14 March 2018. The Sub-Committee discussed updates of the lists of EU 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. The provisions on exchange of information on all the

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[51] The joint Decision on the linkage of the rules of origin in bilateral trade to the Protocol of PEM Convention was adopted during the 4th Customs Sub-Committee which took place in Brussels on 20 March 2018. The abovementioned amendments envisage diagonal cumulation to come into force between the EU, Georgia and the Republic of Turkey after the Turkish side has ratified respective amendments to the Free Trade Agreement (FTA) between Georgia and the Republic of Turkey (Georgia has already finalized ratification process).

updates on EU as well as Georgian GIs (new ones, removals from the list, modifications) were also discussed in view of the need for each Party to have the possibility to run objection procedures for the new names and for any other procedures necessary for the next update of GI Annexes to the DCFTA.

For the 2nd **TSD Sub-Committee** see section 5 below.

3. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The 2nd **TSD Sub-Committee** took place on 20 March 2018. The discussions highlighted the importance of the TSD chapter implementation, notably due to a growing political and public awareness of the importance of the environmental and labour provisions in trade policy. The meeting was also an occasion to discuss Georgia's progress in implementing the fundamental International Labour Organisation (ILO) conventions, to welcome cooperation by both Parties on sustainable development, and in particular on environmental aspectsand to discuss the TSD joint work plan. The main priority areas identified in the work plan are illegal wildlife trade, sustainable forest management, effective implementation of UNFCCC, effective implementation of core labour standards including strengthening the Labour Inspection system and the operational framework regarding child labour and enhancing non-discrimination in the workplace as well as promoting equal pay for equal work.

At the same time discussions were held with the Civil Society Forum and between the Domestic Advisory Groups.

Both Parties noted some progress in implementing the fundamental International Labour Organization (ILO) conventions but it was underlined that in a number of specific areas more efforts need to be undertaken to effectively implement them, notably with regard to the establishment of a fully flegded labour inspection system, preventing child labour and ensuring freedom of association and collective bargaining. Tripartite discussions on labour policy enforcement, labour inspections and occupation and health and safety need to be strengthened.

The EU welcomed the cooperation on environmental aspects of the TSD Chapter, applauded Georgia for adopting the Environmental Assessment Code[52]. This Code regulates matters related to strategic documents and public or private activities which may have significant effects on the environment, human life and/or health. The procedures for environmental impact assessment, strategic environmental assessment, transboundary environmental impact assessment, and public participation in decision-making, as well as the conduct of expert examinations, fall within the scope of this Code), and for the ratification of the Paris Agreement on Climate Change in force as of 7 June 2017. The EU encouraged Georgia to implement the Paris Agreement, while acknowledging the challenges in its application.

[52] https://matsne.gov.ge/en/document/view/3691981

The representatives of Georgia underlined the developments in the forestry sector. A Final draft of the Forestry Code elaborated by the Government, was submitted to the Parliament in 2017. Sustainable forestry management and risk assessment are being developed along with wildlife trade and other biodiversity aspects. The draft law on biodiversity was prepared in 2016 and will undergo public hearings before adoption in 2018.

4. SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

Entry price system and anti-circumvention mechanism

In 2017 there was no overshooting for products subject to the entry price (Annex II-B of the Association Agreement). When it comes to agricultural products subject to anti-circumvention mechanism, none of the trigger levels were exceeded in 2017, due to the low trade levels for those products. It is worth noting, that in the analysed period there were no imports of products to be potentially affected by anti-circumvention mechanism with exception of cereals.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The **approximation** commitments for 2015-2017 have not been completed to date. These concerned the submission (6 months after the entry into force of the Agreement) of a list of the EU SPS, animal welfare and other legislative measures that Georgia should be approximating its laws to; the completion of the first phase of the Public Procurement Roadmap (pending); as well as the approximation of Georgian law to EU legal acts on anti-money laundering and the Regulation on customs enforcement of IPR (pending). It should be noted that the timeline for approximation of Georgian legislation was back-loaded by Georgia in the negotiation process to the extent that approximation intensifies in 2018 and will continue e.g. until 2022 in TBT area or even until 2027 as concerns certain veterinary measures, plant protection and food safety.

The Government of Georgia adopted in November 2017 an ***Action Plan for the implementation of the DCFTA 2018-2020***. It is a continuation of the Action Plan for 2014-2017, outlining the priorities for implementation of the DCFTA in different sectors (including for example Technical Barriers to Trade, SPS measures, customs or IPR) as well as the planned activities related to each priority, indicating the responsible implementing institutions and timeframe for implementation.

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). The institutional capacity in terms of food safety control still needs to be enhanced. A number of **Georgian establishments are authorised to export fruits, vegetables, honey** and **fishery products (from the Black Sea)** to the EU.

Technical Barriers to Trade

In terms of **technical barriers to trade (TBT)**, Georgia has committed to approximate by the end of 2018 its legislation on horizontal quality infrastructure to that of the EU as well as to several EU New and Global Approach Directives. In this field reform efforts should be intensified. The situation has improved as concerns the adoption of technical standards (over 95% of the existing Georgian Standards are International or European Standards). The Georgian market surveillance system needs strengthening. As concerns institutional capacity building Georgia needs to speed up the enhancement of certification/accreditation infrastructure.

Public Procurement

The institutional part in **public procurement** approximation has been accomplished.[53] Discussions are ongoing for both Parties to formally adopt a roadmap developed by the Government and State Procurement Agency (GSPA). The roadmap will be a point of reference and facilitate the implementation of the Public Procurement Chapter of the DCFTA, including on alignment of the Georgian legislation to the EU acquis in this area. The institutional capacity needs to be built within the GSPA and the contracting authorities.

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 DFTA. Still the exhaustion regime of Georgia is not line with the DCFTA and some copyright related provisions need to be improved, including the collective right management system.

Rules of Origin

On 1 July 2017 Georgia joined the **Convention on pan-Euro-Mediterranean preferential rules of origin**[54]. The joint Decision on the linkage of the rules of origin in bilateral trade to the Protocol of PEM Convention[55] was adopted during the 4th Customs Sub-Committee which took place in Brussels on 20 March 2018 and the linkage entered into force on 1 June 2018.

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[53] In accordance with the Association Agreement the first approximation stage relates to the setting up the institutional framework: executive body at central government level to be responsible for coherent policy in all areas related to public procurement and an impartial, the independent body tasked with the review of decisions taken by the contracting authorities and entities as well as introduction of basic standards regulating the award of contracts.

[54] 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

[55] 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.

(report published on 6 June 2018). This allows Georgia to benefit from diagonal cumulation of origin with the EU and Turkey as of 1 June 2018, and be better integrated in regional trade flows.

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.

Trade Facilitation

On 4 January 2016, **Georgia ratified the WTO Trade Facilitation Agreement which is in force since February 2017** and contains commitments on simplifying border procedures and modernization of **customs** techniques and instruments and customs control. An unresolved issue for the time being is the application of the DCFTA to the breakaway territories of Abkhazia and Southern Ossetia. According to Article 429 (Territorial application) of the Association Agreement, conditions enabling effective implementation of the DCFTA need to be created in either Abkhazia or South Ossetia for the AA/DCFTA to be able to be applied in those areas.

2. EU SUPPORT TO DCFTA IMPLEMENTATION

EU Support to DCFTA-related reforms

The EU is supporting the implementation of the DCFTA through technical and financial assistance. A Sector Reform Contract focusing on the transposition of relevant EU acquis (particularly in the area of SPS, TBT, public procurement), capacity building of relevant institutions to implement the DCFFTA (such as the Competition Authority or the Market Surveillance Authority) and support to SME development to increase exports has been put in place. This is complemented by technical assistance focusing on cluster and value chain development and support to the SME regulatory/institutional framework as well as Twinnings by Member States to share their experience in the transposition of EU law.

EU Support for SMEs

SMEs in Georgia are benefitting from the EU support under the DCFTA Facility for SMEs, which aims at increasing SMEs competitiveness, easing their access to finance, helping them to seize new trade opportunities and comply with new food safety, technical and quality standards, as well as with environmental protection measures implied by the DCFTA implementation.

The DCFTA Facility consists of a set of programmes implemented principally by EBRD and EIB. SMEs are benefiting from the EU support through four types of instruments:

1) risk sharing mechanisms (mostly first loss portfolio guarantees for local banks);

2) currency hedging (interest rate subsidies for loans in local currency);

3) investment incentives (grants provided to SMEs combined with investment loans to upgrade machinery or production processes in line with the EU standards) and

4) technical assistance (business advice to SMEs and local banks, assessment of the compliance with the EU standards, capacity building for local banks).

7. CONCLUSIONS AND OUTLOOK

After three years of the DCFTA implementation by both Partners, it should be underlined that 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 the EU faced in the previous years created a relatively fragile but positive external environment for Georgia's trade in 2017.

The **EU is constantly encouraging and assisting Georgia** to accelerate the necessary reforms, notably in the SPS area, as they would not only enhance food safety in the country but also facilitate and allow further access 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 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 of 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. To this end the Association Committee in Trade configuration 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. standardization and metrology infrastructure; accreditation and surveillance system), SPS (notably in institutional capacity building in food safety control) as well as in promotion of producers organizations, value chain optimization and the SMEs development. Improving the enforcement and governnace of labour standards and working conditions is an important factor for georgia to fully reap the benefits of the DCFTA and of the AA.

ANNUAL REPORT ON THE IMPLEMENTATION OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) BETWEEN THE EU AND ITS MEMBER STATES AND MOLDOVA[56]

The DCFTA (DCFTA) between the EU and Moldova as the main economic pillar of the Association Agreement (AA)[57] has been provisionally applied since 1 September 2014 and fully entered into force on 1 July 2016. The trade facilitation measures which allow to keep the EU market open to goods from the breakaway region Transnistria have been reviewed and extended twice since January 2016; on this basis the EU-Moldova DCFTA's provisions have been applied on the entire territory of Moldova.

This second report on the implementation of the EU-Moldova DCFTA has been prepared in accordance with the provisions of the Regulation implementing the safeguard clause and the anti-circumvention mechanism.[58] In addition to providing an overview of the evolution of EU-Moldova trade, information about the application of trade defence measures and the anti-circumvention mechanism has been included.

1. EVOLUTION OF TRADE

1.1. Trade in goods overall

2.1.1. The scope of trade liberalization

At the start of the DCFTA provisional application on 1 September 2014, the European Union eliminated all customs duties on goods imported from Moldova except six agricultural products i.e. apples, table grapes, plums, grape juice, garlic and tomatoes, that are subject to annual duty-free TRQs (TRQs). Further to that, the EU has eliminated the *ad valorem* component of the import duty for twenty agricultural products (fruits and vegetables). Import of 14 groups of agricultural and processed agricultural products (pig meat, poultry, dairy products and processed dairy products, cereals, cigarettes, sugar processed goods and sweet corn) is duty-free but monitored under **anti-circumvention mechanism** (if the imports to the

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[56] See the following website to find more information on Moldova: http://ec.europa.eu/trade/policy/countries-and-regions/countries/moldova/

[57] 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

[58] Regulation (EU) No 2016/400 of the European Parliament and of the Council of 9 March 2016 implementing the safeguard clause and 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 the Republic of Moldova, of the other part (OJ L 77, 23.03.2016). According to Article 14 of the Regulation, the Commission shall submit an annual report to the European Parliament and to the Council on the application and implementation of this Regulation and Title V of the Agreement. Furthermore, the report shall, inter alia, include information about the application provisional and definitive safeguard measures, prior surveillance measures, the termination of investigations and proceedings without measures, and the application of the anti-circumvention mechanism. The report shall also set out a summary of the statistics and the evolution of trade with Moldova.

EU reaches certain agreed levels and Moldova fails proving the origin of these imports, the EU may temporarily suspend the preferential treatment of the products concerned).

Moldova liberalised import duties on 93.6% of tariff lines for goods imported from the EU at the start of provisional application of the DCFTA. One per cent of tariff lines (for agricultural products) are covered by preferential TRQs. Customs duties on 4.8% of products in terms of tariff lines are to be liberalised in stages (3, 5, 7 or 10 years; the longest liberalisation period applies to agrifood products). This schedule of tariff elimination reflects an asymmetric market opening for the benefit of Moldova.

2.1.2. Overall evolution of EU-Moldova trade in goods

According to Eurostat data for **2017, the EU is a key trade partner of Moldova, accounting for 56% of its total trade** (64% of total exports and 51% of Moldova's total imports). In terms of the share in overall Moldovan exports, the EU is followed by Russia (14%) and Ukraine (5%). **Moldova is EU's 63rd trade partner** and accounts for 0.1% of the EU's total trade.

In 2017, the **total trade** between the EU and Moldova grew by 20% compared to 2016 to slighlty over **EUR 4 billion**. EU exports have increased by 19% from EUR 2.05 billion to EUR 2.44 billion while EU imports from Moldova have increased by 23% from EUR 1.31 to EUR 1.61 billion in that period. This has been driven by economic growth as well as a better export performance of Moldovan companies as concerns machinery, foodstuffs, certain agricultural and textiles products.

Table 1: EU trade in goods with Moldova, 2016-2017 (million EUR)

	2016	2017	% change 2017/2016	value change 2017/2016
EU Exports	2 057	2 445	18.9	388
EU Imports	1 318	1 616	22.7	298
Total trade	3 375	4 061	20.4	686
Trade balance	+739	+829	-	-

Source: Eurostat COMEXT.

In 2017, the **EU maintained a trade surplus with Moldova which** increased to EUR 0.82 billion. **The EU's share in total Moldovan exports has been steadily increasing** since the start of the provisional application of the DCFTA, and has reached 64% in 2017. The EU's share in total Moldovan imports has increased from 49% in 2016 to 51% in 2017. The EU's share in the total trade of Moldova has similarly increased from 55% to 56% in that period.

In addition, the number of companies involved in trade with the EU has continued to increase, with approximately 1748 Moldovan companies exporting to the EU in 2017 up from 1360 firms engaged in exporting to the EU in 2016.

2.1.3. *Sectoral structure of EU-Moldova trade in goods*

The **main product categories** (according to the Sections of the Harmonized System Nomenclature – HS) **exported by the EU to Moldova** in 2017 were **machinery and appliances, mineral products, chemical products and transport equipment.** Amongst these, the main increase in exports from 2016 and 2017 was for base metals which increased by 37% from EUR 120 million to EUR 165 million. Machinery and appliances and mineral products rose by respectively 15% and 20%. Exports of chemical products increased by 22% to EUR 276 million while transport equipment exports saw an increase of 30% to EUR 235 million. The signs of recovery in EU exports witnessed in 2016 (after a general decline of EU exports in certain key sectors in 2014-2015 due in large part to the weak performance of the Moldovan economy) were therefore confirmed and sustained in 2017. This is evidenced both by the general 19% increase in EU exports to Moldova in 2017 (following a 2% decrease in 2016) as well as by the increase of EU exports across all the main HS product categories.

The main product categories in EU imports from Moldova in 2017 were **vegetable products, machinery and appliances, textiles and textile articles and foodstuffs, beverages, tobacco.** Machinery accounted for a large part of Moldova's export growth to the EU due to the trade and investment opportunities in specific sectors such as the manufacuring of wiring harnesses. From the categories of products most widely imported from Moldova, the highest increase in imports was for animal products (+65%) although remaining at a low level of EUR 12 million.

Bilateral trade in non-agricultural products has experienced an increase of 19% (to EUR 3.15 billion) in 2017, with EU imports of non-agricultural goods growing by 20% (to EUR 981 million) and EU exports of such goods increasing by 19% (to EUR 2.2 billion). Trade has grown considerably in plastics, textiles, metals, machinery but also ceramics and toys. Similarly, the EU has become a major market for Moldova's Information and Communication Technology services.

Table 2: EU trade with Moldova by HS section (million EUR)

HS Section	EU imports 2016	EU imports 2017	import growth total M€	import growth annual %	EU exports 2016	EU exports 2017	export growth total M€	export growth annual %
Total Goods	2,635	3,233	598	22.7%	4,113	4,891	778	18.9%
I Live animals; animal products	7	12	5	64.9%	62	76	15	23.6%
II Vegetable products	303	409	106	34.9%	75	88	14	18.4%
III Animal or vegetable fats and oils	37	48	12	31.3%	4	5	0	9.3%
IV Foodstuffs, beverages, tobacco	146	160	14	9.9%	106	118	12	11.4%
V Mineral products	8	8	1	11.3%	328	392	64	19.4%
VI Products of the chemical or alliec	5	6	1	16.7%	226	276	50	21.9%
VII Plastics, rubber and articles ther	10	13	3	26.4%	125	144	19	15.2%
VIII Raw hides and skins, and sadd	20	18	-3	-12.8%	47	53	6	12.8%
IX Wood, charcoal and cork and art	7	7	0	-0.2%	28	35	7	26.9%
X Pulp of wood, paper and paperbc	4	4	1	27.8%	33	36	3	9.0%
XI Textiles and textile articles	230	257	27	11.6%	184	201	17	9.4%
XII Footwear, hats and other headg	52	53	0	0.9%	11	12	1	12.5%
XIII Articles of stone, glass and cer	35	31	-4	-10.8%	34	39	5	14.6%
XIV Pearls, precious metals and art	0	0	0	23.7%	2	2	0	2.6%
XV Base metals and articles thereo	83	142	59	70.4%	121	165	44	36.9%
XVI Machinery and appliances	231	296	65	28.0%	387	445	57	14.8%
XVII Transport equipment	7	6	-1	-19.7%	182	235	53	29.2%
XVIII Optical and photographic instr	18	18	0	-2.7%	34	47	13	39.7%
XIX Arms and ammunition	0	0	0		1	1	0	62.5%
XX Miscellaneous manufactured art	112	127	15	13.4%	56	62	6	10.6%
XXI Works of art and antiques	0	0	0	-35.1%	0	0	0	269.4%
Other	1,319	1,618	299	22.6%	2,068	2,458	390	18.9%

EU28 merchandise trade by HS section with Moldova (million Euro)

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

1.2. Trade in agricultural goods

In 2017, agricultural goods accounted for 22% (EUR 908 million) of total bilateral trade with Moldova while non agricultural products represented 78% (EUR 3.1 billion). In terms of EU imports from Moldova in 2017, the share of agricultural goods stood at 39% while non agricultural goods represented 61% of imports. Agricultural goods constituted 11% of EU exports to Moldova, with 89% of EU exports being non-agricultural. The trade balance in agricultural products (in particular nuts, cereals, sunflower seeds, wine) has also improved considerably in favour of Moldova. Moldovan exports of vegetable products to the EU almost doubled in 2016-2017 (from EUR 240 million to EUR 409 million).

Table 3: EU trade in goods with Moldova, split by AG and NAMA (million EUR)

Agrifood trade EU28 with Moldova

Moldova	2016	2017	Growth mio €	Growth annual %
EU28 imports	499	635	137	27.5%
EU28 exports	230	272	42	18.0%
Balance	-268	-363	-95	
Total trade	729	908	178	24.5%

NAMA trade EU28 with Moldova

Moldova	2016	2017	Growth mio €	Growth annual %
EU28 imports	819	981	162	19.8%
EU28 exports	1,826	2,173	348	19.0%
Balance	1,007	1,192	185	
Total trade	2,644	3,154	510	19.3%

Source Trade G2 Statistics/ISDB

Trade in **agri-food products** with Moldova has been gradually increasing for the past years to the benefit of both sides. In 2017, agrifood trade between the EU and Moldova increased by 25% since 2016 and amounted to EUR 908 million. EU imports of agricultural products from Moldova have increased by 27% (EUR 635 million) while EU exports have increased by 18% (EUR 272 million).

The main EU agricultural exports to Moldova included oils seeds, pork, spirits and liqueurs, dairy and tropical fruits and nuts. Key EU imports from Moldova included oil seeds, wheat, tropical fruits and nuts, other cereals and other vegetable oils. Imports of all these products increased in 2017 compared to 2016, ranging from an increase of 23% for oil seeds to 8% for vegetable oils.

Table 3: EU trade with Moldova in agricultural goods (million EUR)

EU28 Agrifood trade by HS chapter with Moldova (million euro)

HS Section	EU imports		import growth		EU exports		export growth	
	2016	2017	total M€	annual %	2016	2017	total M€	annual %
Total Agrifood	**499**	**635**	**137**	**27.4%**	**231**	**272**	**42**	**18.0%**
01 Live Animals	0	0	0		7	7	0	4.6%
02 Meat and edible meat offal	0	0	0	-97.0%	18	28	10	52.6%
04 Dairy produce	7	12	5	65.2%	20	24	4	21.4%
05 Products of animal origin	0	0	0	389.1%	4	4	1	14.4%
06 Live trees and other plants	0	0	0	18.9%	7	9	2	36.5%
07 Edible vegetables, roots & tubers	2	5	3	135.3%	5	8	3	62.5%
08 Edible fruits & nuts	79	99	20	25.2%	17	19	1	7.9%
09 Coffee, tea, mate & spices	0	0	0	-19.2%	6	7	1	16.3%
10 Cereals	120	152	33	27.2%	10	12	2	15.6%
11 Products of the milling industry	1	1	-1	-50.5%	3	3	0	-5.5%
12 Oil seeds & oleaginous fruits	101	152	51	50.7%	24	29	4	17.5%
13 Lacs, gums, resins & other veg. s	0	0	0	-98.0%	1	1	0	-16.1%
14 Vegetable products n.e.s.	0	0	0	71.2%	0	0	0	-50.5%
15 Animal or vegetable fats & oils	37	48	12	31.3%	4	5	0	9.4%
16 Preparations of meat	0	0	0		2	3	1	40.1%
17 Sugars & sugar confectionery	40	23	-17	-41.5%	8	7	-1	-7.1%
18 Cocoa & cocoa preparations	3	4	1	23.2%	10	10	0	1.0%
19 Preps. of cereals, flour, starch, e	11	11	0	-1.2%	8	10	2	21.9%
20 Preps. of vegetables, fruits, nuts	27	53	26	97.9%	8	11	2	27.5%
21 Miscellaneous edible preparations	1	1	0	6.4%	18	19	2	10.7%
22 Beverages, spirits & vinegar	51	57	7	13.7%	25	27	1	4.3%
23 Residues and waste from food in	10	10	0	1.9%	17	20	3	20.1%
24 Tobacco & tobacco products	4	1	-3	-84.3%	6	7	2	31.4%
Other	6	6	0	6.7%	2	2	0	8.1%

Source Trade G2 Statistics/ISDB

2.1.4. Review clause for agricultural products

The EU and Moldova have agreed on a **review clause** which stipulates that after the entry into force of the DCFTA, the Parties may consider accelerating and broadening the scope of the elimination of customs duties on their bilateral trade. During the third year after the entry into force of the Agreement, the Parties shall assess the situation, taking account of the pattern of trade in agricultural products, the particular sensitivities of such products and the development of agricultural policy on both sides. They shall examine, in the Association Committee in Trade configuration (ACTC), on an appropriate reciprocal basis, the opportunities for granting each other further concessions with a view to improving liberalisation of trade in agricultural products, in particular those subject to duty-free TRQs.

2.1.5. *Anti-circumvention mechanism for agricultural products*

Fourteen product categories of agricultural and processed agricultural products included in Annex XV-C can be imported duty-free from Moldova into the EU; their imports are monitored under anti-circumvention mechanism (the EU may temporarily suspend the preferential treatment of the products concerned if the imports into the EU reach certain trigger volumes. If those imports reach 100% without justification, the EU may temporarily suspend the preferential treatment. In 2017 those levels were exceeded for wheat, barley, maize and processed cereals (ethanol). The information provided about the increased production in Moldova in that period was accepted by the European Commission therefore exports exceeding those trigger volumes could continue to benefit from preferential treatment by the EU.

2.1.6. *Use of TRQs*

In accordance with Annex XV-B of the Association Agreement the EU applies annual duty-free TRQs for 6 agricultural product categories imported from Moldova: tomatoes, garlic, table grapes, apples, plums and grape juice. In 2017, only the TRQs for table grapes and plums were used (with a 100% utilisation for both products).

Moldova has made a request to increase the volumes for TRQs and the anti-circumvention thresholds under the DCFTA for certain agricultural products at the meeting of the Association Committee in Trade configuration in October 2017. This request, after having been examined by the relevant Commission services, will be subject to talks with the Moldovan side and may result in the modification of Annex XV of the Agreement through a joint Decision of the Association Committee in Trade configuration. The representatives of Moldova officially requested to review the EU duty-free TRQs for certain products in line with the review clause foreseen in the DCFTA, and to raise the thresholds under the anti-circumvention mechanism for cereals and sugar. Moldova grants six duty-free TRQs for agricultural products from the EU (pork and poultry meat, dairy, processed meat, sugar and sweeteners). Apart from processed meat and sweeteners, EU exports were in excess of the quota amount in 2017.

Table 4: Utilisation of TRQs for EU exports to Moldova in 2017

	Quantity (tons)	EU exports (tons)
Pork	4 000	7 607
Poultry meat	4 000	8 621
Dairy	1 000	19 799
Processed meat	1 700	694
Sugar	5 400	13 863
Sweeteners	640	476

Source: European Commission

1.3. Preference Utilisation rate (PURs)

The **PUR on imports into the EU from Moldova** amounted to **85%** in 2017, a slight decrease from 2016 when it stood at 88%. Data to calculate the PURs on EU exports were not available from Moldova.

1.4. Establishment, trade in services and investments

2.1.7. 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 recognized 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).

2.1.8. Trade in Services

The total trade in services between the EU and Moldova has increased by 9% in 2016 compared to 2015. In that time period, **EU exports of services to Moldova** have decreased by 16% (from EUR 587 million to 491 million) while EU imports have increased by 34.5% (from EUR 567 million to EUR 763 million).

Table 5: EU trade in services with Moldova, 2015-2016 (million EUR)

EU trade with Moldova	2015	2016	% change 2016/2015
EU Exports	587	491	-16.0
EU Imports	567	763	34.5
Total trade	1 154	1 254	8.6
Trade Balance	20	-273	-

Source: Eurostat COMEXT.

While import and export values have been evolving mostly in tandem with a slight surplus for the EU, this has been reversed in 2016, where the value of imports from Moldova into the EU was higher than the value of exports from the EU to Moldova. To be noted that 2015 is the first full year for which there is data on services since the provisional application of the DCFTA, and as such it is still early to draw any conclusion on the effect of the DCFTA in services trade. 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.

2.1.9. FDI

In terms of FDIs (FDIs) in 2016, the EU FDI stocks have remained at similar levels to previous years and amounted to around EUR 1 billion with the EU ranking as a major foreign investor in the country (over 60% of overall FDI stocks). EU companies are present in many sectors (including for example energy, financial sector, industry, retail trade, agriculture and services). According to data provided by Moldova, 5 658 active companies with foreign investments coming from the EU are registered in Moldova. These are mainly from Romania (1731), Italy (1385), Germany (429), Cyprus (305) and France (237).

Table 6: EU FDIs with Moldova, 2016-2015 (million EUR)

FDI stocks	2015	2016
Moldova in EU28 (inward)	94	86
EU28 in Moldova (outward)	912	991
Net investment stocks	818	905
FDI flows	**2015**	**2016**
Moldova into EU28 (inward)	11	-5
EU28 into Moldova (outward)	29	82
Net investment flows	18	77

Source: Eurostat.

Direct investment flows from the EU have increased to EUR 82 million in 2016 following a decrease in 2015 and 2014 as a result of the banking fraud scandal.

2. ACTIVITIES OF THE IMPLEMENTATION BODIES [59]

2.1. Joint decisions of the Association Bodies

In 2017, the **following amendments/updates** have been adopted or are to be adopted by the Association bodies in 2018:

- ✓ **Customs:** Annex XXVI on approximation of customs legislation[60]
- ✓ **Services**: Annex XXVIII-A (Rules applicable to financial services), Annex XXVIII-B (Rules applicable to telecommunication services), and Annex XXVIII-D (Rules applicable to international maritime transport)[61]

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59 Official Journal of the EU where the decisions on the Rules of Procedure for the EU-Moldova Association bodies were published: of the Association Council and those of the Association Committee and of Sub-Committees (OJ L 110, 29.4.2015); of the Customs Sub-Committee (OJ L 185, 14.7.2015); of the Sanitary and Phytosanitary Sub-Committee (OJ L 178, 2.07.2016); of the Trade and Sustainable Development Sub-Committee (OJ L 264, 9.10.2015); of the GIs Sub-Committee (OJ L 335, 9.12.2016).

60 Council Decision (EU) 2017/1364 of 17 July 2017 on the position to be adopted on behalf of the European Union within the EU-Republic of Moldova Association Council as regards the amendment of Annex XXVI to the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova, of the other part, OJ L 191, 22.07.2017. https://publications.europa.eu/en/publication-detail/-/publication/cbf814bf-6e88-11e7-b2f2-01aa75ed71a1/language-en/format-PDFA1A

61 Council Decision (EU) 2017/0338 of 9 February 2018 on the position to be taken on behalf of the European Union, in the Association Committee meeting in Trade configuration established by the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova, of the other concerning the update of Annex XXVIII-A

- ✓ **Public Procurement**: Decision giving a favorable opinion regarding Moldova's comprehensive roadmap on public procurement[62]

2.2. Meetings of the Association Bodies

The following section contains an overview of the **most important meetings** of the implementation bodies in 2017.

The **4th Association Committee in Trade Configuration** met on 18 October 2017. Both Parties 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, trade and sustainable development. The Committee also assessed trade performance, trade policy aspects and business climate issues in bilateral trade relations.

The *Moldovan authorities* presented the progress achieved in the approximation of the domestic legislation to that of the EU in all relevant chapters. The Moldovan side referred to its accession to the WTO Trade Facilitation Agreement and the WTO Government Procurement Agreement (GPA) in 2016, the approval of the National Strategy for Investment and Export Promotion, the initiation of the modernization of laboratories for food safety controls, and advancement in the process of accession to international institutions as regards quality infrastructure as the main achievements to date.

The *EU side* welcomed the achievements but raised strong concerns with regards to the **usurpation of the EU PDO** (Protected Designation of Origin) '*Prosecco*' by Moldovan companies, as well as the impact of the measures taken by the energy regulator ANRE on the company Gas Natural Fenosa (see both further explained in section 4 below).. The EU also expressed its concerns with the **draft legislation on internal trade** which could affect free competition as well as the free access of EU products to the Moldovan market. In general, the EU underlined the need for Moldovan authorities to focus on implementation and enforcement of legislation and programming documents and their translation into concrete results for the benefit of businesses and citizens.

Both sides underlined the importance of EU financial assistance for the implementation of the DCFTA which aims at supporting both the Moldovan administration and the companies (notably SMEs) in aligning with the *acquis* and reaping the benefits of the Association Agreement.

The **3rd Sub-Committee on SPS measures** (SPS Sub-Committee), met on 22 June 2017. During the meeting, the Moldovan authorities presented progress in the implementation of the

(Rules applicable to financial services), Annex XXVIII-B (Rules applicable to telecommunication services) and Annex XXVIII-D (Rules applicable to international maritime transport) to the Agreement.

62 Decision No 1/2018 of the EU-Moldova Association Committee in Trade configuration of 16 April 2018 giving a favourable opinion regarding the comprehensive roadmap on public procurement [2018/955],, OJ L 168/10, 5.7.2018.

operational conclusions from the previous Sub-Committee meeting of June 2016 and updates as regards the implementation of the DCFTA SPS Chapter and institutional capacity of the Food Safety Agency (ANSA). The EU underlined the importance for Moldovan authorities to meet the deadlines foreseen in Annex XXIV-B of the DCFTA ranging from 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 and to have more monitoring and exchange of data between the two sides on African Swine Fever (ASF).

The **4th Sub-Committee on Customs and Trade Facilitation** took place on 16 November 2017. The Parties discussed the ongoing approximation of domestic legislation to the Union Customs Code and the EU recommended the creation of a working group on the drafting of secondary legislation related to the implementation of the new Customs Code of Moldova. The Roadmap on Authorized Economic Operator (AEO) mutual recognition as well as the extension of the AEO pilot project at the Leuseni-Albita border crossing point were approved. The update of Annex XXVI by the Association Council to update the reference to the Customs Code was also discussed, as was the EU twinning project launched in November 2017 to assist Moldova with its preparatory actions in order to adhere to the Convention on a common transit procedure and set up a single window environment for customs formalities

The **4th GIs Sub-Committee**, which met on 17 October 2017, discussed the enforcement of the protection of GIs by customs, the latest developments as regards the '*Prosecco*' Court case on the usurpation of the EU Protected Designation of Origin 'Prosecco' by Moldovan companies producing sparkling wine as well as the update of the GIs lists. The EU reiterated the importance for Moldova to protect the EU GIs under the Association Agreement. Areas of cooperation and technical assistance as well as progress made by Moldova as regards the alignment to the EU acquis were also discussed.

As regards the **3rd TSD Sub-Committee** meeting **-**see section 3 below.

3. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The **TSD Sub-Committee** which has been established under the TSD Chapter of the AA met for the third time on 16 October 2017 in Chisinau. During that meeting both Parties agreed to focus dialogue and cooperation on five priorities: labour inspection (including operational safety and health), child labour, EU Eco-label scheme, the Convention on International Trade of Endangered Species (CITES) and climate change. Those priorities were shared and discussed with civil society at the Joint Civil Society Dialogue Forum held in Chisinau on 17 October 2017. A work programme operationalizing the priorities still need to be agreed.

During these meetings, the EU voiced its expectation for civil society in Moldova to play an active role in overseeing the implementation of the DCFTA (e.g. the good application of food safety standards, as this affects the daily life of citizens) and signalling areas where improvements are required. The EU also expressed concern regarding the situation of the State Labour Inspectorate which continues to appear highly problematic in view of the implementation of the International Labour Organization (ILO) standards. Finally, the EU presented its support to facilitate the functioning of the DAGs in all trade agreements, including the ones under the Moldova DCFTA, through a EUR 3 million project funded by the Partnership Instrument.

4. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

SPS aspects

In terms of **SPS measures**, the administrative capacity of the Food Safety Agency in verifying animal health and animal welfare rules has been strengthened however it still needs to be enhanced. The SPS strategy was adopted by the Government in December 2017 and is currently under implementation. Signficiant improvement is needed as regards laboratory diagnostic capacity for monitoring and surveillance of animal diseases as part of official controls in order for Moldova to receive more authorisations for export of for e.g. fish, eggs and egg products to the EU. As from October 2017, Moldova has received authorizations to export by processing plants (32 companies) and by other facilities for the collection or handling animal by-products (i.e. unprocessed/untreated materials) as from March 2018 (16 companies). Furthermore, Moldova has requested to authorise poultry meat and table egg export. So far, the EU import requirements are not met by Moldova.

Technical Barriers to Trade

On **technical barriers to trade**, as a follow-up to earlier progress, Moldova adopted secondary horizontal legislation in September 2017. Outstanding discrepancies with regard to specific product legislation should be removed. In late 2016 the Moldovan government adopted a *Roadmap for initiating the negotiations of the Agreement on Conformity Assessment and Acceptance of Industrial Products* (ACAA) which serves as a valuable tool in the process leading to the start of ACAA negotiations.

Customs and Trade Facilitation

On **customs and trade facilitation**, Moldova approved amendments to customs regulations to align with the EU Authorised Economic Operator (AEO) requirements and Approved Exporter conditions, which entered into force in July 2017. The **Trade Facilitation Action Plan for the period 2018-2020** was approved in December 2017. The new Customs Code has been developed for approximation with the provisions of the Union Customs Code and presented for public consultation. It is expected to be adopted in 2018. Preparatory work on accession to the **Convention on a common transit procedure** with EU assistance should continue. Finally, the Convention on Pan Euro Mediterranean preferential rules of origin entered into application for Moldova in December 2016.

Energy

With regards to **trade-related energy**, Moldova has pursued alignment with the EU acquis however concerns remain as regards the independence of the energy regulator ANRE and the transparency of the electricity procurement process. In this regard, the recommendations made by the Group of Observers for the 2018 Electricity Procurement in Moldova should be taken into account to improve the next procurement exercise. Full independence and impartiality of the energy regulator is crucial to the ensure proper functioning of the energy market, including proper implementation of the Third EU Energy Package and secondary legislation. It is equally important for Moldova to pursue work on the new distribution tariff methodology for electricity in consultation with all concerned stakeholders and the Energy Community Secretariat and comply with the settlement agreement reached with the company Gas Natural Fenosa in 2016.

Competition policy

With regards to **competition policy** Moldova should pursue the implementation of the *National Program on Competition and State Aid for 2017-2020*. There are serious concerns with certain provisions contained in Moldova's law on Domestic Trade which may limit free competition on the market. These relate in particular to limitations of discounts between traders and producers and an obligation for retailers to have at least 50% of local products on their shelves, contrary to DCFTA and WTO provisions on national treatment of goods. If implemented, these provisions will severely affect the ability of European economic operators to conduct their business in Moldova.

Intellectual Property Rights

In the field of **intellectual property rights** (IPRs) progress has been registered in particular with regards to the usurpation of the EU GI *'Prosseco'*. In December 2017 and April 2018, the Moldovan Supreme Court of Justice has issued a final and irrevocable decision as a result of which Moldovan companies now have a ban on the production and placing on the market of sparkling wine under the name '*Prosecco*' and the corresponding international trademark is protected in Moldova. Besides, some copyright related provisions need to be improved in Moldova (i.e. terms of protection for music recordings and the collective right management).

Services

On **services**, in international maritime transport services the main concerns relate to Moldova's continued presence on the 'black list' of the Paris Memorandum of Understanding on Port State Control for which Moldova has developed an Action Plan to exit the 'black list'. Moldova is planning to set up a naval agency expected to be fully operational in 2018. Moldova has made progress in reforming its postal services in line with the EU acquis (next steps foreseen in 2019), as well as in telecommunications services with the adoption of a law on electronic communications. Moldova has also aligned with the 4th Anti-Money Laundering

Directive. An update of Annex XXVIII-A (Rules applicable to financial services with regards to anti-money laundering), Annex XXVIII-B (Rules applicable to telecommunication services) and Annex XXVIII-D (Rules applicable to international maritime transport) has been prepared in 2017 and will be adopted in 2018.

Public Procurement

Reforms in **public procurement** were pursued according to the National Reform Plan for Public Procurement for 2016-2020 including approximation of the legal framework to the EU acquis, the reform of the Public Procurement Agency and progressive introduction of e-procurement for which an EU-funded pilot project is ongoing. The newly established Complaint Settlement Agency playing the role of the public procurement review body started to operate in 2017 with some delays. The appointment of the management of the Agency lacked transparency.

3. EU SUPPORT TO DCFTA IMPLEMENTATION

EU Support to DCFTA-related reforms

EU financial assistance is being provided to Moldova for the implementation of the DCFTA: it aims at supporting both the Moldovan administration and the companies (notably SMEs) in aligning with the acquis (i.e. norms for food products and non-food products) and reaping the benefits of the Agreement. Furthermore, the EU is supporting the implementation of structural reforms in Moldova, including in the financial and the public administration sectors, with a view to improving the business environment and facilitating trade. The EU is also providing assistance for the development of value chains (e.g. textile) and of economic clusters in Moldova.

EU Support for SMEs

SMEs in Moldova are benefitting from the EU support under the DCFTA Facility for SMEs, which aims at increasing SMEs competitiveness, easing their access to finance, helping them to seize new trade opportunities and comply with new food safety, technical and quality standards, as well as with environmental protection measures implied by the DCFTA implementation.

The DCFTA Facility consists of a set of programmes implemented principally by EBRD and EIB. SMEs are benefiting from the EU support through four types of instruments:

1) risk sharing mechanisms (mostly first loss portfolio guarantees for local banks);

2) currency hedging (interest rate subsidies for loans in local currency);

3) investment incentives (grants provided to SMEs combined with investment loans to upgrade machinery or production processes in line with the EU standards) and

4) technical assistance (business advice to SMEs and local banks, assessment of the compliance with the EU standards, capacity building for local banks).

6. CONCLUSIONS AND OUTLOOK

Moldova has **adopted ambitious legal approximation commitments** under the DCFTA with extensive work required in the first three years of implementation. After three years of implementation of the trade and trade-related part of the Association Agreement, good progress has been observed in terms of regulatory approximation, despite political and economic turbulence. With extensive support from the EU, Moldova has adopted a number of **trade-related programs**, including for example a **plan for SPS reform**, roadmaps for the approximation of legislation in **TBT** and **public procurement** and Moldova has also taken steps in preparing to adopt a **new Customs Code** to align with the one of the EU. Furthermore, the comprehensive reform of the public administration completed in 2017 should enhance the capacity and functioning of key regulatory bodies such as the National Food Safety Agency (ANSA), National Energy Regulator (ANRE), National Regulator in Telecommunications (ANRCETI).

The DCFTA has helped Moldova to gradually enter into integrated and predictable international value chains, and engage into a structural transformation of its trade patterns towards a more sustainable model. Examples of successful companies testify to the benefits of free trade with the EU both in the agricultural sector, producing wine, nuts, juices, fruit conserves and alcohol, and in the industrial sector, making electrical cables, apparel, shoes and smart electricity meters.

The EU has been supporting Moldova to **align with and implement European norms for food products and non-food products** with a view to ensuring higher standards for the Moldovan consumers and workers and facilitating international trade. Furthermore, the EU is delivering financial and technical assistance in the implementation of structural reforms in Moldova, including in the financial and the public administration sectors, with a view to improving the business environment. The EU has also **strengthened the export capacity** of a number of Moldovan companies and facilitated their access to finance: over 2009-2017 in Moldova, it has provided financial support for 5 000 enterprises, supported 56 000 jobs in **SMEs**, and created at least 1 735 new jobs. The EU is also providing assistance for the development of value chains (e.g. textile) and of economic clusters in Moldova.

However, **further reform efforts are needed** to ensure the respect of the rule of law, to step up the fight against corruption, including high-level corruption, and to improve the business environment. Implementation and enforcement of new laws and strengthening of administrative capacity and relevant institutions should be the focus of attention. In particular, concrete progress is needed in the SPS (SPS) area in meeting EU import requirements. Besides food safety reform, focus in 2018 should remain on technical regulations and standards (TBT), reform of the customs code and implementation of the public procurement strategy.

Moldova should refrain from adopting any trade measures incompatible with the provisions of the Association Agreement/DCFTA. In this regard, the specialised Sub-Committees established to implement the DCFTA will continue to discuss and seek solutions to the implementation and market access issues, with the aim to produce tangible results.

In addition, for the DCFTA to deliver its full benefits, it is crucial for Moldova to **improve working conditions, the business and investment climate**, strengthen the rule of law and ensure a level-playing field for all businesses and citizens alike. There is untapped potential in the level of FDI in Moldova, which is needed to modernize and diversify the economy. Pursuing the fight against corruption[63], ensuring policy stability and predictability, and improving access to finance as well as governance of labour rights and standards is crucial to attract more investors and reap the full benefits of the DCFTA.

[63] According to the 2018 World Bank Doing Business Index, Moldova ranks as 44th out of 190 countries (no change to the previous index). Corruption is widely spread which has been reflected by Transparency International in its 2017 Corruption Perceptions Index where Moldova has been ranked as 122nd - out of 180 countries (+1 position in comparison to the previous index) - with the score 31 (score 0 means highly corrupted and 100 very clean).

PART III: FIRST GENERATION FREE TRADE AGREEMENTS

For the purpose of this report, "first generation" FTAs are agreements negotiated before the 2006 "Global Europe" Communication" and Stabilisation and Association Agreements (SAAs) with Western Balkan countries concluded between 2009 and 2016. Of the applied agreements, the report covers the following[64]:

- FTAs with Switzerland and Norway[65], dating from the 1970s
- FTAs with the EU's Mediterranean partners[66] as part of Association Agreements concluded in the 1990's
- FTAs with Mexico and Chile (dating from 2000 and 2003)
- Customs Union with Turkey (1995),
- SAAs with five Western Balkan countries (concluded between 2001 and 2016).

The "first generation" FTAs do not have a structure of implementation bodies as elaborate as the most recent FTAs, but an annual meeting to take stock of developments is planned and usually takes place.Issues that were raised in these meetings are very diverse, reflecting the specific situation of each partner country. Common topics addressed include lengthy customs procedures, restrictions to trade in agricultural products, pharmaceutical products, government procurement, and restrictions on FDI.

[64] The agreements with Iceland and the Faroe Islands are not covered by this report. The FTA with South Africa has been superseded by the EPA with SADC.

[65] The European Economic Area (EEA) agreement of 1992 with Iceland, Liechtenstein and Norway enhanced the free movement of goods, services, investment and people across that area. It is not subject to this Report.

[66] Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, and Tunisia.

FIRST GENERATION FREE TRADE AGREEMENTS WITH MEDITERRANEAN PARTNERS

The EU has concluded ‘first generation’ free trade agreements (FTAs) as part of Association Agreements (AA) in the 1990s with eight of its Mediterranean partners: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine[67] and Tunisia. These FTAs typically covered only trade in goods, and even agricultural products were often only added to their scope at a later stage.

The existing FTAs with Mediterranean countries provide for **reciprocal liberalisation** of all trade in industrial goods and, to different degrees, of trade in agricultural, processed agricultural and fisheries products. These FTAs typically include **elements of asymmetry** in favour of our Mediteranean partners, for example, long transitional periods and/or less far-reaching liberalisation of agricultural trade. This benefits Mediterranean partners and is primarily aimed to promote economic development of the region and closer integration with the EU internal market.

[67] This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of Member States on this issue.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-ALGERIA ASSOCIATION AGREEMENT[68]

1. INTRODUCTION

The EU and Algeria established a free trade area 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 of 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, TRQs or a reduction of MFN rates on both sides. The Agreement also features provisions on investment and services, although less far-reaching than those on goods. So far, no additional negotiations have been opened on a 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. The main objective of the Convention is to provide a more unified framework for origin protocols.

Algeria had started negotiating its accession to the WTO with the Accession Working Party established in 1987. The negotiation process has, however, stalled since 2014.

2. EVOLUTION OF TRADE

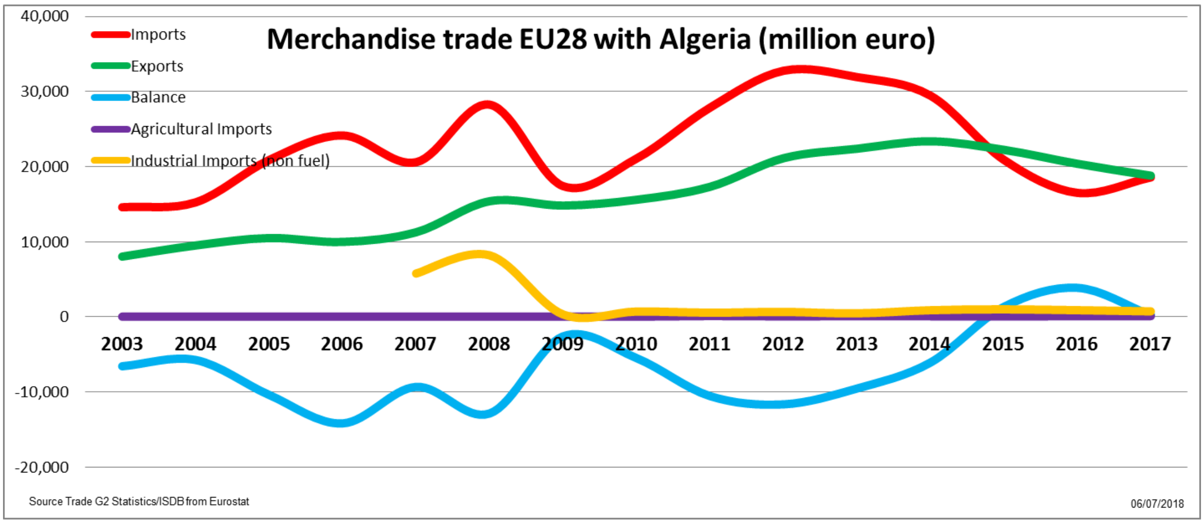
2.1. Trade in Goods

The EU was Algeria’s first partner for merchandise trade in 2017, accounting for 50% of Algeria’s total trade, before China (11%), the United States (6%), and Brazil (4%). The EU is Algeria’s first export market: 59% of Algerian exports were directed towards the EU in 2017, followed by the United States (9%), and Brazil (6%). The EU is also Algeria’s first source of imports, with 44% of Algerian imports originating from the EU.

Algeria is the EU’s second trading partner amongst all Euromed countries, after Morocco: in 2017, in the Euromed area 28% of EU imports originated from Algeria and 17% of EU exports to the Euromed went to Algeria. This privileged position is mainly due to the prevalence of hydrocarbons in EU-Algeria trade flows.

Trade in goods between the EU and Algeria has intensified within the progressive free-trade area established by the Association Agreement: in 2017, the total two-way trade amounted to EUR 37.4 billion, an increase of 50.8% from its 2004 value of EUR 24.8 billion, the year preceding the entry into force of the Association Agreement. Two-way trade peaked in 2012 at EUR 53.9 billion.

[68] For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/algeria/



EU exports to Algeria grew by 97.9% between 2004 and 2017, from EUR 9.5 billion to EUR 18.8 billion. EU exports, however, decreased (-7%) between 2016 and 2017, with exports standing at EUR 18.7 billion in 2017 compared to EUR 20.3 billion in 2016. In 2017, EU exports to Algeria were mainly made in the sectors of machinery and transport equipment (35.6%), chemicals (12.8%) and agricultural and food products (12.9%). The four biggest EU exporters to Algeria were: France, Italy, Germany and Spain.

EU imports from Algeria are dominated by trade in the sectors of oil and gas (mineral fuels amount to 95.7% of the total exports[69] to the EU) which has a significant impact on overall volumes. EU imports from Algeria rose 21.7% between 2004 and 2017, from EUR 15.2 billion to EUR 18.5 billion (with a peak of EUR 32.7 billion in 2012, which represented a 115.1% increase compared to 2004). EU imports increased (12%) between 2016 and 2017, with imports reaching EUR 18.5 billion in 2017 compared to EUR 16.5 billion in 2016. The three biggest EU importers for Algeria in 2017 were: Italy, Spain, and France. Since 2012, the sharp decline of oil prices has led to a sharp fall in the value of Algeria's exports to the EU. After many years of surplus, Algeria registered limited trade deficits with the EU in 2015 and 2016, of EUR 1.3 billion and EUR 3.9 billion respectively. In 2017, Algeria's trade deficit returned to merely EUR 0.2 billion with the icrease in oil prices.

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Algeria increased by 135% between 2003 and 2017, from EUR 1.0 billion in 2003 to EUR 2.4 billion in 2017. Between 2016 and 2017, EU agricultural exports decreased (-6%) going from EUR 2.5 billion in 2016 to EUR 2.4 billion in 2017. EU imports, on the other hand, increased (14%) from EUR 0.09 billion in 2016 to EUR 0.1 billion in 2017. In 2017, among our Euromed partners, Algeria was the EU's most important destination for exports of agri-food products. The EU exported mainly wheat (27%), milk powders & whey (18%), infant food and other cereals, flour, starch or milk preparations (6%) to Algeria. EU agricultural imports from Algeria were dominated by beet and cane sugar (46%) followed by fruits and nuts (34%).

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69 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.

Regarding agricultural TRQ, Algeria's 2017 fill rate was low for a limited number of products such as couscous (26%), olive oil or seed potatoes (less than 5%) and remained nil or close to zero for the majority of products, such as tomato juice, fruit juices, yogurt, apricots, strawberries or wine.

2.3. Preference Utilisation rate

Algeria had an average utilisation rate of preferences of 97% in 2017, across all goods, including agricultural and non-agricultural products. Data was not available to calculate the PURs on EU exports to Algeria.

2.4. Trade in Services and Investment[70]

The total **trade in services** between the EU and Algeria remained stable from 2010 to 2016, going from EUR 4.6 billion to EUR 5.1 billion. In 2016, Algeria exported EUR 1.7 billion in services to the EU and imported EUR 3.5 billion from the EU.

FDI EU28 with Algeria (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	1 878	2 069	2 287	14 106	14 820	14 623
Flows	222	299	162	768	2 741	333

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI flows between the EU and Algeria remained volatile between 2013 and 2016, with most investments coming from the EU to Algeria (EUR 0.3 billion in 2016, for the total stock of EU FDI of EUR 14.6 billion). The weakness of EU-Algeria FDI flows is mainly due to investors' concerns regarding the business climate in the country. In 2017, Algeria modified its Investment Code in an attempt to attract more investments; nevertheless the country currently ranks 166th out of 190 in the Wold Bank ranking Doing Business 2018, with a distance to frontier (DTF)[71] score of 46.7 out of 100 – a decrease of 0.01 in DTF score compared to 2017.

3. ISSUES ADDRESSED IN THE SUB-COMMITTEE MEETINGS

The last **Sub-Committee on Trade, Industry, and Services** was held in October 2017. Major trade irritants addressed included chiefly the quantitative restrictions under a non-automatic licensing regime in force since January 2016 (see in more detail section 5). Legal restrictions to foreign investments were also addressed, such as the so-called '49/51 Law', which sets a 49% cap for foreign ownership of any company established in Algeria, regardless of the sector of activity. Other long-standing issues were also mentioned, such as restrictions to imports of medicines or vehicles and the issue of ship-owners' disbursement accounts. Notwithstanding these issues, the EU recalled its commitment to support Algeria's accession to the WTO.

The last **Sub-Committee on Agricultural and Fisheries Products** was held back-to-back in October 2017. Several technical assistance programmes were discussed, as well as potential

[70] Statistics can be found here http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111616.pdf
[71] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time.

ways to reinforce EU technical assistance to Algeria in the field of conformity assessment. Algeria mentioned the will to request for more concessions within the Association Agreement, despite its inability to fulfill the current quotas at any meaningful level.

On the same day, during the EU-Algeria **Sub-Committee on Customs Cooperation** the parties discussed the development of their respective customs legislation and procedures, the revision of the PEM convention on Preferential Rules of Origin and the Algerian request to share information on the value of goods at customs level for taxation purposes.

More significant meetings were held during the first half of 2018, with consultations at senior official level occurring in January, February and May, in an effort to tackle the several market access barriers that Algeria has been imposing on trade with the EU, especially from 2016. If Algeria agrees, these efforts will continue in the second half of 2018 and according to the Association Council conclusion of May 2018[72], should lead to a negotiated solution to the existing trade irritants by the end of 2018.

4. SPECIFIC AREAS OF IMPORTANCE

The recent fall in oil prices has significantly impacted Algeria's finances. Algerian authorities have resorted to administrative measures to restrict imports, with a view to reducing trade deficits and countering shrinking foreign currency reserves. The EU has reacted forcefully to these trade-restrictive measures and has repeatedly requested full compliance with the provisions of the Association Agreement. Algeria has argued that the present economic conjuncture justifies exceptional measures; she has also recognised the need for economic reforms in order to encourage greater economic diversification and to foster investment.

The **Partnership Priorities** adopted by the EU and Algeria at the Association Council of 13 March 2017[73] 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 findings of the evaluation are that 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. A number of trade related reforms were discussed and Algeria was encouraged to commit to the improvement of business climate, new financing mechanisms for SMEs, a fine-tuning of subsidies, and the reduction of red tape.

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)[74]. 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 is also supporting 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

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[72] For more information see http://www.consilium.europa.eu/en/meetings/international-ministerial-meetings/2018/05/14/algeria/

[73] They can be downloaded here: https://eeas.europa.eu/delegations/algeria/31985/les-nouvelles-priorites-du-partenariat-ue-algerie_en

[74] See DG DEVCO for more information https://ec.europa.eu/europeaid/home_en

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. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Several market access issues remain in Algeria. The most relevant in 2016 and 2017 was the **non-automatic licensing regime for imports**, imposed on an increasing number of products, among which: **automobile vehicles, steel rebar and iron rod** (since 2016). In April 2017, the import licence scheme was extended to a new set of products, bringing the total to 22 sets of products including **wood, ceramic and several foodstuffs**. In December 2017, Algerian authorities declared that as from January 2018, the licence scheme would apply only to cars. At the same time, **new measures designed to curb imports** have been put in place, notably an import ban on a list of currently 877 products (across all sectors of the economy), the increase of custom duties for another 129 products (including agricultural) as well as additional administrative hurdles for exporters.

Other trade-related issues include: a **ban on imports of medicines** for which exists a locally-produced equivalent; technical standards; particularly stringent mandatory security devices for vehicles, coupled with **obligatory inspections**. The EU has engaged in an active political and technical dialogue with Algerian authorities on these measures, to ensure they are brought in to line with the Association Agreement.

Another long-standing issue is the **business climate** in Algeria, and the reluctance to relax restrictions on foreign investment. **Numerous obstacles to foreign investment remain** and most notably the horizontal '49%/51%' cap that applies across the board to all sectors. The Algerian government has recently shown some willingness to consider changes, notably through the adoption of a **new Investment Code**, which was vocally advertised. At the same time, the problematic rules still remain enshrined in the Budget Law 2009 and 2012, and this may render it easier for the Algerian government to reintroduce restrictions through amending the Code in the future. Such a blanket foreign equity cap enshrined in domestic legislation sends negative signals to potential investors and further delays 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 still enshrined in the Budget Law.

6. CONCLUSIONS AND OUTLOOK

There has been a **positive overall trend in EU-Algeria trade** since entry into force of the Association Agreement, although **Algeria's heavy dependency on hydro-carbons** has held back any significant diversification of its exports, The country registered its first negative trade balance with the EU in 2015, at a time when oil prices were considerably low. In 2017 however trade has become balanced again as oil prices improved, while EU exports faced an increasing number of trade restrictions. EU therefore continues to offer its support to the Algerian government to diversify its economy. At the same time, the Commission has engaged Algerian authorities with the aim to end the trade restrictive measures and ensure that any temporary measures be brought in line with the Association Agreement.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-EGYPT ASSOCIATION AGREEMENT[75]

1. INTRODUCTION

The EU and Egypt established a free trade area 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: all industrial products covered by the Agreement could be exported by Egypt to the EU tariff-free from the day of entry into force of the Agreement, while Egypt benefited from a transitional period of 3 to 15 years to dismantle tariffs, depending on the product. The Commission received a Council mandate authorising it to negotiate a **Deep and Comprehensive FreeTrade Area** (DCFTA) with Egypt in November 2011, but Egypt has shown limited interest so far.

Today, tariffs applied to most industrial products have been dismantled by Egypt, with the exception of certain automotive imports, for which the transitional period will run until January 2019. This agreement, which already included preferential arrangements on agricultural, processed agricultural and fisheries products, was complemented by an agreement on additional liberalisation in agricultural, processed agricultural and fisheries products signed in October 2008 that entered into force on 1 June 2010. For agricultural goods, 80% of trade is now 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. Negotiations were launched on liberalisation of trade in services, but have been halted.

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.

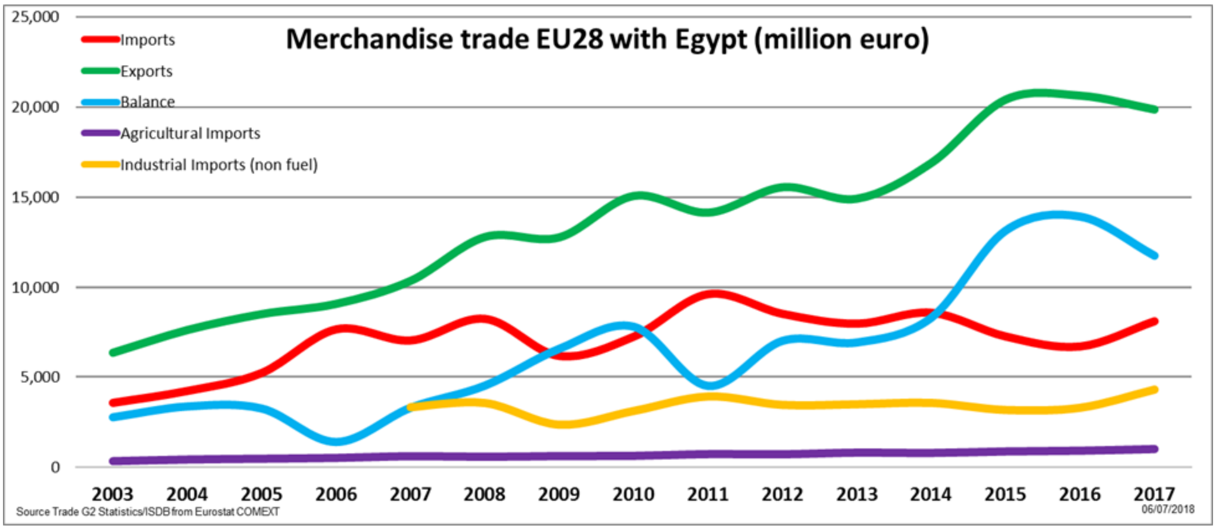
2. EVOLUTION OF TRADE

2.1. Trade in Goods

In 2017, the EU remains Egypt's main trading partner, accounting for 29.7% of the total Egyptian trade, before UAE (6.8%), China (5.8%) and the United States (5.3). The EU is Egypt's first export market: 34.1% of Egyptian exports were directed towards the EU in 2017, followed by UAE (10.9%), United States (7.4%) and Turkey (4.4%). The EU is also Egypts first source of imports, with 27.9% of Egyptian imports originating from the EU.

Trade in goods between the EU and Egypt has increased significantly over the period since the FTA entered into force: total trade between the EU and Egypt increased by 176% in 15 years, from EUR 10.1 billion in 2002 (the year preceding the provisional entry into force of the Association Agreement) to EUR 27.9 billion in 2017 (record year so far for total bilateral trade value).

[75] For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/egypt/



EU exports increased 193% between 2002 and 2017, from EUR 6.7 billion in 2002 to EUR 19.8 billion in 2017. Between 2016 and 2017, EU exports decreased (-3%), with exports standing at EUR 19.8 billion in 2017 compared to EUR 20.6 billion in 2016. In 2017, the EU mainly exported goods in the sectors machinery and transport equipment (35%), chemicals (13.2%), fuels and mining products (9.8%), and agricultural products (6.9%) to Egypt. The three biggest EU exporters to Egypt were Germany, France, and Italy.

EU imports increased by 142% between 2002 and 2017, from EUR 3.3 billion in 2002 to EUR 8.1 billion in 2017. Between 2016 and 2017, EU imports increased (20%), going from EUR 6.7 billion in 2016 to EUR 8.1 billion in 2017. In 2017, EU imports were principally in the sectors of fuel and mining products (34.8%), chemicals (11.7%), and textiles and clothing (10.4%). The three biggest importers of Egyptian products in the EU were: Italy, Germany and Spain. EU imports of agricultural and food products and in non-fuel industrial products remained stable since 2011, increasing during 2017 – most notably agricultural and food imports increased by 10.5%.

A reduction in Egyptian exports from 2011 onwards, coupled with significant increase of imports from the EU, has resulted in a widening trade imbalance between the EU and Egypt. The decrease in Egyptian exports is largely imputable to the fall of oil prices and growing internal demand for energy in Egypt (fuels accounted for one third of Egyptian exports to the EU in 2017, while they used to constitute almost half). 2017 suggests an upwards trend in Egyptian exports to the EU, having increased 20.5% from 2016, while imports slightly dipped. This is mainly the result of devaluation of the local currency carried out in November 2016, coupled with government policy aimed at import reduction.

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Egypt increased by 170% between 2003 and 2017, from EUR 0.8 billion in 2003 to EUR 2.3 billion in 2017. EU agricultural exports decreased (-25%), going from EUR 1.8 billion in 2016 to EUR 1.3 billion in 2017. EU imports increased (10%), from EUR 0.9 billion in 2016 to EUR 1.0 billion in 2017.

In 2017, Egypt was the EU's second biggest supplier of agri-food products among our Euromed-partners. The EU imported mainly fruit, including citrus fruit, (35%) and vegetables (33%) from Egypt. EU agricultural exports to Egypt were dominated by wheat (21%), vegetables (11%) and milk powders & whey (7%).

Regarding agricultural TRQs, Egypt's 2017 fill rate was high for a limited number of products such as garlic (88%), sweet oranges (88%) or strawberries (88%), but remained nil or close to zero for the majority of products, such as cucumbers, brown rice, cereal preparations, etc. It is worth mentioning that, apart from 18 products under TRQ, other agricultural exports from Egypt to the EU enter duty-free on the European market. So far, Egypt has made little use of its TRQs and has requested assistance on SPS issues to fully benefit from existing provisions of the FTA.

2.3. Preference Utilisation rate

Egypt had an average PUR of 96.7% in 2017. For EU exporters to Egypt, the PUR was 44% in 2017.

2.4. Trade in Services and FDI[76]

After a period of instability from 2011 to 2014, the **total trade in services** between the EU and Egypt had fully recovered its pre-2011 level in 2015, amounting to EUR 10.0 billion (EUR 10.2 billion in 2010). In 2016, however, Egypt witnessed a significant reduction in the export of services, due to the reduced inflow of tourists, aggravated by the crash of a Russian airliner in November 2015 over the Sinai, and slightly lower revenues of the Suez Canal due to reduced global trade. In 2016, total trade in services amounted to EUR 8.6 billion, a 14% decrease from 2015 levels.

FDI EU28 with Egypt (million EUR)

	Inward			Outward		
	2014	2015	2016	2014	2015	2016
Stocks	835	184	476	49 474	42 049	42 758
Flows	74	265	64	1 526	-2 584	1 346

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

As regards **FDI**, the EU remains the biggest investor in Egypt but EU foreign investment in Egypt remains highly volatile, with divestments exceeding investments by EUR 1.6 billion in 2015. In 2016, EU foreign investment in Egypt improved, amounting to EUR 1.3 billion, for a remaining total stock of EUR 42.7 billion.

Overall, Egypt underperforms as regards its business climate, only ranking 128nd out of 190 in the World Bank ranking Doing Business 2018 with a distance to frontier (DTF)[77] score of 56.2 out of 100 - an increase of 0.1 in DTF score compared to 2017. FDI remains to be concentrated in the oil&gas sector, with renewable energy on the rise (wind and solar). To improve this situation, on 1 June 2017, a new Investment Law entered into effect in Egypt. In November 2017, the Egyptian Government also launched an online "Investment Map", a dedicated website that displays the details of investment opportunities across the country.

[76] Full statistics available here http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122000.pdf

[77] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time.

3. ISSUES ADDRESSED IN THE JOINT COMMITTEE MEETINGS

The latest **Sub-Committee on Industry, Trade, Services, and Investment** met in November 2017 in Brussels. Bilateral issues discussed included Egypt's delay in the dismantling of tariffs for passenger vehicles under the schedule in the Association Agreement, and the draft tax incentive scheme targeting the automotive industry. Egypt was also invited to ratify the Protocol on the Dispute Settlement Mechanism. Discussions also covered various trade irritants – see in more detail section 5. Other issues covered included the progress on a potential Agreement on Conformity Assessment and Acceptance (ACAA), the need for time to adapt Egyptian SPS legislation to EU requirements, and the continued possibility of a DCFTA in the long-term.

During the last **Sub-Committee on Agricultural and Fisheries products** (November 2017), several issues were discussed, among them the agri-food trade developments with the recent increase of Egyptian agri-food exports to the EU market, the recent 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 Brussels in November 2017. The EU side 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

Since 2015, the Egyptian economic slowdown and currency **crisis have had serious consequences on trade**. Faced with growing trade deficits and a shortage of foreign exchange, the Egyptian government implemented a series of administrative measures aimed at restricting imports in 2015 and 2016. In November 2016 the Egyptian authorities liberalized the exchange rate and adopted an economic reform programme supported by a three-year USD 12 billion IMF loan programme - the Extended Fund Facility (EFF). Although challenging in the short term, bold economic measures were taken to address fiscal and external unbalance: flotation of the currency, energy subsidy reform, VAT introduction, wage restraint.

Overall, the **economy is showing signs of stabilization**, with a GDP growth (4.1% in 2017) accelerating, inflation and unemployment on a declining path, fiscal consolidation on track, and international currency reserves at the highest level since 2011. Fiscal efforts still need to be further pursued but have contributed to the reduction of the primary and the current account deficits, recently benefitting from increased tourism and gas sector revenues and a reduction of energy imports. Going forward, the government's reform agenda is focused on public finance management, financial sector, energy sector, business climate, competition, social protection and encouraging female participation in the labour force. While the principal objective of the reforms is macroeconomic stability, a longer term objective is to foster more participation of the private sector in the economy by creating a more business friendly environment. However, while the **Egyptian government** seems to be committed to reforming legislation directly related to investments, it **does not focus to a sufficient extent on trade facilitation measures**; on the contrary, it has been observed to direct its efforts at reducing its trade deficit in goods by adopting measures aimed at making imports more difficult. Although the reforms have brought foreign reserves back to comfortable levels, the policy of import substitution is still prevalent. In addition, the business environment is hindered by excessive bureaucracy, and lack of transparency and predictability of regulations affecting economic operators.

In the light of the revised **European Neighbourhood Policy**, **Partnership Priorities**[78] were jointly agreed between the EU and Egypt and adopted at the Ministerial Association Council on 25 July 2017. These priorities will further guide future relations, for three years with an annual review, and will also set the priorities for European Union support under the European Neighbourhood Instrument (ENI). Trade-related assistance in Egypt has been conducted mainly under the EUR 20 million Trade and Domestic Market Enhancement Programme (TDMEP)[79], structured around two components i) foreign trade and trade agreements and ii) industrial policy and quality infrastructure. The **programme has delivered significant results**, such as the creation of a policy unit within the trade ministry and the adoption of a trade and industrial development strategies. The TDMEP has also assisted Egypt on the establishment of a **proper regulatory environment,** including National Quality Policy, market surveillance strategy, horizontal and sector legislation, and supporting the alignment of quality infrastructure bodies.

These improvements will be essential in order for the country to pursue an ACAA of industrial products with the EU.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

EU-Egypt trade is currently being affected by **two significant technical barriers to trade (TBTs)**: a **registration scheme** and **pre-shipment inspections** imposed on entities importing certain goods to Egypt. These measures apply to 25 categories of manufactured goods since the beginning of 2016. The measures have been discussed in the WTO Technical Barriers to Trade (TBT) Committee and in the WTO Council for Trade in Goods (CTG) several times, and Commissioner Malmström has written to the Egyptian Minister of Trade raising concerns. The Commission also raised this issue twice at meetings in 2017, insisting on more transparency, rapidity, and streamlining of the administrative process, in order to facilitate registration from a practical point of view.

At the end of 2017 **Egypt** stated that it **would not apply the staged reduction in tariffs on certain motor vehicles** under the terms of its obligations under the FTA. The EU has formally notified Egypt that this unilateral decision goes against the provisions of the Association Agreement, which require prior consultation of the Association Committee. The EU has asked Egypt to cancel its decision and indicated it will be put on the agenda of the next Association Committee where Egypt is expected to substantiate the difficulties in the automotive sector that would justify in Egypt's view such exceptional measures.

Other trade irritants that remain include the following: arbitrary customs valuations by the Egyptian authorities, problems with acceptance of origin declarations by importers, restrictive labelling requirements, mainly affecting the textile and ceramic tiles sectors, a prohibition on the import of certain motorcycles, a 'reference list' of countries authorised to export milk formula that includes some -but not all- EU MS, and SPS issues, mainly affecting wheat and

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78 See http://www.consilium.europa.eu/media/23942/eu-egypt.pdf

79 This programme will end in 2020.

beef/live cattle importers. The EU is also closely following the drafting of a future tax incentives scheme targeting the automobile sector. The draft text of the legislation has yet to be disclosed by the Egyptian government, but several aspects of the future scheme may be at odds with Egypt's commitments under the WTO and the Association Agreement, notably in terms of discrimination against imports and trade-related investment measures.

Egypt yet has to ratify the protocol establishing a Dispute Settlement Mechanism signed in November 2010.

6. CONCLUSIONS AND OUTLOOK

Two-way trade has grown significantly since the entry into force of the FTA, although a mixture of political and economic factors have impeded Egyptian exporters from fully benefitting from the opportunities it created. The EU is therefore engaged in several trade-related assistance projects with Egypt in order to create the conditions in which the FTA can deliver.

Discussion on implementation focusses on the abovementioned trade irritants. The EU and Egypt are engaged in an **active dialogue** to address these, both at the political and technical level.

Facilitating trade has been made one of the priorities under the **Partnership Priorities adopted by the EU and Egypt in 2017**[80], which should cover issues such as reduction of trade barriers as well as technical assistance on SPS issues and ACAA-related fields. Negotiating a DCFTA remains a medium-long term objective to be followed when Egypt will be ready for it.

80 See: http://www.consilium.europa.eu/media/23942/eu-egypt.pdf

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-ISRAEL ASSOCIATION AGREEMENT[81]

1. INTRODUCTION

The EU and Israel have an Association Agreement (AA), creating a Free Trade Area, hereinafter called ‘the Agreement’, provisionally applied since 1996, which fully entered into force on 1 June 2000. The Association Agreement liberalised two-way trade in industrial goods. The liberalisation process was asymmetrical with the EU eliminating tariffs from the first day of the agreement, while Israel enjoyed a 12 year transition period which ended in 2013. The Association Agreement included selected arrangements on agri-food trade. The EU and Israel however subsequently upgraded the Free Trade Area with further liberalisation of agricultural, processed agricultural and fish products, in force since 2010. 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 of its ratification and entry into force in 2014. The main objective of the Convention is to provide a more unified framework for origin protocols.

The EU and Israel also have an **Agreement on Conformity Assessment and Agreement (ACAA) on pharmaceuticals**[82], in force since January 2013, which facilitates trade on both sides, as it recognises each partners certification of conformity of pharmaceutical products, without the need for re-testing at import.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

In 2017, the EU was Israel’s first trading partner, representing 36% of Israeli trade. Israel is the EU’s 26th largest trading partner and the 3rd largest one in the Euro-Mediterranean region after Algeria and Morocco. The EU was the largest exporter into Israel holding a 41% market share, ahead of the US (12%) and China (9%). The EU was Israel’s largest export market in 2017 receiving 30% of Israeli exports, with the USA slightly behind with 29%.

It should be noted that the value of EU exports to Israel has increased more than in the other direction. The EU’s annual trade surplus with Israel has therefore increased over the same period. The annual trade balance in the EU’s favour was EUR 4.8 billion in 2002 compared to EUR 6.7 billion in 2017.

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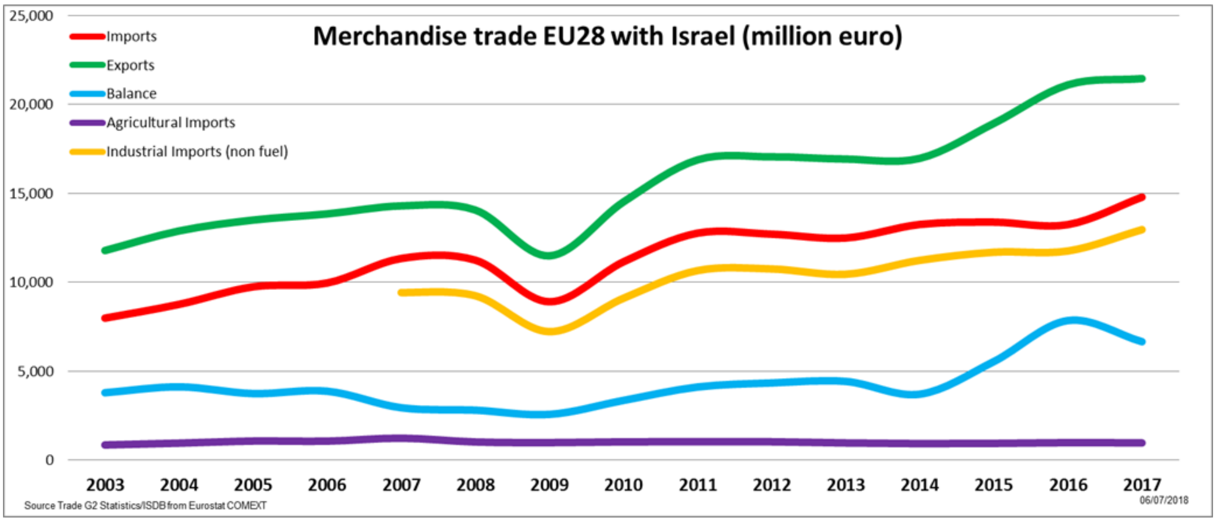
[81] For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/israel/

[82] See https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32013D0001



Since the Association Agreement came into force, the value of imports and exports between the EU and Israel has increased in both directions. In 2002, the first year in which data is available, the value of trade in goods was EUR 23.1 billion and by 2017 it was EUR 36.1 billion representing an increase of 56.7%.

The value of EU exports to Israel has risen by 54% from EUR 13.9 billion in 2002 to EUR 21.3 billion in 2017. EU exports between 2016 and 2017 increased (1%), going from EUR 21.1 billion in 2016 to EUR 21.3 billlion in 2017. With the exception of 2009 (financial crash), EU exports to Israel have demonstrated fairly consistent growth, reaching an all-time high of EUR 21.3 billion in 2017. In 2017, the most important groups for export by value were machinery and transport equipment (43%), and chemicals (13.8%), and other semi manufactured products (10%). The four largest exporters to Israel from the EU were Germany, the Netherlands, Italy and Belgium.

The value of EU imports from Israel has risen from EUR 9.1 billion in 2002 to EUR 14.8 billion in 2017, representing a 62% rise. EU imports between 2016 and 2017 increased (11%), going from EUR 13.2 billion in 2016 to EUR 14.8 billion in 2017. Imports from Israel have been steady with an overall upward trend, the only year in which imports fell heavily was 2009 (financial crash). In 2017 the most important groups for import by value were chemicals (38.4%), machinery and transport equipment (18.5%), and other and other manufactured goods (10.5%). In 2017, the four largest importers from Israel within the EU were the Netherlands, Belgium, Germany and the United Kingdom.

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Israel increased by 92% between 2003 and 2017, from EUR 1.4 billion in 2003 to EUR 2.7 billion in 2017. EU agricultural exports increased (5%), going from EUR 1.7 billion in 2016 to EUR 1.8 billion in 2017. EU imports did not fluctuate much between between 2016 and 2017 and stood at EUR 0.98 billion in 2017, a slight decrease (-1%) from EUR 0.99 in 2016. In 2017, among our Euromed partners, Israel was the EU's second most important destination for exports of agri-food products; in the same year it was the EU's third biggest supplier of agri-food products. 55% of the EU's agricultural imports from Israel were fruit and vegetables; the EU mainly exported beverages, spirits & vinegar (13.5%), followed by preparations of cereals, flour, starch (11.2%) and live animals (8.7%) to Israel.

Israel has made good use of a part of its access under TRQs. In 2017 Israel used 100% of its TRQ on new potatoes, sweet peppers, fresh clementines/mandarins/wilkings, glues based on starches and wine of fresh grapes for all other TRQs, the rate of use was below 40% and in many of them 0%.

Israel grants 113 TRQs for agricultural products from the EU; the majority of them is duty-free. For 13 quotas, Israel provided information of the utilisation at the 12th EU-Israel Subcommittee Meeting on Agriculture and Fisheries on 23 May 2018. Most of these 13 quotas were fully or almost fully utilised, except the quota for dried prunes.

Utilisation of TRQs for EU exports to Israel in 2017

Product	**Quota 2017 (tons, unless indicated otherwise)**	**Utilisation 2017 (tons, unless indicated otherwise)**	**Utilisation rate**
Garlic	230	230	100%
Apples	3 280	3 235	99%
Pears	2 140	2 135	100%
Quinces	380	317	83%
Onion	2 300	2 300	100%
Honey (< 1.5 kg)	180	180	100%
Honey (> 1.5 kg)	300	299	100%
Dried grapes	120	110	92%
Eggs	8 million pieces	7 008 000 pieces	87.6%
Potatoes	6 380	6 380	100%
Dried prunes	730	71	10%
Pet food	1 610	1 535	95%
Dogs and cats' food	1 150	1 141	99%

Source: Israeli authorities

2.3. Preference Utilisation rate

In 2017 Israel's use of the preferential utilisation rates was 91%. The EU's preferential utilisation rate was 89% in 2016 and 86% in 2017.

2.4. Trade in Services and Investment[83]

In 2016 **trade in services** between the EU and Israel was worth EUR 11.3 billion. In the last 6 years, there has been an overall increase in the value of services imported from Israel from EUR 3.2 billion in 2010 to EUR 4.8 billion in 2016. In the same period there has been an increase in EU export of service to Israel from EUR 3.8 billion in 2010 to EUR 6.6 billion in 2016.

FDI EU28 with Israel (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	40 883	40 345	62 101	14 389	17 318	24 673
Flows	7 096	2 191	11 651	1 862	769	1 225

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

On **FDI flows** there is no consistent image either on volume or on partner country. Figures show fluctuations every year and no trend can be identified. Despite the lack of consistency, it can be seen that FDI flows between the US and Israel clearly exceed those between the EU and Israel. However, EU FDI in both stocks and flows both in and out of Israel have grown continuously since 2001. The EU accounts for a substantial 40% of all outgoing Israeli investments, followed by the US with 20%. For incoming investments into Israel, the share of the EU is 20% which is similar to that of the US.[84]

According to The World Bank Doing Business Index 2018 which ranks 190 countries, Israel, an OECD member, was ranked 54th in the world with a distance to frontier (DTF)[85] score of 71.4 out of 100 – an increase of 0.05 in DTF score compared to 2017.

3. Issues addressed in the Annual (Joint Committee/Trade Committee) meeting

Two recent meetings of the **EU-Israeli Sub-committees on Industry, Trade and Services** were held in December 2016 and 24 May 2018. A range of bilateral issues were discussed including the state of EU-Israeli trade under the Association Agreement and the experience of the ACAA on Pharmaceuticals already concluded. Regarding trade barriers, the recent removal of a distinction between ‘new’ and ‘old’ Member States (pre and post-2004) for import of pharmaceuticals into Israel was welcomed. The EU stressed the need to resolve a similar distinction still existent for medical devices. A number of IPR issues were also raised, including related to the protection of biological medicines. Both parties provided an update on their ongoing bilateral and multilateral trade negotiations.

The **EU-Israeli Sub-Committee on Agriculture and Fisheries** also met in December 2016. A range of issues were discussed, including the current trade in agricultural products between the two partners and related issues, such as SPS regulations in both directions. On agricultural issues, Israel provided an update on changes to its agricultural policy and the EU stressed the importance of GIs. Parties also discussed the ongoing process of reviewing the EU regulation

83 See statistics http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111672.pdf
84 Both Eurostat and IMF data was used for investment figures.
85 The DTF score is a measurement used by the World Bank to assess the absolute score of regulatory performance in economies over time.

on organic farming. Israel sought reassurance that there would be no gaps between the EU’s new regulation on organic farming and the current bilateral relationship – the EU reassured Israel that the five year transition period from 2020 would allow for any necessary adjustments in bilateral exchanges. Israel also expressed its request to extend the current arrangement to aquaculture products to which the EU clarified that any modification of current arrangements would have to be done through a bilateral agreement. On fisheries, there was discussion on sustainable Mediterranean fisheries and the EU provided an update on its Maritime Spatial Planning. Israel signalled its intention to request EU technical support in several areas, such as the sustainable use of pesticides and flood risk prevention, while Israel also offered technical support to the EU on tackling lumpy skin disease. The next Sub-committee on Agriculture and Fisheries will meet on 23 May 2018.

The latest **EU-Israel Customs Cooperation and Taxation Subcommittee** took place in November 2017. Parties informed each other of the development of their customs legislations, on the enforcement by customs of IPR, on the implementation of the Protocol on mutual assistance between administrative authorities in customs matters and on the Pan euro-Mediterranean (PEM) Convention on Rules of Origin.

4. SPECIFIC AREAS OF IMPORTANCE

The Israeli economy stayed on its path of steady growth, low fiscal deficit, low unemployment and solid external position. The Shekel has been on an appreciation trend against all major currencies since 2015, with an impact of the price competitiveness of Israel's exports. The discovery of natural gas fields in Israel's exclusive economic zone and the future export plans might bring related risks but also opportunitites to the economy.

The EU and Israel continue to work together on the **implementation of the ACAA on pharmaceuticals**. This is important because it allows seamless trade without the need for re-testing products that have been alredy certified by the exporting side. Following this success, **Israel is considering additional areas** on which to focus. To this end, the Israeli authorities have made an increasing number of requests for technical assistance from the EU in the form of TAIEX workshops and Twining programmes – the only type of capacity building assistance the EU provides to Israel being a developed country. In a wide range of areas (including environment, energy, statistics and agriculture) EU regulatory practice (norms, standards and procedures) is shared with the Israeli authorities to help specific policy formulation and implementation. For trade, it is particularly important to continue to provide support for ongoing market reforms, in particular those that relate to the opening of the Israeli domestic market – such as in the areas of agricultural policy, accreditation, import authorization procedures, conformity assessments and standard setting etc. – as this could also improve market access conditions for EU operators.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

No significant roll back of commitments in the Association Agreement has been recorded; however there are a **number of persistent trade irritants**. These include the discriminatory treatment of Member States, who joined since 2004 and of Luxembourg, with particular reference to restrictions on import authorization of medical devices. Other technical barriers to trade include the lack of data protection (IPR) on biological medicines, the rigid regime of kosher certification of slaughtered meat as well as restrictions to the import of live animals. A number of technical meetings are taking place to look into these issues.

In the context of the wish expressed by the Israeli government 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 standards, import procedures, conformity assessments, agricultural support policy, etc. In particular, in 2017 the EU has been closely following the development of Israel's regulatory policies of nutritional labelling and on cosmetics, advocating for rules that are aligned with international and, possibly, EU standards. An important result was achieved when, following EU requests in that sense, Israeli authorities decided on a transitional period of two years for the full implementation of the new rules on nutrional labelling.

6. CONCLUSIONS AND OUTLOOK

Overall the value of trade between the EU and Israel **has increased** during the period of implementation of the Association Agreement and this is true in both directions. Goods continue to account for the majority of trade, although services and foreign investment are also noteworthy. Trade fell in both directions in 2009 due to the financial crisis; it should be noted, however, that it has since recovered and exceeded pre-crash levels in both directions, and has remained strong despite wider regional instability.

There have been **some recent successes in resolving trade irritants** (e.g. for pharmaceuticals), which is a path that the EU aims to continue on to further strengthen trade relations; the deepening of such relations is also facilitated by a continuous dialogue in many areas, such as in the regulatory field, where Israel considers the EU as an international reference. The EU and Israel **continue to cooperate in bilateral and multilateral trade talks**.

Discussions between the EU and Israel on a **Dispute Settlement Agreement** under the Association Agreement are still **to be finalised**. Israel has expressed some limited interest in using the Agreement's review clause on services.

The **EU will continue to support Israel's ongoing market reforms** and will continue in 2018 working with Israel on nutritional labelling, cosmetics and in other areas, advocating for rules that are aligned with international and, possibly, EU standards.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-JORDAN ASSOCIATION AGREEMENT[86]

1. INTRODUCTION

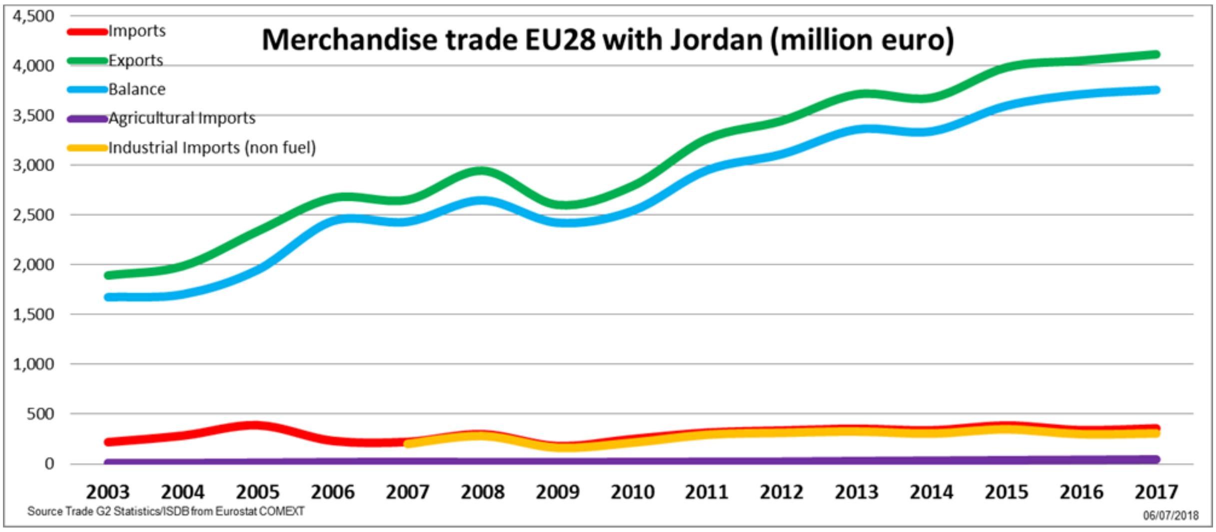
The Association Agreement (AA) creating a Free Trade Area between the EU and Jordan (hereinafter referred to as 'the Agreement') was signed on 24 November 1997 and entered into force on 1 May 2002. It liberalised two-way trade in goods, with asymmetrical transition periods in favour of Jordan, which allowed Jordan to phase in tariff reductions over a 12 year period. Tariff dismantling has 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 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 Convention's main objective is to provide a more unified framework for origin protocols.

In 2011 the EU Council adopted negotiating directives to further enhance the trade relationship through a **DCFTA** (DCFTA) with Jordan, but negotiations have not yet started.

2. EVOLUTION OF TRADE

2.1. Trade in Goods



In 2017 the EU was Jordan's largest trade partner, representing 17% of its total trade. The EU was the largest importer into Jordan with a 22% market share. It was however only Jordan's 7th largest export market behind the US, India and regional players including Saudi Arabia, Iraq and the UAE. The value of trade between the EU and Jordan has increased in both

[86] For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/jordan/

directions since the Association Agreement came into force. Since 2002, the first year for which data is available and also the year the Agreement came into force, there has been an overall growth in trade in goods in both directions. In 2002 the value of trade in goods was EUR 2.4 billion and in 2017 it was EUR 4.5 billion - a growth of 87.5%.

The value of EU exports in goods to Jordan has increased more than in the other direction. Jordan's trade deficit with the EU has grown over the period 2002-2017. This is broadly consistent with Jordan's overall trade pattern. As the largest supplier to Jordan, the EU is also the trading partner with which it has its largest trade deficit – EUR 3.7 billion (35%) of its EUR 10.3 billion total deficit.

The value of EU exports to Jordan has risen by 100% from EUR 2 billion in 2002 to EUR 4.1 billion in 2017. Exports to Jordan have risen year-on-year with the exception of 2009 (financial crisis) and 2014; which may be a reflection of regional political and economic instability. In 2017 the value of exports reached an all-time-high of EUR 4.1 billion, an increase (1.5%) from 2016 which stood at EUR 4.0 billion. The most important exports sectors were machinery and transport equipment (33.2%), agricultural and products (18.5%) and chemicals (13.3%). In 2017 the four largest exporters to Jordan from the EU28 were Germany, Italy, the Netherlands and Spain.

The value of EU imports from Jordan has risen from EUR 314 million in 2002 to EUR 358 million in 2017 – an increase of EUR 44 million or 14%. Within the lifespan of the agreement however the value of imports has fluctuated. In 2015 imports reached an all-time high of EUR 386 million, but have since declined. Between 2016 and 2017, EU imports increased (5%) from EUR 339 million in 2016 to EUR 358 million in 2017. In 2017 the most important import sectors, were chemicals (37.5%), clothing (13.4%), machinery and transport equipment (13.1%), and agricultural products (12.6%). In 2017 the four largest importers of products from Jordan among the EU were Belgium, the United Kingdom, the Netherlands and Italy.

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Jordan increased by 310% between 2003 and 2017, from EUR 0.1 billion in 2003 to EUR 0.8 billion in 2017. Between 2016 and 2017, EU agricultural exports decreased (-6%) going from EUR 0.8 billion in 2016 to EUR 0.7 billion in 2017. EU imports increased (12%) between 2016 and 2017, with imports going from EUR 41 million in 2016 to EUR 45 million in 2017. In 2017, the EU mainly exported wheat (15%), live animals (9%) and infant food and other cereals, flour, starch or milk preparations (7%) to Jordan. The EU's key agricultural imports from Jordan were vegetables (27%), cigars and cigarettes (20%) and preparations of vegetables, fruits and nuts (11%).

Regarding agricultural TRQs, Jordan's 2017 fill rate of the two TRQs on virgin olive oil and fresh cut flowers and buds was practically 0%.

2.3. Preference Utilisation rate

In 2017 Jordan's use of the preferential utilisation rates was 75%. Data on the EU's use of preferential utilisation rates in not available for Jordan.

2.4. Trade in Services and Investment[87]

In 2016 **trade in services** between the EU and Jordan was worth EUR 1.3 billion. There has been an overall decline in the value of services imported from Jordan from EUR 0.6 billion in 2010 to EUR 0.5 billion in 2016; no doubt explained by the protracted instability in the region. In the same period there has been an increase in EU export of services to Jordan from EUR 0.6 billion in 2010 to EUR 0.9 billion in 2015. Jordan's exports of services are dominated by services in the travel sector, while Jordan's imports of services are dominated by the transport sector.

FDI EU28 with Jordan (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	495	457	0	2 977	2 882	3 039
Flows	20	-23	-408	335	221	133

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

In 2016, the total of **FDI** (FDI) stocks were EUR 3.03 billion (EUR 3.0 billion EU FDI in Jordan and EUR 0.03 million Jordanian FDI in the EU). According to the World Bank 2018 "Ease of Doing Business" index which ranks 190 countries, Jordan ranked 103rd in the world for overall ease of doing business, with a distance to frontier (DTF)[88] score of 60.6 out of 100 – an increase of 2.38 in DTF score compared to 2017.

3. Issues addressed in the Annual (Joint Committee/Trade Committee) meetings

The most recent **EU-Jordan Sub-Committee on Industry, Trade and Services** met in December 2017 in Amman. Much of the Sub-Committee discussion focused on the implementation of the Agreement on the relaxation of Rules of Origin applicable under the EU-Jordan Association Agreement. The EU and Jordan had an exchange of views on the overall investment climate in Jordan. On-going trade related assistance and capacity building was also discussed.

The **Agriculture and Fisheries Sub-Committee** last met in December 2017 in Amman (back-to-back with the Sub-Committee on Industry, Trade and Services) and discussed: latest developments of agricultural policies, as well as a state-of-play with regard to GIs (GIs) and organic farming in Jordan. The EU and Jordan also discussed technical assistance and capacity building for Jordan in agriculture field.

The latest **EU-Jordan Customs co-operation sub-committee** met in December 2017 in Amman. Issues discussed included the modernisation process of customs administration and simplification of customs legislation and procedures, including computerisation. The EU presented the state-of-play and latest developments with regard to the modernisation of the PEM Convention. Other points of discussion referred to strengthening the EU-Jordan administrative cooperation on customs matters, including to combatting irregularities and customs fraud.

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[87] For more information see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111671.pdf

[88] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time.

4. SPECIFIC AREAS OF IMPORTANCE

The **protracted Syrian crisis** has had serious consequences for the Jordanian economy and its trade. The closure of traditional trade routes has resulted in significant losses and downscaling of production for the export market. The presence of over 650,000 Syrian refugees in Jordan[89] has compounded existing economic grievances. In the absence of sufficient reform to the regulatory environment, attracting foreign investments to offset the negative trend has proven difficult. Jordan agreed in 2016 to three-year program with the IMF of long-delayed structural reforms. Additionally, Jordan continues to benefit from Macro-Financial Assistance (MFA) from the EU and it's currently implementing a second MFA operation aimed at strengthening the country's foreign exchange reserve position and meeting its balance of payments and budgetary financing needs. In order to address the problems caused by the Syrian crisis, the EU is also providing Jordan with a package of support of which the trade angle is a **simplification of the rules of origin applicable to Jordanian exports to the EU and trade support programs**. This initiative was agreed in July 2016 and will apply until the end of 2026. 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 Least Developed Countries**, provided that certain conditions are met. These rules are simpler than those that would otherwise apply under the Association Agreement. This simplification applies to 52 product groups. To qualify to use the simpler rules, production must take place in one of 18 designated industrial zones and Syrian refugees must also account for no less than 15% of a manufacturer’s workforce in the first 2 years of the scheme and 25% from the third year, once the scheme enters into force.

Regarding the **Rules of Origin initiative** there is interest on both sides to further incentivise economic operators to use the scheme. Until today eleven companies registered in the scheme and four of them exported their products into the EU for a total value of EUR 2.3 million. In its first report on the Implementation of the Rules of Origin scheme Jordan made a number of requests for further modification of criteria required by the scheme. After an analysis of the requests, the Commission considered it justified and intends to address certain requests in 2018, in order to further improve the effects of the initiative on Jordanian economy and contribute to increasing a number of Syrian refugees legally employed in Jordan in decent jobs.

A renewed **effort towards enhancing regulatory coherence** forms part of the **Partnership Priorities** adopted in December 2016[90], which also cover actions to enhance Jordan’s social and economic resilience. The EU seeks to work with Jordan to promote a stronger, more competitive economy whereby an enhanced trade and investment climate will encourage and enable Jordanian enterprises to take better advantage of preferential access to the EU market and act as a powerful incentive for job creation. Cooperation also covers the area of skills development and related educational reform, to promote the productive contribution of young people in the economy.

Jordan is also working on **approximating its standards to EU standards.** The Jordan Food and Drug Administration was active in early 2017 on undertaking steps for alignment to EU technical regulations and SPS standards. Two expert missions were conducted to determine

[89] According to UNHCR data, see http://data2.unhcr.org/en/situations/syria/location/36

[90] See http://www.consilium.europa.eu/en/press/press-releases/2016/12/20/eu-jordan-partnership-priorities-and-compact/

the needs and potential technical assistance. Trade-related assistance projects to improve the trade and investment climate also include a EUR 55 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 to stimulate innovation and increase the competitiveness of Jordanian exports and to supporting of the Rules of Origin initiative.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

There are no significant open issues or follow-up actions relating directly to the current agreement. There is, however, a continuing difference of views concerning **Jordan's commitments on the import conditions for alcoholic drinks**, arising from the interaction between the initial Association Agreement and the subsequent updated Agreement that brought additional liberalisation of trade in agricultural, processed agricultural and fisheries products.

Furthermore, there are a number of **structural issues** on the side of Jordan, which prevent the country from taking full advantage of the FTA, such as a lack of clear trade and development policies and administrative weaknesses. We also note a lack of interest from the private sector, which still prefers to satisfy neighbouring markets to the EU as the latter remains a highly competitive and demanding market with high regulsatory requirements. In addition, production costs in Jordan are high due to water shortages, high electricity prices and transportation costs, which reduce the competitiveness of goods made in Jordan.

6. CONCLUSIONS AND OUTLOOK

Overall the **value of trade between the EU and Jordan has increased** since the Association Agreement came into force. This is true in both directions. Goods continue to account for the majority of trade, although services and foreign investment are also present. EU exports to Jordan have grown faster than Jordanian exports to the EU, so the Jordanian trade deficit with the EU has increased in the same period, no doubt exacerbated by regional developments.

The Syria crisis has closed many traditional trade routes for Jordan. The Decision on relaxation of Rules of Origin, adopted in July 2016, was designed to boost Jordanian exports into the EU and to support formal integration of Syrian refugees into the Jordanian economy. Further actions are planned to raise awareness of this initiative and to promote the business opportunities it provides. Based on additional requests made by Jordan in December 2017, the EU has agreed to a further relaxation of certain criteria applicable throughout the Rules of Origin scheme.

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[91]. In the last Sub-Committee on Industry, Trade and Services, Jordan indicated that they preferred to deal with further liberalisation of agriculture, processed agriculture, fisheries and processed fisheries products under the DCFTA.

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91 See http://data.consilium.europa.eu/doc/document/ST-12384-2016-ADD-1/en/pdf

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-LEBANON ASSOCIATION AGREEMENT[92]

1. INTRODUCTION

The EU and Lebanon have an Association Agreement, creating a Free Trade Area, which was provisionally applied on 1 March 2003 and fully entered into force on 1 April 2006 (hereinafter referred to as 'the Agreement'). The Agreement liberalised two-way trade in industrial goods with an asymmetrical transition period of 12 years in favour of Lebanon. The phased liberalisation of industrial products by Lebanon started in 2008 and was completed in 2015. From the first day of provisional application, it also granted tariff-free access to the EU for most Lebanese agricultural and processed agricultural products (89% enter tariff and quota free) with only 27 agricultural products facing a specific tariff treatment, mostly TRQs (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 has not yet entered into force, pending the notification of the ratification by the Lebanese Parliament.

Lebanon has signed the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (PEM Convention) in 2014; it notified its ratification in October 2017 and formally joined on 1 December 2017[93]. The Convention's main objective is to provide a more unified framework for origin protocols.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

Since 2012 the EU has ranked as Lebanon's first trading partner. In 2017 the EU represented 36% of Lebanese trade. The value of EU exports to Lebanon has increased more than in the other direction. This has roughly doubled Lebanon's annual trade deficit with the EU over the same period. The annual trade balance in the EU's favour was EUR 3.0 billion in 2002 compared to EUR 6.8 billion in 2017. At the same time, the EU has become a less important export destination in relative terms with its share of Lebanese exports falling in the last couple of years. The increasing importance of regional export markets such as Saudi Arabia or the UAE highlights the need for removing regional barriers and encouraging regional trade.

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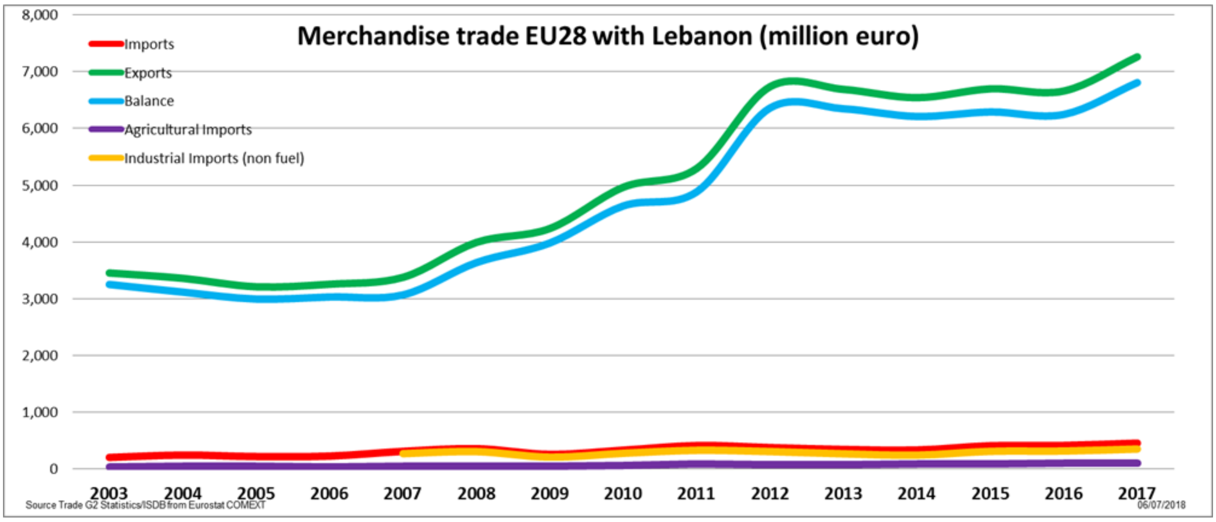
92 For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/lebanon/

93 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



Since the Association Agreement was provisionally applied, the value of imports and exports between the EU and Lebanon has increased in both directions. In 2002, the year before the Association Agreement was provisionally applied, the value of trade in goods was EUR 3.4 billion and by 2017 it was EUR 7.7 billion (an increase of 126%).

The value of EU exports to Lebanon has risen by by 128% from EUR 3.2 billion in 2002 to EUR 7.3 billion in 2017, an all-time high. Since then they have held steady with slight year-on-year fluctuations. Between 2016 and 2017, EU exports increased (9%) rising from EUR 6.6 billion in 2016 to EUR 7.2 billion in 2017. The most important groups for export by value were fuel and mining products (32%), machinery and transport equipment (15.9%), agricultural and food products (14.5%), and chemicals (12.3%). The four largest exporters to Lebanon from the EU28 were Italy, Greece, Germany and France.

The value of EU imports from Lebanon has risen from less than EUR 0.2 billion in 2002 to EUR more than 0.4 billion in 2017. The value of imports rose year-on-year up to 2009 (financial crisis), then recovered to exceed pre-crash levels before falling again from 2012 to 2014, in part explained by the simultaneous decrease in the price of gold. Between 2016 and 2017, EU imports increased (10%) going from EUR 413 million in 2016 to EUR 454 million in 2017. The most important groups for import by value were base metals (31.8%), agricultural and food products (21.8%), and semi-manufactured products (16.5%). In 2016, the three largest importers from Lebanon within the EU were the Netherlands, Germany and France.

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Lebanon increased by 129% between 2003 and 2017, from EUR 0.5 billion in 2003 to EUR 1.1 billion in 2017. Between 2016 and 2017, EU agricultural exports increased slightly (2%) going from EUR 1.02 billion in 2016 to EUR 1.04 billion in 2017. EU imports increased (4%) between 2016 and 2017, with imports going from EUR 99 million in 2016 to EUR 103 million in 2017. In 2017, the EU mainly exported live animals (16%), cheese (8%), spirits and liqueurs (7%) and milk powder & whey (7%) to Lebanon. The EU's key agricultural imports from Lebanon were preparations of vegetables, fruits and nuts (23%), offal, animals fats & other meats (14%) and raw tobacco (11%).

Regarding agricultural TRQs, the fill rate by Lebanon was low in 2017. It used 4% of the olive oil quota and 8% of its table grape quota, but less than one per cent of other quotas.

2.3. Preference Utilisation rate

In 2017 Lebanon's PUR was 70%. In 2015 the EU's preferential utilisation rate was 74%, the same figure as in 2014.

2.4. Trade in Services and FDI[94]

In 2016 **trade in services** between the EU and Lebanon was worth EUR 2.2 billion. In the last 5 years, there has been an overall increase in trade in services in both directions but with a fluctuating trend. The import of services from Lebanon has risen from EUR 0.9 billion in 2010 to EUR 1.1 billion in 2014 and then shrunken to EUR 0.9 billion in 2016, while the EU export of services has risen from EUR 1.2 billion in 2010 to EUR 1.9 billion in 2014 and then back to EUR 1.4 billion in 2016. The annual trade balance on services in the EU's favour has increased from EUR 0.3 billion in 2010 to EUR 0.5 billion in 2016.

According to the Ministry of Economy and Trade, in 2016 the services sector represented around 69% of Lebanese GDP and employed more than 76% of the total labour force. The most prominent service sectors included trade (retailing and wholesale), construction, tourism, telecommunications and financial services.

FDI EU28 with Lebanon (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	3 776	5 156	5 515	1 399	1 712	1 928
Flows	262	1 285	332	129	86	128

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

In 2016, EU **FDI** stocks in Lebanon amounted to EUR 1.9 billion with outward FDI stocks from Lebanon to EU accounting for EUR 5.5 billion in 2016. In 2016, EU FDI flows accounted for EUR 128 million.

According to The World Bank Doing Business Index 2018 which ranks 190 countries, Lebanon ranked 133rd in the world on the ease of doing business, with a distance to frontier (DTF)[95] score of 54.67 out of 100 – a decrease of 0.1 in DTF score compared to 2017.

3. Issues addressed in the Annual Joint Committee meetings

The **EU-Lebanon Sub-Committee on Industry, Trade and Services** met the last time on 7 March 2018. The key issues discussed were the need to further increase Lebanese trade integration with the EU and international community including through the possible implementation of a the revised PEM rules, Lebanese accession to the Agadir Agreement[96] and the WTO membership bid – which the EU supports. Parties also discussed the EU support

[94] For more information see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111614.pdf

[95] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time.

[96] The Agadir Agreement for establishing a Mediterranean Free Trade Area was signed on 25 February 2004 and entered into force in 2007. Agadir member countries include Morocco, Tunisia, Egypt and Jordan.

to the strengthening of Lebanese capacity in key sectors that were identified in the Joint Working Group on Trade and Investment[97] of July 2017: pharmaceuticals products, agri-food and statistics. The EU also noted the obligation not to impose trade related measures without consultation and required information on a series of measures that could have an impact on EU exports, notably additional duties on imports of wine and spirits and the exemption of oil from customs duties that has been suspended. Agricultural topics were also discussed: there were exchange views on latest developments in Lebanese and EU agricultural and rural development policies, the state of play regarding the review of the Lebanese draft law on GIs, organic farming and the technical assistance for increasing competitiveness of the agricultural and agro-food sectors.

The **Joint Working Group on Trade and Investment,** which reports to the Subcommittee on Trade, meets at a technical level at least three times a year[98].

The Sub-Committee took place in the framework of an 'Economic Cluster' which included, back-to-back: the **Macro-Economic dialogue and the Subcommittee on other economic-related areas.** The latter discussed on areas of mutual economic interest such as the EU External Investment Plan (EIP), Lebanon's economic fragility brought about by slow growth, rising public debt and vulnerability to the reforms planned within the framework of the presentation of Lebanon's Capital Investment Programme (and its monitoring mechanism), EU-Lebanon cooperation to fulfil climate change commitments and its impact on economic growth and job creation, waste management, energy and other issues. The CEDRE[99] conference was held on 6 April 2018 in Paris where international donors met to support Lebanese developments and reforms and the conference on Supporting the future of Syria and the region took place in Brussels on 24 and 25 April 2018.

4. SPECIFIC AREAS OF IMPORTANCE

The protracted **Syrian crisis** has had serious consequences for Lebanon. The conflict has exacerbated the security, political and economic issues facing the country. It has resulted in a decline in tourism, (private) investments and economic activities. This has culminated in economic growth falling sharply from the 7%-9% growth rates experienced between 2008 and 2010 to 1.5% and less in the last years; the lowest growth performance since the 2006 conflict. The **unstable political environment** (with the Presidential election of 2016) and budgetary constraints (exacerbated by the high debt levels, currently at 144% of GDP) have made it difficult for the country to address issues such as poverty, unemployment and 'brain drain'. Furthermore, Lebanon is characterised by regional socio-economic disparities with almost 30% of the population living under the poverty line and 8% under the extreme poverty line. The numbers of Syrian refugees has significantly increased in 2013-2014. Refugees currently constitute about one third of the population and, while spread throughout the whole country, the highest concentrations are in Northern Lebanon and in the Beqaa. Lebanon is seeking further support from the EU in order to boost the Lebanese economy and cope with the spill-over effects of the Syrian Crisis.

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97 For more information see https://eeas.europa.eu/headquarters/headquarters-Homepage/26716/european-union-and-lebanon-set-joint-working-group-trade-and-investment_en

98 In 2017 it met in March, July and October.

99 Conférence économique pour le développement, par les réformes et avec les entreprises

Following the commitments undertaken by the EU and Lebanon in the Partnership Priorities and Compact to address the factors hindering trade towards the EU, a Joint Working Group (JWG) on Trade and Investment was set up with the aim to address the factors hindering trade with the EU and to **help Lebanon to upgrade its local production standards** (see in more detail section 3 above). In particular, the three meetings of the working group that have been held so far (the last one in October 2017) focused on sanitary and phyto-sanitary standards (SPS) and pharmaceutical issues, in view of upgrading quality standards and good manufacturing practices (GMPs) of the sector. Lebanon will also receive assistance under the TAIEX program[100]. In addition, there are a number of trade related assistance projects to improve the trade and investment climate. For example, the EU is currently financing a EUR 15 million programme on improving value chains in agriculture and wood processing, with the aim to improve quality of Lebanese products and boost the competitiveness of the targeted sectors.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The EU and Lebanon are committed to increase the dialogue on trade, with a view to identifying pragmatic solutions to help Lebanon to take advantage of trade opportunities provided by the Association Agreement. The **Joint Working Group on Trade and Investment,** which reports to the Subcommittee on Trade has an important role in shaping future assistance and advocates for strategic trade reforms (horizontal reforms and sector reforms, business climate, quality standards etc.). Specific issues addressed cover, but are not limited to: facilitating exports of agri-food and industrial goods to the EU, improving competitiveness and productivity of the agri-food sector as well as services, statistics, SPS, SMEs, business and investment climate. At the JWG of July 2017 the EU and Lebanon agreed to set up an **Action Plan** with defined milestones for establishing a Lebanese food safety system that complies with basic principles and international standards.

Lebanon is still in the process of applying to the WTO. The EU will continue to support and encourage Lebanon towards WTO membership and membership of the Agadir Agreement.

6. CONCLUSIONS AND OUTLOOK

Overall the **value of trade between the EU and Lebanon has increased** since the Association Agreement came into force. This is true in both directions. Goods continue to account for the majority of trade, although services and foreign investment are also noteworthy. Despite the overall increase in the value of trade, the increase in pace of exports has been noteworthy and hence the overall trade balance has favoured the EU.

Services are the main driver of Lebanon's economy. Enhancing the competitiveness of the Lebanese service sector could lead to economic growth in selected sectors of strategic importance for the country. There is therefore **untapped potential on services** whose growth could have positive spill-over effects into other areas of the economy. At the same time, there are a number of ongoing issues which restrict trade and investment in Lebanon and prevent her taking full advantage of the FTA. In this regard, there will be further work on helping Lebanon reach the EU standards, for example on SPS and Pharmaceutical products. The private sector, in particular SMEs, forms the cornerstone of the Lebanese economy and is the

[100] More information can be found here: https://ec.europa.eu/neighbourhood-enlargement/tenders/taiex_en

main source of job creation in Lebanon. Despite its dynamism and high resilience, businesses suffer from an inadequate business environment, weak infrastructure (an example being the unreliable provision of energy, whose system is in need of a reform) and a lack of structural reforms. In those areas as well, the EU is ready to support Lebanon.

Lebanon also remains constrained by the **spill-over of the Syrian conflict**: apart from the high number of Syrian migrants in the country, the crisis has closed traditional trade routes for both Lebanese imports and exports. The EU and Lebanon continue to consider further collaboration to ease the strain of the refugee crisis.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-MOROCCO ASSOCIATION AGREEMENT[101]

1. INTRODUCTION

The EU and Morocco established a Free Trade Area as part of the EU-Morocco Association Agreement, signed in 1996, which entered into force on 1 March 2000. 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 by the Agreement 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 and fisheries products, which came into force in 2012. Trade for industrial products is now entirely liberalised, while market opening for agricultural products is also substantial with only a few products subject to TRQs on each side. Negotiations for a DCFTA started in 2013.

A protocol establishing a Dispute Settlement Mechanism was agreed upon by the EU and Morocco, and came into force in 2012. Morocco also signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin on 18 April 2012. The ratification process is still pending. The main objective of the Convention is to provide a more unified framework for origin protocols.

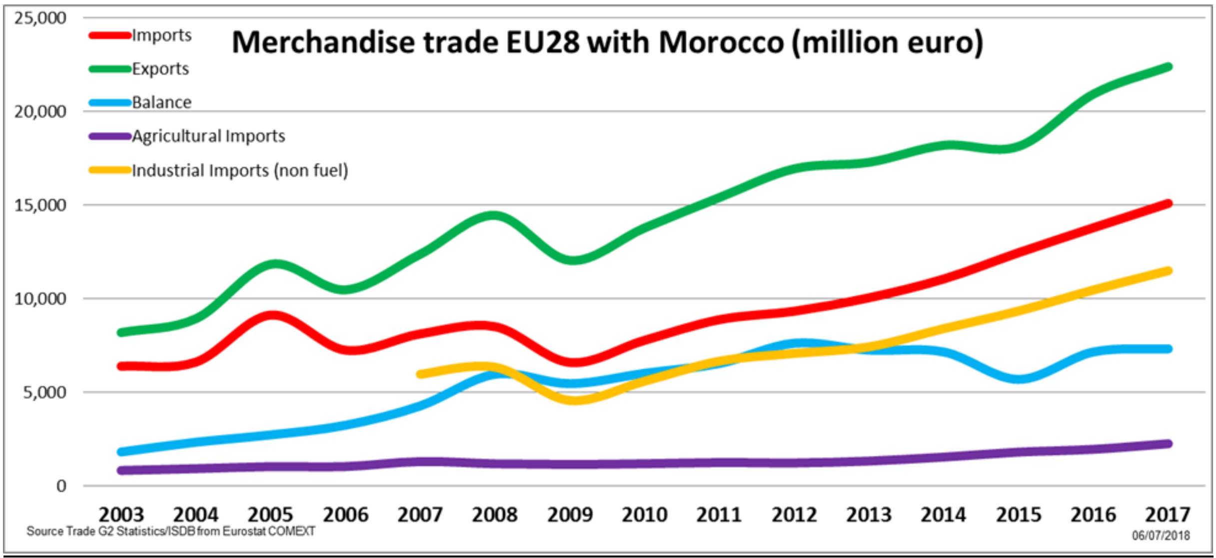
2. EVOLUTION OF TRADE

2.1. Trade in Goods

In 2017, the EU was Morocco's first partner for trade in goods, accounting for almost 60% of Morocco's total trade. Other trading partners fell far behind the EU, such as China (6%), the United States (6%), and Turkey (4%). Morocco is the EU's 22nd largest trading partner and the first trading partner in the Euro-Mediterranean region.

Trade in goods between the EU and Morocco **has increased significantly over the period since the Free Trade Area entered into force**: trade flows have consistently grown since the entry into force of the agreement and more than doubled over the past 16 years, from EUR 14.3 billion in 2002 to EUR 37.5 billion in 2017 (162%). Between 2016 and 2017, total trade increased by 8%, from EUR 34.7 billion in 2016 to EUR 37.5 billion in 2017.

[101] For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/



EU exports rose by 186% between 2002 and 2017, from EUR 7.8 billion to EUR 22.4 billion. Between 2016 and 2017, EU exports increased (7%) from EUR 20.9 billion in 2016 to EUR 22.4 billion in 2017. In 2017, EU exports to Morocco were mainly made of machinery and transport equipment (37.7%), fuels and mineral products (13.7%) and textiles (8.1%). The three biggest EU exporters to Morocco were: Germany, France and Spain.

EU imports increased by 133% between 2002 and 2017. Between 2016 and 2017, EU imports increased (9%) from EUR 13.7 billion in 2016 to EUR 15.0 billion in 2017. This tendency is particularly reflected for industrial products and manufactured goods (+121%), with important progress also being made in terms of EU imports of Moroccan agricultural products (+150% between 2002 and 2017). In 2017, EU imports were made of machinery and transport equipment (40.4%), agricultural products (23.0%), and textiles (19.3%). The three biggest EU importers were: Spain, France and Italy.

The agreement has proven mutually beneficial. While the first years of implementation of the EU-Morocco Free Trade Area led to an increasing trade surplus for the EU, this trend has now stabilised.

2.2. Trade in agricultural goods

Morocco is the largest exporter of vegetables to the EU. Total trade in agricultural products between the EU and Morocco increased by 187% between 2003 and 2017, from EUR 1.3 billion in 2003 to EUR 3.7 billion in 2017. In 2017, Morocco was the EU's biggest supplier of agricultural products among our Euromed partners.

EU agricultural exports decreased by 10% between 2016 and 2017, going from EUR 1.7 billion in 2016 to EUR 1.5 billion in 2017. Over the same period, EU imports increased by 15% between 2016 and 2017, going from EUR 1.9 billion in 2016 to EUR 2.2 billion in 2017.

Regarding the 6 agricultural TRQs granted by the EU under the Association Agreement, Morocco's 2017 fill rate was high for a limited number of products such as tomatoes (100%) and courgettes (72%), intermediate for other products such as clementines (52%), cucumbers (40%) or strawberries (25%). The utilisation of quota for garlic remained very low (1%), whilst the quota on chemically pure fructose remained unused by Morocco.

2.3. Preference Utilisation rate

Morocco had an average utilisation rate of preferences of 97% in 2017 for all goods, agricultural and non-agricultural products. No data was available to calculate the PURs for EU exports to Morocco.

2.4. Trade in Services and FDI[102]

Total **trade in services** between the EU and Morocco increased between 2010 and 2016, from EUR 7.5 billion in 2010 to EUR 8.8 billion in 2016. The EU is Morocco's first partner for trade in services and investment. Moroccan exports of services to the EU have progressed by 15% between 2010 and 2016 and EU exports of services to Morocco have increased by 19% over the same period. In 2016, the EU exported EUR 3.6 billion in services to Morocco and Morocco exported EUR 5.9 billion in services to the EU.

FDI EU28 with Morocco (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	955	966	574	14 153	15 014	15 721
Flows	203	46	-303	-3 457	791	639

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

EU-Morocco FDI flows remained relatively steady between 2013 and 2016, despite some volatility, resulting in the total EU FDI stock of EUR 15.7 billion in Morocco at the end of 2016. More than 50% of FDI in Morocco comes from the EU, thanks to strong cooperation efforts between EU Member States and the Moroccan Government, quality of local facilities and infrastructure, and above all attractive conditions made available for investors, especially in the automotive, aeronautics and the electronics sectors. With the aim of improving its attractiveness for investors, in 2017 Morocco merged three bodies which were dealing with investments (*Agence Marocaine de Dévelopement des Investissements – AMDI*, the *Centre Marocain de Promotion des Exportations* – CPME and the *Office des Foires et Expositions de Casablanca* – OFE*C)* into a single institution: the *Agence Marocaine de Développement des Investissements – AMDI)*. Morocco currently ranks 69th out of 190 in the World Bank ranking 'Doing Business 2018' with a distance to frontier (DTF)[103] score of 67.9 out of 100 – a decrease of 0.03 in DTF score compared to 2017. These positive developments efficiently mitigated more contrasted results in traditional sectors (textiles, clothing, and tourism).

3. Issues addressed in the Joint Committee meetings

The last Sub-Committee on Industry, Trade, and Services was 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 since then.

[102] For more information see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111609.pdf

[103] The DTF score is a measurement used by the World Bank to assess the absolute score of regulatory performance in economies over time.

4. SPECIFIC AREAS OF IMPORTANCE

After a relative slowdown in 2016, Morocco's economic indicators are rather positive for 2017, driven by growing exports and a strong agricultural season[104] and moderate improvements in non-agricultural activities, including private consumption as main growth driver on the demand side. The economic expansion in 2017 was also supported by the continuation of sound macroeconomic policies, while external vulnerabilities abated driven by strong export growth. According to IMF data, the Moroccan economy grew by 4.2% in 2017[105], notably thanks to the recovery of Morocco's main trade partners, including the EU. Morocco also benefited from the good economic performance of new industrial sectors (automobile, aeronautics, and electronics). Such sectors have enjoyed a fast-paced development in recent years, driven by the investment-friendly industrial policy adopted by the Moroccan government, which resulted in the country considerably improving its business climate.

The **EU is providing support to Morocco** through several programmes. The programme *'Réussir le statut avancé'* (RSA I and II)[106] supports Morocco's efforts in terms of legislative convergence with the EU *acquis*, in particular in areas which will be targeted by the future DCFTA and ACAA (e.g. electrical appliances, toys, machinery, construction products, etc.). In November 2016, the EU and Morocco launched a cooperation programme on sustainable growth, in cooperation with several other actors (e.g. European Investment Bank, European Bank for Reconstruction and Development EBRD). The programme will provide important financial support, distributed according to three objectives: (1) enhancing the competitiveness of Moroccan companies in accordance with the industrial strategy set forth by Moroccan authorities for 2014-2020, (2) strengthening Moroccan export capacities to ensure a better access to the European market, and (3) fostering the transition towards a low-carbon economy by supporting the implementation of the Moroccan strategy for sustainable development. The ultimate goal is to prepare Morocco's economy for the future DCFTA.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

In recent years, Moroccan authorities have adopted some **more restrictive trade measures**. The new Foreign Trade Law dedicates 12 articles out of 34 to the protection of national production. Public procurement procedures have been modified so as to increase the percentage of local component required to apply for tender (notably as regards renewable energies). Since July 2016, EU companies and Moroccan importers reported an increasing number of administrative procedures limiting effective market access in Morocco, notably in the sector of car parts. The EU is currently addressing this issue through informal bilateral dialogue with Moroccan authorities, waiting for regular bilateral trade-related work to resume.

On 10 December 2015, the General Court issued a ruling that annulled the Council Decision 2012/497/EU of 8 March 2012 on the conclusion of an Agreement in the form of an Exchange of Letters between the European Union and the Kingdom of Morocco concerning reciprocal liberalisation measures on agricultural products, processed agricultural products, fish and

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[104] For more information see http://www.worldbank.org/en/country/morocco/publication/economic-outlook-april-2017

[105] For more information see http://www.imf.org/en/Countries/MAR

[106] See http://europa.eu/rapid/press-release_MEMO-13-1029_en.htm

fishery products. The subsequent appeal ruling by the European Court of Justice (ECJ)[107] established that the **EU-Morocco Association Agreement** and its protocols on additional liberalisation of trade in agricultural and fisheries products are not applicable to Western Sahara. HR/VP Mogherini and Moroccan Foreign Minister Nasser Bourita in their joint statement took note and expressed their willingness to negotiate the necessary instruments in relation to the fisheries partnership.

These ruling have affected the work of the Trade Sub-Committee and other bodies established under the Agreement, which have not met in the past two years; and it has also slowed down the ratification of the Agreement for the Protection of GIs, which is still pending. Following the ruling Morocco has also put on hold the negotiations for a DCFTA, launched on 1 March 2013, following Morocco's request for a pause aimed at enabling Moroccan authorities to carry out impact assessment studies as well as further internal consultations with stake holders before a future round. The results of these studies have not yet been made public by Morocco.

More recently, in February 2018, in another case[108] the Court ruled that the EU-Morocco Fisheries Agreement and its Protocol on fishing opportunities and financial contributions[109] do not apply to the waters off the coast of the territory of Western Sahara.

To remedy the situation, following the mandate of the Council of the EU and in accordance with the rulings of the European Court of Justice, the EU pro-actively engaged in negotiations with Morocco in order to amend the relevant protocols of the EU-Morocco Association Agreement to create the legal basis for granting the tariff preferences laid down in the Association Agreement to products originating in Western Sahara.

6. CONCLUSIONS AND OUTLOOK

The overall impact of the Free Trade Area on EU-Morocco trade has been **positive**, bringing both economies closer and rapidly intensifying exchanges in goods. As a result, the EU is the leading trade partner of Morocco today, accounting for over 50% of total Moroccan trade.

It will be **important to resume negotiations for a DCFTA** as soon as possible. The DCFTA holds promise as it would both expand the existing free trade area into new areas as well as deepening it in a number of areas that are already included but in a relatively superficial way. Negotiations are meant to cover areas such as access to public procurement, disciplines on non-tariff measures, harmonization of standards and regulations towards the EU acquis, SPS measures, intellectual property rights, consumer protection, competition, investment, trade in services and sustainable development.

The protocols between the EU and Morocco, allowing both parties to pursue bilateral relations in the fisheries sector, started in 1986 with the signature of a first agreement and continued, after interruption, during the conclusion of a second agreement in 2015. The last

[107] Judgment of 21 December 2016 in Case C-104/16 P Council v Polisario

[108] Judgment of 27 February 2018 in Case C-266/16 The Queen, on the application of Western Sahara Campaign UK vs. Commissioners for Her Majesty's Revenue and Customs and Secretary of State for Environment, Food and Rural Affairs.

[109] Protocol between the European Union and the Kingdom of Morocco setting out the fishing opportunities and financial contribution provided for in the Fisheries Partnership Agreement between the European Union and the Kingdom of Morocco.

Protocol concerns the access of up to 126 EU vessels to Morocco's fishing zone operating in six different fishing categories and targeting pelagic and demersal species. It expired in July 2018. The revised negotiating directives for both the Fisheries agreement and its protocol were approved on 16th April 2018. Negotiations of a revised Fisheries agreement and the renewal of its Protocol started right afterwards and were concluded in late July 2018. Approval by the Council of the EU and the European Parliament is pending.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-PALESTINE INTERIM ASSOCIATION AGREEMENT[110]

1. INTRODUCTION

The **Interim Association Agreement** creating a Free Trade Area between the EU and Palestine[111] (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 Community for a period of ten years, which is renewable. Palestine continues to maintain a number of tariffs and quotas on selected agricultural and PAPs products.

Products from Israeli settlements in Palestinian territory do not benefit from the preferential tariff agreement under the EU-Palestine or EU-Israel Association Agreement.

Palestine is a member of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention)[112], which it signed in 2013 and notified the EU of its ratification in 2014. The main objective of the Convention is to provide a more unified framework for origin protocols.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

In 2017 the EU was Palestine's second largest trade partner behind Israel, representing 11% of its total trade. The EU was the second largest exporter into Palestine behind Israel with a 12% market share. It was Palestine's fourth largest export market behind Israel, Jordan and UAE, representing 2% of Palestine's exports.

The value of trade between the EU and Palestine has increased since the Association Agreement came into force. Since 2002, the first year for which data is available, there has been an overall growth in trade in goods in both directions. In 2002 the value of trade in goods was EUR 41 million and in 2017 it was EUR 278 million.

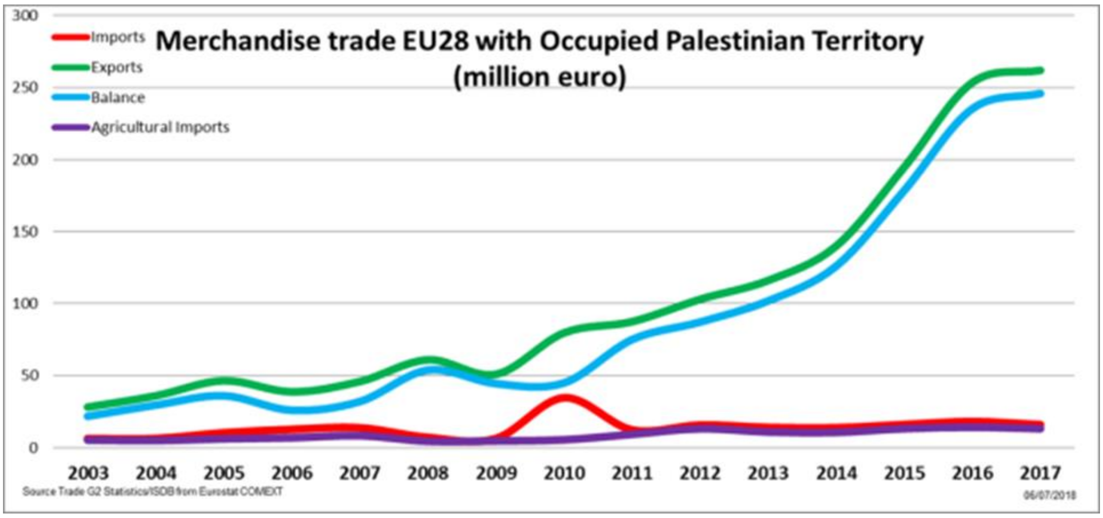
It should be noted that the value of EU exports to Palestine has increased more than in the other direction. This has deepened Palestine's trade deficit with the EU over the same period. Palestinian exports remained largely at that same level despite full preferential market access

[110] For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/palestine/

[111] This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of EU Member States on this issue

[112] More information can be found at: https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/paneuromediterranean-cumulation-pem-convention_en

to the EU market. This is largely due to obstacles facing Palestinian trade, as well as competitivity issues and the Palestinian difficulty in meeting EU standards, including SPS and technical standards.



The value of EU exports to Palestine has risen from EUR 33 million in 2002 to EUR 262 million in 2017 (an increase of almost 700%). Between 2002 and 2009 EU exports to Palestine showed year on year variations but have grown steadily year on year since 2010. EU exports increased (3%) between 2016 and 2017, rising from EUR 254 million in 2016 to EUR 262 million in 2017. The main export markets are machinery and transport equipment (52.6%), agricultural products (22.9%) and chemicals (10.5%). In 2017 the three largest exporters to Palestine from the EU were Germany, Italy and Spain.

The value of EU imports from Palestine has risen from less than EUR 8 million in 2002 to almost EUR 16 million in 2017, which represents an increase of 105%.. Within the lifespan of the agreement however the value of imports has fluctuated. In 2009 it reached an all-time low of EUR 6 million before demonstrating remarkable recovery in 2010 to reach an all-time high of EUR 35 million. It has since fallen and fluctuated year on year. Between 2016 and 2017, EU imports decreased (-12%) from EUR 18 million in 2016 to EUR 16 million in 2017. In 2017 the most important import sectors were agricultural products (82.3%) and chemicals (12.3%). In 2016 the three largest importers of products from Palestine among the EU were the United Kingdom, France and the Netherlands.

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Palestine increased by 812% between 2003 and 2017, from EUR 8 million in 2003 to EUR 73 million in 2017. EU exports remained the same between 2016 and 2017, accounting for EUR 60 million. EU imports decreased (-8%) between 2016 and 2017, falling from EUR 14 million in 2016 to EUR 13 million in 2017.

In 2017, agricultural products represented the majority of EU imports from Palestine, accounting for EUR 13 million (82.3%) of the EU's total imports from Palestine. Palestine exports a limited number of agricultural products including: tropical fruit, nuts and spices, bulbs, roots, live plants, vegetables and olive oil. Overall the level of Palestinian agricultural exports has grown since the Agricultural Agreement of 2012, rising from EUR 9 million in 2011 to its current value. The biggest increase has been in olive oil which has risen from EUR 1 million to EUR 4 million in the same period, with a peak of EUR 5 million in 2015.

Export levels of vegetables, bulbs, roots and live plants have remained relatively static over the same period and even fell slightly in the last year. The EU exported mainly preparations of cereals, flour & starch, followed by cocoa & cocoa preparations and dairy produce to Palestine.

2.3. Preference Utilisation rate

In 2017 Palestine's PUR was 77%. The EU's preferential utilisation rate for the same year is not available.

2.4. Trade in Services and FDI[113]

In 2016 **trade in services** between the EU and Palestine was worth EUR 170 million which represents a 62% increase on EUR 92 million in 2010. There have been year-on-year fluctuations in the value of services imported from Palestine which declined slightly overall between 2011 and 2015. In 2016, EU imports from Palestine reached a high of EUR 95 million.With the exception of 2012, there has been a year-on-year increase in services exported to Palestine which in 2016 stood at EUR 75 million.

FDI EU28 with Occupied Palestinian Territory (million EUR)

	Inward			Outward		
	2014	2015	2016	2014	2015	2016
Stocks	5	13	15	16	17	23
Flows	0	3	1	0	0	1

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

In 2016, EU **FDI** stocks in Palestine amounted to EUR 23 million, an increase from EUR 15 million in 2013. In 2016, EU FDI flows accounted for EUR 1 million.

According to the World Bank 2018 "Ease of Doing Business" index which ranks 190 countries, Palestine ranked 114th in the World for overall ease of doing business, up from the 144th position in 2017. The distance to frontier (DTF)[114] score is 58.7 out of 100 – an increase of 3.8 in DTF score compared to 2017. This improvement is also due to the 2017 regarding the Secured Transaction Law, the Registry of Interest in Movable Assets and the E-Transaction Law which were enacted in 2017.

3. Issues addressed in the Annual (Joint Committee/Trade Committee) meeting

The two most recent meetings of the **EU-Palestinian Sub-committee on Trade and Internal Market, Industry, Agriculture and Fisheries, and Customs** took place in May 2017 and in September 2018. On trade, it was recognised that the Association Agreement had not reached its full potential due to external issues. On wider trade matters, the EU reiterated its support for Palestine to have observer status at the WTO – and inquired about concrete steps for Palestine's accession to the Agadir Agreement[115] and to materialise this in practice. A

[113] For more information see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113074.pdf

[114] The DTF score is a measurement used by the World Bank to assess the absolute score of regulatory performance in economies over time.

[115] The Agadir Agreement for establishing a Mediterranean Free Trade Area was signed on 25 February 2004 and entered into force in 2007. Agadir member countries include Morocco, Tunisia, Egypt and Jordan.

possible negotiation in view of an Agreement on Conformity Assessment and Acceptance (ACAA) was also discussed where Palestine is focused on construction material and pharmaceuticals. Agriculture and SPS issues were also raised, with the EU encouraging Palestine to diversify exports. Customs issues were discussed with Palestine providing updates on customs procedures and ongoing reforms.

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. Such restrictions contribute to the increased dependency of the Palestinian economy on Israel which in 2015 accounted for 55% of Palestinian imports and absorbed 86% of Palestinian exports. The reactivation of the Joint Economy Committee in charge of follow-up of the Paris Protocol that has not met since 2009 would be an important step in achieving progress.

In order to assess the usefulness and feasibility of Agreements on Conformity Assessment and Acceptance of Industrial Products (ACAAs)[116] with Palestine, further analysis is needed in the sectors of interest (pharmaceuticals and construction): a gap analysis in those two sectors would help to establish whether an ACAA is desirable and if further support to improve the quality of infrastructure will be needed.

Trade-related support to Palestine includes the EU-funded project on 'EU Support to the Ministry of National Economy for trade policy formulation and WTO accession 2015-2017'. The project supported Palestinian WTO accession Agenda with the provision of technical assistance to align policies, legislation and trade agreements with WTO requirements. Furthermore, the EU financed the National Export Strategy, formulated by the Palestinian Authority and Paltrade, which identified 12 potential export growth sectors. An action plan was rolled out mapping the specific activities needed for its implementation. The EU also co-funds, together with certain EU Member States, projects supporting the implementation of the National Export Strategy and local entrepeneurship. The EU supported the implementation of the Asycuda customs management information system, in cooperation with UNCTAD, and reinforced Palestinian readiness for border management with a project running from 2007 and 2011 and a Twinning between an EU Member States' Customs and the Palestinian Customs on valuation and revenue collection is under preparation and should start in 2018.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

There are preliminary discussions between the EU and Palestine to upgrade the interim Association Agreement to a full Association Agreement.

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[116] An ACAA is an ambitious instrument, which facilitates access to the market for industrial products covered allowing them to enter the EU without further testing or certification and move freely in the 27 Member States and vice versa. As part of the preparations for negotiating such an agreement, the partner countries need to overhaul their quality systems for industrial products. This includes a gradual approximation of technical regulations, standards and procedures for conformity assessment in the priority sectors and the upgrading of infrastructure for standardisation, accreditation, conformity assessment, metrology and market surveillance.

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 of Palestinian products with other Euro-Mediterranean partners on a bilateral and regional basis and was followed by an informal Trade Trilateral Working Group (European Commission, Israel and Palestine). It is planned to continue this work to facilitate trade of Palestinian products.

In March 2018 at the Union for the Mediterranean (UfM) Trade Ministerial Conference, the EU presented a Technical Program Report on the implementation of the 2010 Package of Measures. Ministers called for rapid and substantial progress in the implementation of the 2010 Package of measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners. Ministers thanked the European Union for preparing a Technical Progress Report[117] and noted that the EU shall prepare updates of this report working for concrete actions taken to facilitate Palestinian trade, including a report to be presented at the 2019 Ministerial Conference.

6. CONCLUSIONS AND OUTLOOK

Overall the value of trade between the EU and Palestine has increased during the Association Agreement. Trade flows are however uneven. The trade balance continues to increase in favour of the EU as 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 EU continues to promote the usefulness of trilateral discussions on trade to facilitate progress and will continue to engage with both sides to remove the obstacles to Palestinian trade.

[117] For more information see http://trade.ec.europa.eu/doclib/docs/2018/june/tradoc_156946.pdf

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-TUNISIA ASSOCIATION AGREEMENT[118]

1. INTRODUCTION

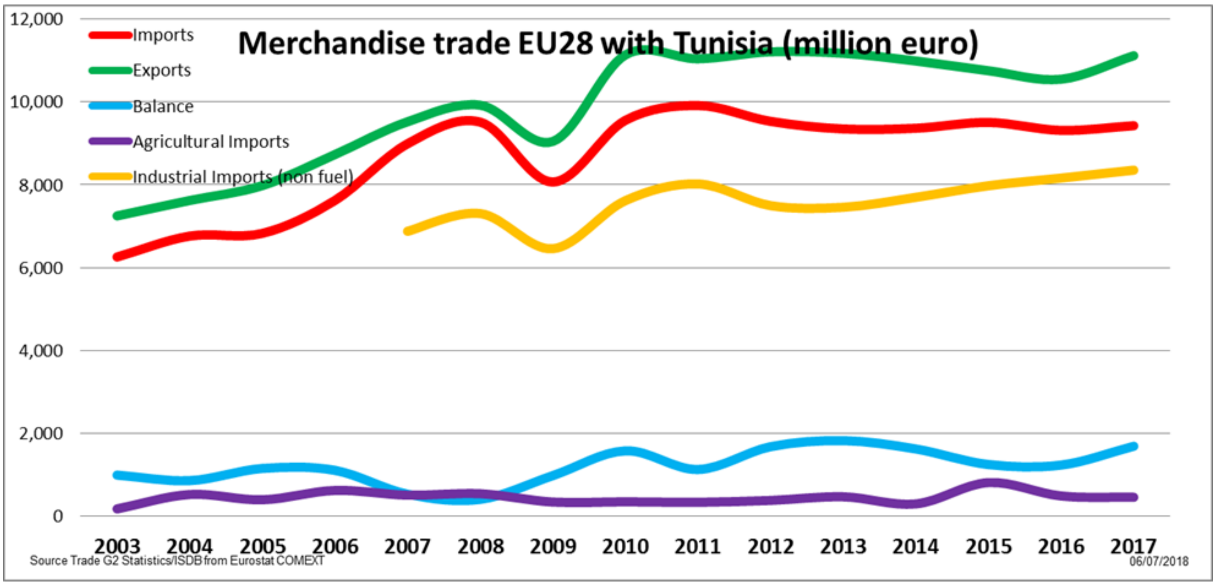
The EU and Tunisia established a Free Trade Area as part of the EU-Tunisia Association Agreement, signed on 17 July 1995 and entered into force on 1 March 1998. The Free Trade Area provided for a reciprocal liberalisation of trade in goods, with elements of asymmetry in favour of Tunisia: since the day of entry into force of the Agreement, all industrial products covered by the Agreement could be exported by Tunisia to the EU tariff-free, while Tunisia benefited from a transitional period of 12 years. Tunisia started implementing the agreement in 1996, i.e. 2 years before its official entry into force, and all tariffs and non-tariff measures mentioned in the Association Agreement were entirely dismantled by 2008: so the EU-Tunisia free trade area was even fully implemented two years ahead of schedule. Trade of industrial products is entirely liberalised, while market opening of agricultural products has been more limited. As regards fisheries products, the EU has opened its market (with only one product subject to TRQs) while the Tunisian market remains closed. The EU and Tunisia signed a protocol establishing a Dispute Settlement Mechanism, which came into force in 2011.

The Regional Convention on Pan-Euro-Mediterranean preferential rules of origin was signed by Tunisia on 16 January 2013 and notified on 1 January 2015. The Convention seeks to provide a more unified framework for origin protocols.

Negotiations for a DCFTA have started in 2015.

2. EVOLUTION OF TRADE

2.1. Trade in Goods



The EU is Tunisia's main trading partner and Tunisia is the 34th trade partner for the EU – 4th in the Euromed region. In 2016, the EU accounted for 73.7% of Tunisian total exports of

[118] For more information see http://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/

goods, and 53.1% of its total imports[119]. In 2017 the EU accounted for 64% of Tunisia's total trade. The EU was the 1st importer into Tunisia with a 54.3% market share and was also Tunisia's largest export market with a 78.5% market share.

Trade in goods between the EU and Tunisia has increased significantly over the period since the Agreement entered into force: between 2002 and 2017, the total trade in goods increased by 47%, from EUR 13.9 billion in 2002 to EUR 20.5 billion in 2017.

EU exports rose by 45% between 2002 and 2017. Between 2016 and 2017, EU exports increased (5%), with exports reaching EUR 11.1 billion in 2017 compared to EUR 10.5 billion in 2016. In 2017, EU exported machinery and transport equipment (35.1%), textiles and clothing (12.3%), and fuels and mining products (11.6%). The three biggest EU exporters were: France, Italy, and Germany.

EU imports rose by 52% between 2002 and 2017. EU imports increased (1%) slightly between 2016 and 2017, with imports reaching EUR 9.4 billion in 2017 compared to EUR 9.3 billion in 2016. A closer look at EU-Tunisia trade trends shows that Tunisia's exports of non-fuel industrial products (machinery, transport equipment, textiles and clothing) increased steadily over the period, while the export of agricultural products has remained at a comparatively low level even if it more than tripled since 2002 . In 2017, EU imports were made of machinery and transport equipment (41.3%), textiles and clothing (23.7%), and agricultural products (6.1%). The three biggest EU importers were: France, Italy, and Germany.

Overall, the agreement has proven mutually beneficial. Tunisia's trade deficit (of EUR) with the EU is relatively small when compared to the one Tunisia has with China, Russia or Turkey – two countries which make up for a far smaller share of Tunisia's total trade. Following a dip in 2008 due to the financial crisis, trade flows between the EU and Tunisia appear to have reached a plateau since 2011. Negatively impacted by growing economic difficulties faced by Tunisia, the total trade even decreased by 1.3% between 2014 and 2015 and by 2.3% between 2015 and 2016, mainly driven by decreasing EU exports due to the economic crisis while Tunisian export to the EU remained stable. Ongoing negotiations for the DCFTA therefore aim at making room for further progress in trade between the EU and Tunisia, including further liberalising agricultural and fishery trade, two areas only covered in a limited way by the current Agreement.

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Tunsia increased by 97% between 2003 and 2017, from EUR 0.5 billion in 2003 to EUR 1.0 billion in 2017. EU agricultural exports decreased (-12%), going from EUR 0.6 billion in 2016 to EUR 0.5 billion in 2017. EU imports also decreased (-6%) from EUR 489 million in 2016 to EUR 458 million in 2017.

Regarding agricultural TRQs, imports of olive oil from Tunisia almost filled the quota set out in the bilateral agreement, reaching as much as 98.75% of the 56 700 tons availalable (however, the additional quota of 35 000 tons unilaterally granted by the EU for 2016 and 2017 upon Tunisia's request was not utilised in 2017, due to a low production during the 2016/2017 campaign). The utilisation rate was intermediate for other products such as sweet oranges (41%,) but remained low for prepared tomatoes (6%), wine (6%), or cut flowers (0.2%).

[119] Institut National de Statistiques Tunisien, 2017.

2.3. Preference Utilisation rate

Tunisia had an average utilisation rate of preferences for all goods, agricultural and non-agricultural products, of 94% in 2017. Data to calculate the PUR on EU exports was not available.

2.4. Trade in Services and Investment[120]

The total **trade in services** between the EU and Tunisia decreased between 2010 and 2016, from EUR 5.9 billion in 2010 to EUR 4.7 billion in 2016, mainly owing to the weak performance of the tourism sector, mostly due to security issues. Both Tunisia and the EU suffered from this decrease, with Tunisian exports of services to the EU falling by 23% between 2010 and 2016 and EU exports of services to Tunisia falling by 17% over the same period. In 2016, the EU exported EUR 1.4 billion in services to Tunisia compared to EUR 1.3 billion in 2015 and Tunisia exported EUR 3.3 billion in services to the EU compared to EUR 3.2 billion in 2015.

FDI EU28 with Tunisia (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	248	252	253	4 305	4 299	4 380
Flows	-25	-32	-30	764	693	747

Source: Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI flows remained relatively steady between 2013 and 2016, despite a slowdown of EU foreign investment in Tunisia, resulting in the total EU FDI stock of EUR 4.9 billion in Tunisia at the end of 2016. The EU remains the first foreign investor in Tunisia, accounting for over 85% of FDIs entering the country. In 2015, 3 100 EU companies were present in Tunisia, employing around 327 000 persons.[121]

The **business environment** was affected by the instability prevailing after the 2011 Arab Spring Revolution, even though Tunisia enacted a new Investment Law in 2017, which also led to the establishment of a Tunisian Investment Authority in 2018. Tunisia remained ranked at 88th out of 190 in the Doing Business 2018 ranking, with a distance to frontier (DTF)[122] score of 63.6 out of 100 – a decrease of 0.2 in DTF score compared to 2017.

3. ISSUES ADDRESSED IN THE JOINT COMMITTEE MEETINGS

The **Sub-Committee on Agricultural and Fisheries Products** met in December 2017. Tunisia and the EU exchanged trade statistics on bilateral trade in agricultural and fishery products and updated each other on their agricultural and fishery policies. Tunisia expressed the wish for cooperation between the EU and Tunisia on quality policies, notably regarding organic agriculture and GIs. Both Parties discussed Tunisian requests for a reintegration to the Generalized System of Preferences, an additional olive oil quota and a possibility to renew a quota for eels. The EU raised several self-contained SPS issues, notably regarding the exports of apples, live plants, and poultry products from the EU to Tunisia. Tunisia touched on the

[120] For more information see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111593.pdf
[121] Tunisian Foreign Investment Promotion Agency, 2017
[122] The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time.

issue of its fishery products returned by the EU and inquired about a possibility to export dairy products to the EU. The EU raised concerns about the increase of customs duties on some agricultural products and import restrictions on red meat and live animals.

The **Sub-Committee on Customs Cooperation and Taxation** met in February 2017. Several issues were discussed, among which the modernisation of the Tunisian customs administration, the evolution of the legislation of both parties since the previous meeting, border management (especially the challenge met by Tunisian customs at the border with Libya), preferential origin including a state of play of the revision of the pan-euro-Mediterranean preferential rules of origin and the reform of the taxation rules. In general, both Parties agreed on the need to support Tunisian customs in preparing projects relating to customs legislation and operational questions as well as modernisation.

The **Sub-Committee on Industry, Trade, and Services** did not meet in 2017.

4. SPECIFIC AREAS OF IMPORTANCE

The economic situation of Tunisia is fragile. Multiple shocks, including the fall in EU demand for Tunisian products because of the economic crisis and the 2011 Revolution and the political transition that ensued, have resulted in a sharp drop in growth, a deterioration of the balance of payments, increasing unemployment and poverty, and a growing informal sector. To ensure this fragility does not compromise the democratic transition unfolding in Tunisia, the EU provides sizable support to Tunisian authorities, and has stepped up its political and financial support considerably since 2011. Also following the terrorist attacks in 2015, the EU under an emergency autonomous trade measure granted additional olive oil quota of 35 000 tons/year for 2016 and 2017, adding to the existing quota of 56 700 tons.

Tunisia benefits from a **'special relationship'** with the EU, which since 2012 takes the shape of a '**Privileged Partnership'** detailed in an ambitious ENP (European Neighborhood Policy) Action Plan. Additionally, and in complement to external support from the IMF, Tunisia has benefitted from a first Macro-Financial Assistance (MFA) operation between 2014 and 2017, and is currently implementing a second MFA operation aimed at alleviating balance of payment issues as well as promoting growth-stimulating social and economic reforms. In 2016, the EU reaffirmed its support to Tunisia through a joint communication, 'Strengthening EU support for Tunisia',[123] detailing 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. These include a possible early entry into force of the EU's trade concessions on agricultural market access of a future DCFTA on a temporary basis, the possible advanced implementation of the new the Pan-Euro-Mediterranean (PEM) rules of origin as well as temporary flexibility for certain products, the setting up of a structured regulatory dialogue to facilitate and speed up the negotiation of an Agreement on Conformity Assessment and Acceptance (ACAA) of industrial products that still needs key legislation to be adopted (i.e. laws on security of industrial and food products). Discussions are ongoing on several of these issues.

Following a preparatory process ahead of the launch of DCFTA negotiations, which included an analysis of the Tunisian regulatory framework in the economic field, the Commission

[123] http://europa.eu/rapid/press-release_IP-16-3192_en.htm

concluded that Tunisia has achieved considerable progress in terms of regulatory alignment in the areas which will be covered by the future DCFTA. Nevertheless, some challenges remain in terms of implementation of some key and of institutional capacity.

The EU has provided **substantial trade-related assistance** to Tunisia, particularly following the signature of the EU-Tunisia Association Agreement, through a number of private sector development projects with the objective to allow Tunisia to take advantage of the agreement and adapt to the new conditions of competition. In preparation of DCFTA negotiations, the EU began supporting sectors that are not yet liberalised, such as services ("*Programme d'Appui à la Compétitivité des Services (PACS)*"[124] was launched in 2016 with a budget of EUR 20 million). The EU also supported Tunisia in upgrading its horizontal quality infrastructure and prepare for an ACAA in sectors identified as key by Tunisian authorities, primarily electrical and mechanical industries and construction products. A new project called *"Programme d'appui à la compétitivité et aux exportations (PACE)*"[125] to support the competitiveness of Tunisian exports of industrial and agricultural sectors will be signed in the second half of 2018.

5. PROGRESS, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

There is no major contentious trade issue between the EU and Tunisia, although some protectionist tendencies have appeared in recent years. Several open issues include:

- ✓ technical and administrative difficulties met by EU exporters of pharmaceutical products and ceramic tiles and glass,
- ✓ brurdensome customs procedures and technical controls in ports on an extended list of products
- ✓ difficulties faced by EU operators to invest in Tunisia.
- ✓ longstanding SPS issues related to exports of apples as well as (more recent) issues with live plants, animals and poultry products exported from the EU.

Nevertheless, on some other issues Tunisia has been cooperative while looking for solutions for EU companies such as with regard to the requiement for exporters to Tunisia to provide an additionnal document, i.e. export declaration. The operators will be allowed to submit documents in the original language, without having to translate them into French or Arabic, and equivalent documents will also be accepted. The EU is pursuing a resolution of these issues through regular dialogue, in the framework of the Sub-Committee Meetings, and in view of the negotiations of the DCFTA.

As of spring 2017, the Tunisian authorities were under heightened public pressure to adopt import restrictive measures as the ones described above in order to stop or slow down the deterioration of the trade and current account deficit that is associated with increasing imports, albeit mainly stemming from non EU partners, and to address stagnating exports, and weak flows of remittances and tourism. The EU is following the issues closely. Tunisia also raised MFN tariffs on all agricultural products from 0% to 15%, for all products currently

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[124] http://eeas.europa.eu/archives/delegations/tunisia/documents/projets/cp_pacs_26jan2016_fr.pdf
[125] https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/tableau_feuille_de_route_tn-ue_mars_2018.pdf

duty free and it raised tariffs from 15% or in some cases 27% to 36% for all processed agricultural products and a number of agricultural products.

6. CONCLUSIONS AND OUTLOOK

The overall impact of the Free Trade Area on EU-Tunisia trade has been **positive.** Both Tunisia and the EU benefitted from the dismantling of bilateral tariffs and non-tariff barriers. It seems, however, that the EU-Tunisia Association Agreement, the first signed by the EU in the region, has reached its limits, and needs to be upgraded in order to continue to deliver positive results. This means both extending the scope and deepening the provisions of the Free Trade Area in the future DCFTA for which negotiations started in October 2015.

The **DCFTA aims to expand liberalisation in agriculture and fisheries and will also cover services and investment**. With a view to supporting ongoing economic reforms in Tunisia and in order to better integrate the country into EU and world markets, it will include a wide range of trade related regulatory areas of mutual interest, such as trade facilitation, technical barriers to trade, SPS measures, investment protection, public procurement, competition policy as well as trade and sustainable development. Negotiations are guided by the principles of progressivity and asymmetry in favour of Tunisia. One full round of negotiations was held in April 2016, followed by a technical meeting in February 2017. A joint DCFTA Action Plan for 2018 has been agreed between the Parties, which foresees to hold two full rounds before the end of the year, one was held end of May in Tunisia, the other is planned for autumn in Brussels. Important intersessional work is to take place inbetween the rounds.

FIRST GENERATION FREE TRADE AGREEMENTS WITH THE WESTERN BALKAN PARTNERS

'Stabilisation and Association Agreements' (SAAs) concluded between 2001 and 2016 with our Western Balkan partners, including Albania, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Bosnia and Herzegovina and Kosovo*, support the economic development and political stabilisation of the region.

The SAAs are the legal instrument for aligning the laws of these countries to the EU acquis to prepare for their progressive integration into the EU market. Except for Kosovo (where the SAA entered into force directly, also covering the trade part) the entry into force of the SAAs was preceded by the entry into force of Interim Agreements covering trade matters. These interim Agreements have established individual free-trade areas between the EU and each Western Balkan partner, eliminating duties and quantitative restrictions on bilateral trade for goods, with a few exceptions concerning mostly agricultural and fishery products. The SAAs also include additional provisions relevant to competition, protection of intellectual property rights and customs' cooperation, commitments on services and establishment, and approximation to the EU acquis on government procurement and standardisation.

All of the Western Balkan partners are either candidates or potential candidates to become EU Members. Serbia and Montenegro are currently negotiating their accessions.

The EU supports the Western Balkan partners' efforts, since 2017, to develop a Regional Economic Area, building upon the free trade area established by the Central European Free Trade Agreement in 2006. The Western Balkans Regional Economic Area aims at developing an area where goods, services, investments and skilled workers can move without obstacles.

The Instrument for **Pre-accession Assistance** (IPA) is the means by which the EU supports reforms in the enlargement countries. They help the beneficiaries to carry out the necessary political and economic reforms, which should provide their citizens with better opportunities. The current IPA framework for pre-accession assistance covers the period from 2014–2020 and has a dedicated budget of EUR 11.7 billion.

Each year the Commission adopts its '**Enlargement package**' – a set of documents explaining its policy on EU enlargement, including individual reports[126] in which the Commission services present their detailed assessment of the state of play in each candidate country and potential candidate.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of independence.

[126] https://ec.europa.eu/neighbourhood-enlargement/countries/package_en

ANNUAL INFO 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[127]. Under this process, all Western Balkans countries, including Albania, have a common future as EU Member States.

The full SAA entered into force on 1 April 2009, however, 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 liberalized 92.7% of 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 liberalized (with very few exceptions). On the other hand, EU agricultural exports to Albania are subject to tariffs and 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. EVOLUTION OF TRADE

2.1. Trade in Goods

Albania and the EU are very close and growing trade partners having doubled their total trade since the entry into force of the trade agreement. The EU is Albania's main trading partner, accounting for 77.2 % of total exports and 61.5 % of total imports of goods. Compared to 2016, total trade between the EU and Albania increased by 12.3% reaching nearly **EUR 4.5 billion** in 2017**.**

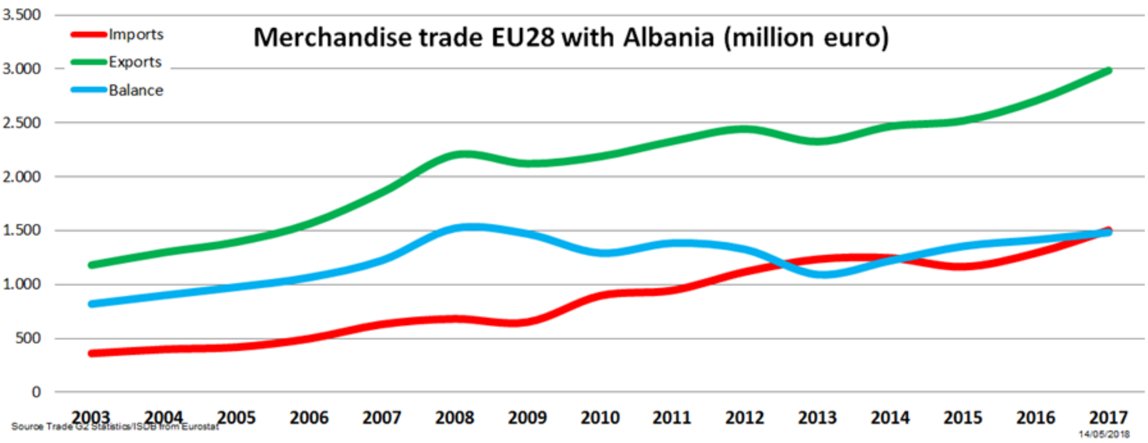
Table 1

[127] See http://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/ for more information

EU 28 trade in goods with Albania (million euro)												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	498	631	681	651	895	946	1.118	1.235	1.246	1.165	1.292	1.503
Exports	1.564	1.855	2.203	2.121	2.187	2.330	2.444	2.326	2.468	2.520	2.706	2.986
Balance	1.066	1.224	1.522	1.470	1.292	1.384	1.326	1.092	1.222	1.355	1.414	1.483
Total trade	**2.062**	**2.486**	**2.884**	**2.772**	**3.083**	**3.276**	**3.562**	**3.561**	**3.714**	**3.684**	**3.998**	**4.490**

Source: Eurostat

Figure 1



As can be seen from table 1 and figure 1, since the start of implementation of the trade agreement, total trade between the EU and Albania has more than doubled (+118%), from EUR 2 billion in 2006 to nearly EUR 4.5 billion in 2017. The main traded products concern the following sectors: machinery and appliances; footwear, hats and other headgear; textiles and textile articles and mineral products. Albania has a relatively narrow production base, resulting in a large structural deficit on the trade balance for goods (around EUR 1.4 billion), although it has slightly been contained by the more rapid expansion of Albania's exports to the EU (+200%) as compared to the growth of EU's exports to Albania (+90%).

2.2. Trade in agricultural goods

As shown in table 2, the EU's trade surplus with Albania concerns both **agricultural** and non-agricultural products. Trade in agricultural products represents around **10% of the total bilateral trade**. In 2017, 5.2% of all EU's imports from Albania were agricultural products versus 13% of all EU's exports to Albania. This ratio has remained relatively stable over the last ten years of implementation of the agreement. In 2017, both EU imports and exports of agricultural products from / to Albania have increased by about 10% since 2016. The EU imported mainly edible vegetables from Albania and exported primarily beverages and food preparations to Albania.

Table 2

	EU28 merchandise trade by AMA/NAMA sector with Albania (million euro)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	EU28 imports									
Total	681	651	895	946	1.118	1.235	1.246	1.165	1.292	1.503
Agricultural	29	26	29	36	41	46	49	62	73	79
Non-Agricultural	652	625	866	910	1.077	1.189	1.198	1.103	1.219	1.424
	EU28 exports									
Total	2.203	2.121	2.187	2.330	2.444	2.326	2.468	2.520	2.706	2.986
Agricultural	305	298	318	323	322	334	328	335	352	388
Non-Agricultural	1.897	1.823	1.870	2.008	2.122	1.993	2.140	2.185	2.353	2.599
	EU28 trade balance									
Total	1.522	1.470	1.292	1.384	1.326	1.092	1.222	1.355	1.414	1.483
Agricultural	276	272	288	286	281	288	280	273	280	309
Non-Agricultural	1.246	1.198	1.004	1.098	1.045	803	942	1.082	1.134	1.174

A limited share of the EU-Albania agricultural trade is subject to duty-free TRQs. Three of five Albania's TRQs for agricultural products from the EU were fully utilised in 2017; two quotas were not used or almost not used by EU exporters.

The EU grants very few agricultural duty-free quotas to Albania, namely for wine and sugar, which had a very low uptake by Albanian exporters in 2017.

Table 3 .Utilisation of TRQs for EU exports to Albania in 2017

Product	Size of the quota	Fill rate (%)
Milk and cream	790 t	100
Wheat	42 000 t	3
Maize	10 000 t	0
Sauces and preparations	60 t	100
Wine	10 000 hl	100

Source: Albanian authorities

2.3. Preference Utilisation rate (PUR)

The PUR is relatively high for both imports and exports which highlight a generally good knowledge of trade operators regarding the preferential access to both markets, with some margin for improvement, particularly from the side of EU trade operators.

Table 4

Use of preferences on imports into EU from Albania					
	2013	2014	2015	2016	2017
use as % eligible	88%	88%	87%	86%	86%

Source: Eurostat - Includes all preferences (FTA, GSP, bilateral)

Table 6

Use of preferences on imports into Albania from EU					
PUR (%)	2013	2014	2015	2016	2017
EU	-	72.9	76.4	79.8	78.2

Source: DG TRADE based on Albanian statistics

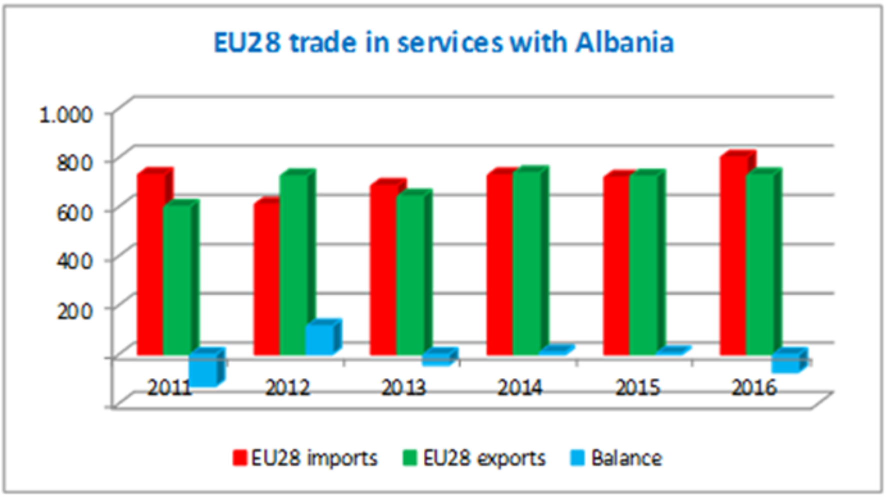
2.4. Trade in Services and FDI

In 2016, total trade in services represented nearly 28% of the total bilateral trade of goods and services with a share of 38% for EU imports and a more modest 21% share for EU exports. For the first time since 2013, Albania recorded a trade surplus mainly explained by revenues from foreign **tourism** and the export of manufacturing services for foreign-owned products.

Table 7

EU28 services trade with Albania (million euro)						
	2011	2012	2013	2014	2015	2016
EU28 imports	731	610	686	729	719	802
EU28 exports	601	725	643	738	724	730
Balance	-130	115	-43	9	5	-72
Total trade	1,332	1,335	1,328	1,467	1,443	1,532

Source: European Commission



The EU's contribution to total **FDI** in Albania was 242.3 million in 2016. Albania's success in attracting foreign investment in recent years has been heavily concentrated in non-tradable and natural resource-based industries.

Table 8

Foreign direct investment EU28 with Albania (million euro)						
		Inward			Outward	
	2014	2015	2016	2014	2015	2016
Stocks	50	-182	65	5.723	5.963	5.642
Flows	21	-232	227	156	175	73

Source: European Commission

3. ISSUES ADDRESSED IN THE JOINT COMMITTEE MEETINGS

Commercial issues are discussed on an annual basis in the context of the Sub-committee on Trade, Industry, Customs and Taxation. The last two meetings took place on 24 January 2017 and more recently on 18 January 2018, during which the doubling of the trade volume between the EU and Albania was highlighted, with the EU remaining Albania's first trade partner representing over 66% of its global trade. Albania's overall smooth implementation of the trade agreement was welcome as well as its good co-operation in the context of WTO-related activities. Other trade issues addressed included the importance for Albania to deliver on the implementation of its national plan on trade facilitation, with a particular focus on border measures and the improvement of risk-based inspections by customs authorities.

The 11th EU-Albania Sub-Committee on Agriculture and Fisheries on 14 November 2017 confirmed progress in the following fields:

- publication of agricultural census results,
- adoption of framework law on GIs,
- adoption of organics legislation, and
- approximation of marketing standards for olive oil.

4. SPECIFIC AREAS OF IMPORTANCE

The key factors with negative impact on trade are unfair competition and lack of transparency, especially in the public procurement process, as well as non-compliance with the rule of law, including the judicial system.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Enhancing transparency and accountability -in particular ensuring the effective, efficient and transparent functioning of the public procurement system- and the fight against corruption are essential issues that affect EU businesses doing business in Albania. The appointment of a new Minister of State for the Protection of Entrepreneurship in September 2017 is expected to contribute to the development of effective state control mechanisms to eliminate the conditions of unfair competition underlying the large informal economy. Finally, it is expected that the acceleration of the European integration progress will give further impetus to major reforms and consequently have a positive impact on the investment and business climate in Albania in the following years.

6. CONCLUSIONS

Albania and the EU are very close and growing trade partners having doubled their total trade since the entry into force of the trade agreement. The EU is Albania’s main trading partner, accounting for 77.2 % of total exports and 61.5 % of total imports of goods. While the trade agreement is generally implemented smoothly by Albania, the business climate is negatively affected by the large size of its informal economy and shortcomings in the rule of law which are a strong deterrent to investments. Overall, it is expected that the renewed momentum of the **European integration** process will give further impetus to major reforms and consequently have a positive impact on the investment and business climate in Albania in the coming period. Similarly, the development of a **Regional Economic Area** based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.

ANNUAL INFO 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[128]. Under this process, all Western Balkans countries, including Bosnia and Herzegovina, have a common future as EU Member States.

The SAA entered into force on 1 June 2015, however, 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 liberalized (with very few exceptions). On the other hand, EU agricultural exports to Bosnia and Herzegovina are subject to tariffs and 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 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. EVOLUTION OF TRADE

2.1. Trade in Goods

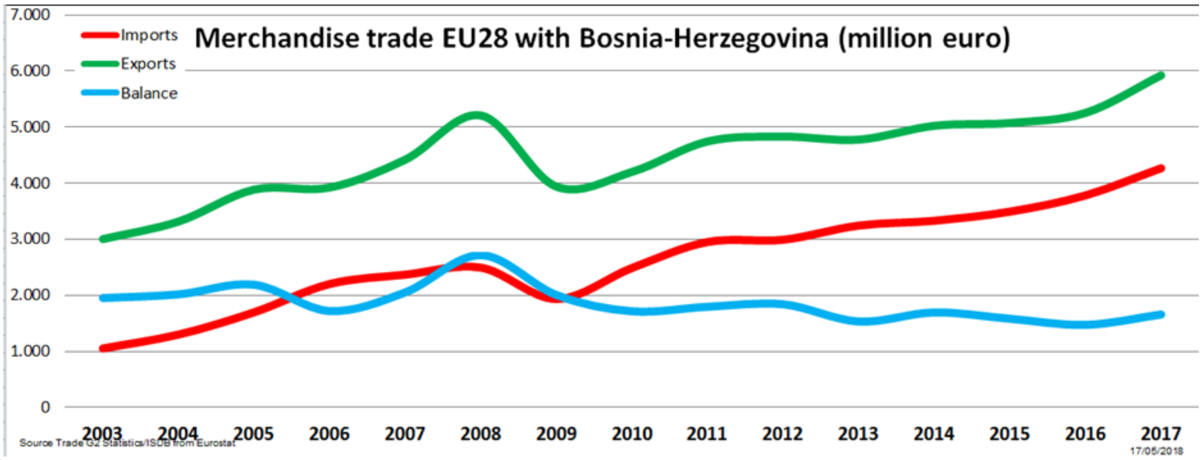
Bosnia and Herzegovina and the EU are very close trading partners with bilateral exchanges that expanded by 32% since the entry into force of the trade agreement. The EU is the country's main trading partner, accounting for 72.3 % of total exports and 60.8 % of total imports of goods. Compared to 2016, total trade between the EU and Bosnia and Herzegovina increased by 12.8% reaching **EUR 10.2 billion** in 2017.

Table 1

	EU28 trade in goods with Bosnia-Herzegovina (million euro)									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Imports	2.493	1.934	2.488	2.951	2.990	3.244	3.330	3.493	3.782	4.267
Exports	5.209	3.938	4.202	4.746	4.830	4.777	5.024	5.075	5.254	5.924
Balance	2.716	2.005	1.714	1.795	1.840	1.532	1.695	1.582	1.472	1.658
Total trade	**7.702**	**5.872**	**6.690**	**7.697**	**7.821**	**8.021**	**8.354**	**8.568**	**9.036**	**10.191**

Source: Eurostat

[128] See http://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/ for more information.



In the ten years since the application of the agreement, total trade between the EU and Bosnia and Herzegovina has increased by over **32%** from EUR 7.7 billion to EUR 10.2 billion. The five top traded products are machinery and appliances; base metals; mineral products; chemicals and miscellaneous manufactured articles. The EU has consistently recorded a large **trade surplus** with the country; it has however stabilised over the last five years around EUR 1.5 billion down from EUR 2.7 billion at the start of implementation of the trade agreement in 2008.

2.2. Trade in agricultural goods

As shown in table 2, the EU's trade surplus with Bosnia and Herzegovina concerns both **agricultural** and non-agricultural products. In 2017, trade in agricultural products represented just over **10% of the total bilateral trade**; this is a 2% reduction since the start of application of the trade agreement. In 2017, 4.8% of all EU's imports from Bosnia and Herzegovina were agricultural products versus 14% of all EU's exports to Bosnia and Herzegovina. This ratio has remained relatively stable since 2008. In 2017, EU imports of agricultural products from Bosnia and Herzegovina increased by almost 17% since 2016. EU exports of agricultural products to Bosnia and Herzegovina decreased by 6% over the same period. The EU exported primarily meat followed by beverages, spirits & vinegar to Bosnia and Herzegovina.

Table 2

	EU28 merchandise trade by AMA/NAMA sector with Bosnia-Herzegovina (million euro)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	EU28 imports									
Total	2.493	1.934	2.488	2.951	2.990	3.244	3.330	3.493	3.782	4.267
Agricultural	149	144	181	198	210	201	160	165	173	203
Non-Agricultural	2.345	1.790	2.307	2.753	2.781	3.044	3.170	3.328	3.609	4.064
	EU28 exports									
Total	5.209	3.938	4.202	4.746	4.830	4.777	5.024	5.075	5.254	5.924
Agricultural	763	683	708	789	831	803	791	808	779	828
Non-Agricultural	4.446	3.255	3.494	3.957	4.000	3.973	4.233	4.266	4.476	5.096
	EU28 trade balance									
Total	2.716	2.005	1.714	1.795	1.840	1.532	1.695	1.582	1.472	1.658
Agricultural	615	540	527	591	621	602	631	643	605	626
Non-Agricultural	2.102	1.465	1.187	1.204	1.219	930	1.063	938	867	1.032

A limited share of EU-Bosnia and Herzegovina agricultural trade is subject to duty-free TRQs.

Bosnia and Herzegovina's authorities have not provided detailed figures on the utilisation of the TRQs. EU export data suggest that most of Bosnia and Herzegovina's TRQs for agricultural products from the EU were fully utilised in 2017 and for almost a quarter, EU exports exceeded the quota volume (grapes, potatoes, biscuits and butter). A few quotas were less utilised such as poultry products (average utilisation of 15%); spirits (6%) and tobacco (30%).

The EU grants very few agricultural TRQs to Bosnia and Herzegovina: beef (not used by exporters from the country, mainly due to SPS reasons), sugar (almost fully used in 2017) and wine (significant, but not full use throughout the years, including 2017). .

2.3. Preference Utilisation rate

The PUR is on imports from Bosnia and Herzegovina is extremely high, which highlights an excellent knowledge of trade operators regarding the preferential access to both markets.

Table 4

Use of preferences on imports into EU from Bosnia-Herzegovina					
	2013	2014	2015	2016	2017
use as % eligible	93%	94%	93%	94%	94%

Source: Eurostat - Includes all preferences (FTA, GSP, bilateral)

Reliable data to calculate the PURs for EU exports was not made available by Bosnia and Herzegovina.

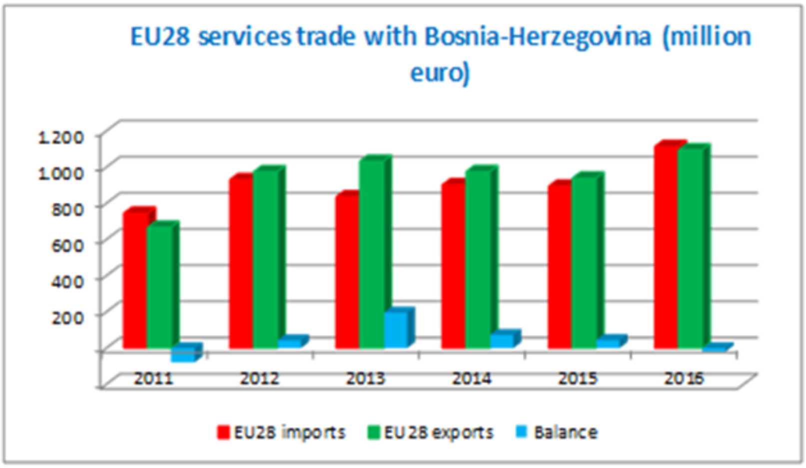
2.4. Trade in Services and FDI

In 2016, **trade in services** represented roughly 24% of the total bilateral trade of goods and services with a share of 23% of EU imports and a more modest 17% of EU exports. For the first time again since 2011, Bosnia and Herzegovina recorded a trade surplus, with tourism representing a major growth sector.

Table 6

EU28 services trade with Bosnia-Herzegovina (million euro)						
	2011	2012	2013	2014	2015	2016
EU28 imports	746	932	837	904	895	1.115
EU28 exports	669	976	1.033	976	940	1.097
Balance	-78	43	196	73	45	-18
Total trade	**1.415**	**1.908**	**1.871**	**1.880**	**1.835**	**2.211**

Source: European Commission



Source: European Commission

Regarding **FDI**, nearly 63 % of the country's stock in FDI is originating from EU countries. Annual FDI inflows largely show a similar pattern.

Table 7

Foreign direct investment EU28 with Bosnia-Herzegovina (million euro)						
		Inward			Outward	
	2014	2015	2016	2014	2015	2016
Stocks	102	107	156	2.453	3.348	3.532
Flows	8	35	-164	-415	201	142

Source: European Commission

3. ISSUES ADDRESSED IN THE ANNUAL COMMITTEE MEETINGS

Commercial issues are discussed on an annual basis in the context of the Sub-committee on Trade, Industry, Customs and Taxation. The last meeting took place on 24 October 2017, during which the continuing growth of the bilateral trade in 2016 and 2017 was welcome. The main trade issues addressed during the meeting concerned:

- ✓ **Excise duties on beer**: the country was requested to expedite alignment of the current excise structure for small breweries with the threshold set by the acquis (200 000 hl).
- ✓ **Excise duties on spirits**: the EU reminded Bosnia and Herzegovina that applicable provisions on excise duties on spirits do not comply with Article 35 of the SAA on the prohibition of fiscal discrimination and the EU acquis that foresees a single rate for all spirits.
- ✓ **WTO accession**: the EU encouraged Bosnia and Herzegovina to intensify efforts to conclude its pending bilateral negotiations.

Agricultural and fishery issues were discussed in the Sub-committee meeting on 25 October 2017.

4. SPECIFIC AREAS OF IMPORTANCE

The **business environment** is a key area of importance, in particular the large size of the informal economy which distorts competition and has a negative impact on the business environment. **Public procurement** is another area of concern.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Enhancing transparency and accountability -in particular ensuring the effective, efficient and transparent functioning of the public procurement system- and the fight against corruption are essential issues that affect EU businesses doing business in Bosnia and Herzegovina that are part of the regular follow-up done under the SAA multidisciplinary subcommittee structures.

6. CONCLUSIONS

While the trade agreement is generally implemented smoothly by Bosnia and Herzegovina, the business climate is negatively affected by the large size of its informal economy. However, it is expected that the renewed momentum of the **European integration** process will give further impetus to major reforms and consequently have a positive impact on the investment and business climate in the coming period. Similarly, the development of a **Regional Economic Area** based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE STABILISATION AND ASSOCIATION AGREEMENT BETWEEN THE EU AND THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

1. INTRODUCTION

On 9 April 2001, the EU and the former Yugoslav Republic of 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[129]. Under this process, all Western Balkans countries have a common future as EU Member States.

The SAA entered into force on 1 April 2004, however, 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 the former Yugoslav Republic of 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 the former Yugoslav Republic of Macedonia are almost completely liberalized (with very few exceptions). On the other hand, EU agricultural exports to the former Yugoslav Republic of Macedonia are subject to tariffs and 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. EVOLUTION OF TRADE

2.1. Trade in Goods

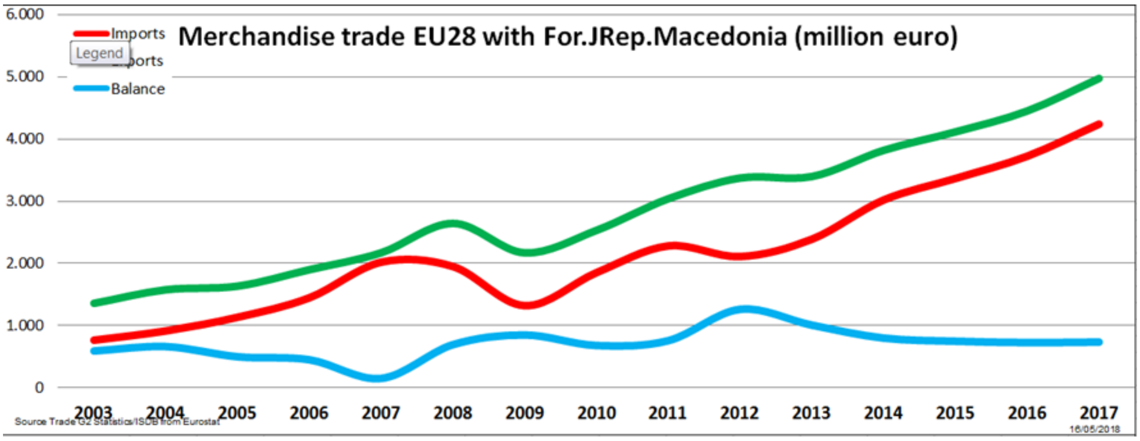
Compared to 2016, total trade between the EU and the former Yugoslav Republic of Macedonia increased by 12.7%, reaching over **EUR 9.2 billion** in 2017.

Table 1

	EU 28 trade in goods with the former Yugoslav Republic of Macedonia (million euro)										
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Imports	2.019	1.949	1.321	1.852	2.281	2.110	2.388	3.019	3.365	3.723	4.238
Exports	2.171	2.643	2.170	2.532	3.038	3.372	3.396	3.818	4.114	4.450	4.973
Balance	151	694	849	680	758	1.262	1.008	799	749	727	734
Total trade	**4.190**	**4.592**	**3.491**	**4.384**	**5.319**	**5.481**	**5.784**	**6.837**	**7.479**	**8.173**	**9.211**

Source: Eurostat

[129] See http://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/ for more information.



Between 2007 and 2017, total trade between the EU and the former Yugoslav Republic of Macedonia has more than doubled (+120%), from EUR 4.2 billion to over EUR 9.2 billion in 2017. The five top traded products are machinery and appliances; chemical products; textiles; pearls and precious metals; and mineral products. The EU has consistently recorded a large **trade surplus** with the country, which stabilised around EUR 750 million over the last four years. Furthermore, the EU is the country's first trade partner with a share of over 70% of its global trade.

2.2. Trade in agricultural goods

Trade in agricultural products represents around **7% of the total bilateral trade**. In 2017, 6.5% of all EU's imports from the former Yugoslav Republic of Macedonia were agricultural products versus 7.4% of all EU's exports to the country. Trade in agricultural products has gradually decreased since the application of the trade agreement when it represented nearly 12% of the total bilateral trade. In 2017, both EU imports and exports of agricultural products from / to the former Yugoslav Republic of Macedonia increased by 3.5% and 1.8% respectively since 2016. Tobacco, vegetables and preparations of cereals, flour, starch were the EU's key import products. The EU exported primarily meat followed by food preparations to the former Yugoslav Republic of Macedonia.

Table 2

EU28 merchandise trade by AMA/NAMA sector with the former Yugoslav Republic of Macedonia (million euro)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	EU28 imports									
Total	1.949	1.321	1.852	2.281	2.110	2.388	3.019	3.365	3.723	4.238
Agricultural	176	170	183	186	204	233	259	259	266	276
Non-Agricultural	1.773	1.151	1.669	2.095	1.905	2.156	2.759	3.106	3.457	3.963
	EU28 exports									
Total	2.643	2.170	2.532	3.038	3.372	3.396	3.818	4.114	4.450	4.973
Agricultural	261	237	261	324	347	339	326	348	363	369
Non-Agricultural	2.382	1.933	2.270	2.715	3.025	3.057	3.492	3.766	4.087	4.603
	EU28 trade balance									
Total	694	849	680	758	1.262	1.008	799	749	727	734
Agricultural	85	67	78	138	143	107	67	89	97	94
Non-Agricultural	609	782	602	619	1.119	901	732	660	630	641

Source: European Commission

For a number of agricultural products, EU exports to the former Yugoslav Republic of Macedonia are subject to Tariff rate quotas (TRQs), either duty-free or at a reduced customs duty rate. Most quotas were either fully utilised or utilised to a large extent. The EU grants one agricultural TRQ to the former Yugoslav Republic of Macedonia (beef) which was not used by the former Yugoslav Republic of Macedonia.

Table 3. Tariff rate quotas for EU exports to the former Yugoslav Republic of Macedonia in 2017

Product	Size of the quota (tons, unless indicated otherwise)	Fill rate (%)
Pork (2 quotas)	2 200	100
Milk and cream (4 quotas)	4 870	90
Cheese (4 quotas)	1 600	100
Potatoes (2 quotas)	550	99
Onions	300	49
Sunflower seed	100	100
Margarine	450	100
Sausages	3 400	99
Prepared meat	2 050	100
Sugar	385	100
Chocolate	1 150	100
Pasta	215	100
Bread, pastry, cakes	1 435	100
Vegetables, fruits and nuts	40	0
Yeasts (2 quotas)	885	76
Soups and broths (2 quotas)	550	100
Mushrooms	50	100
Other vegetables (2 quotas)	210	100
Fruit juices	300	96
Waters (3 quotas)	2 870	100
Wine	15 000 hl	89
Tobacco products (2 quotas)	370	79

Source: Authorities of the former Yugoslav Republic of Macedonia

2.3. Preference Utilisation rate

The PUR **was high for both imports and exports,** which highlights a good knowledge of trade operators regarding the preferential access to both markets.

Table 4

Use of preferences on imports into EU from For.JRep.Macedonia					
	2013	**2014**	**2015**	**2016**	**2017**
use as % eligible	96%	97%	97%	95%	94%

Source: *Eurostat - Includes all preferences (FTA, GSP, bilateral)*

Table 5

Use of preferences on imports into For.JRep.Macedonia from EU				
	2013	**2014**	**2015**	**2016**
use as % eligible		90%		90%

Source: *DG TRADE based on statistics of the For.JRep.Macedonia*

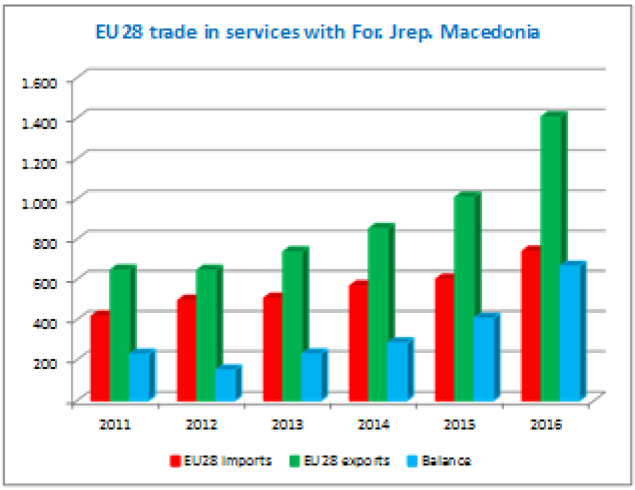
2.4. Trade in Services and FDI

In 2016, **trade in services** represented roughly 21% of the total bilateral trade of goods and services with a share of 20% of EU imports and nearly 32% of EU exports. Overall the trade balance in services has been largely positive for the EU over the last 6 years, and even more pronounced in 2016 when it grew by 64%.

Table 6

EU28 services trade with For.JRep.Macedonia (million euro)						
	2011	2012	2013	2014	2015	2016
EU28 imports	418	496	507	569	602	741
EU28 exports	648	647	738	854	1.009	1.407
Balance	230	151	231	285	407	666
Total trade	**1.066**	**1.143**	**1.245**	**1.422**	**1.611**	**2.148**

Source: European Commission



Source: European Commission

Regarding FDIs, the share of the stock of EU investments in total foreign investment increased in 2016 to 79 %, while it had remained stagnant in the preceding five years.

Table 7

Foreign direct investment EU28 with For.JRep.Macedonia (million euro)						
		Inward			Outward	
	2014	2015	2016	2014	2015	2016
Stocks	-56	-35	-15	2.050	2.556	2.614
Flows	91	4	12	114	112	237

Source: European Commission

3. ISSUES ADDRESSED IN THE ANNUAL COMMITTEE MEETINGS

Commercial issues are discussed on an annual basis in the context of the Sub-committee on Trade, Industry, Customs and Taxation. Two meetings took place in 2017, on 4 April and on 23 November, during which the continuing growth of the bilateral trade was highlighted, and in particular the fact that bilateral trade has increased almost 2.5 times (144% growth) since 2006. The country's overall smooth implementation of the trade agreement was welcome as well as its good co-operation in the context of WTO-related activities. Agricultural and fishery issues were discussed in the Sub-committee meeting on 15 May 2018.

4. SPECIFIC AREAS OF IMPORTANCE

The **business environment** is a key area of importance. Challenges for doing business in the former Yugoslav Republic of Macedonia include frequent legal changes to the regulatory framework, a lack of transparency of public procurement procedures, a lack of systematic, efficient and transparent law enforcement including in inspections and commercial dispute settlement, and many para-fiscal charges at different administrative levels. The size of the informal economy is also an area of concern as it creates unfair competition from unregistered companies.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The main open issues are linked to non-tariff barriers, including technical standards and administrative obstacles. Barriers also include relatively high logistical and customs costs. In its 2018-2020 Economic Reform Programme, the government included a measure on trade facilitation aimed at simplifying inspections and clearance procedures which has the potential to improve competitiveness. This new measure focuses on speeding up all trade that requires veterinary and phytosanitary certificates issued through the EU Trade Control and Expert System (TRACES). The resulting improved data exchange between customs authorities would lead to faster and cheaper trade flows.

6. CONCLUSIONS

The former Yugoslav Republic of Macedonia and the EU are very close and growing trade partners having more than doubled their total trade between 2007 and 2017. The EU is the country's main trading partner, accounting for 81.3 % of its total exports and 62.4 % of its total imports of goods. While the trade agreement is generally implemented smoothly by the former Yugoslav Republic of Macedonia, the business climate is negatively affected by the large size of its informal economy and shortcomings in the rule of law which are a strong deterrent to investments. On the other hand, the renewed momentum of the **European integration** process is expected to give further impetus to major reforms and consequently have a positive impact on the investment and business climate in the former Yugoslav Republic of Macedonia in the coming period. Similarly, the development of a **Regional Economic Area** based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-KOSOVO* 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[130]. Under this process, all Western Balkans partners, including Kosovo, have a 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 free trade area over a period lasting a maximum of **10 years**.
- Almost unrestricted market access to the EU for Kosovo products: the EU has abolished all customs duties with Kosovo upon entry into force of the SAA with 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 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. EVOLUTION OF TRADE

2.1. Trade in Goods

The EU remains Kosovo's main trade partner, accounting for 25% of total exports and 43% of total imports of goods. The EU has a very large **trade surplus** with Kosovo: despite a 23% growth in exports to the EU, Kosovo's trade deficit with the EU further widened in 2017. Compared to the first year of implementation of the trade agreement, total trade between the EU and Kosovo increased by 7.5% reaching nearly **EUR 1 billion** in 2017**.**

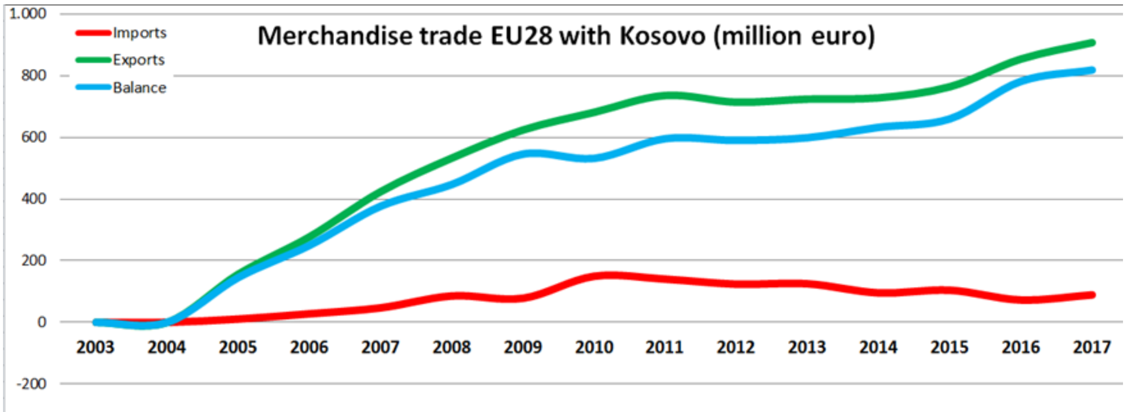
[130] See http://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/ for more information

** This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence*

Table 1

Merchandise trade EU28 with Kosovo (million euro)								
	2010	2011	2012	2013	2014	2015	2016	2017
Imports	149	140	124	125	96	104	72	89
Exports	681	736	714	724	728	764	854	907
Balance	532	596	590	599	632	660	781	818
Total trade	830	876	838	849	823	868	926	996

Source: Eurostat



Regarding the sectoral split, the main traded products from the EU side are machinery and appliances, foodstuffs, beverages, tobacco, transport equipment, chemicals and plastics & rubber products. Kosovo's exports consist mostly of metals, minerals and low-value added products. Kosovo's imports are likely to increase further because of large infrastructure investment.

2.2. Trade in agricultural goods

The EU's trade surplus with Kosovo concerns both **agricultural** and non-agricultural products. Trade in agricultural products represents nearly **26% of the total bilateral trade**. In 2017, 28% of all EU's imports from Kosovo were agricultural products versus 26% of all EU's exports to Kosovo. In 2017, both EU imports and exports of agricultural products from / to Kosovo increased by 46% and 7.4% respectively since 2016.

The EU grants one TRQ to Kosovo (beef) which was not used by Kosovo's exporters in 2017.

Table 2

EU28 merchandise trade by AMA/NAMA sector with Kosovo (million euro)								
	2010	2011	2012	2013	2014	2015	2016	2017
	EU28 imports							
Total	149	140	124	125	96	104	72	89
Agricultural	13	14	13	16	19	17	17	25
Non-Agricultural	137	126	111	109	77	87	55	64
	EU28 exports							
Total	681	736	714	724	728	764	854	907
Agricultural	133	167	174	183	200	206	217	233
Non-Agricultural	548	568	540	541	528	558	637	674
	EU28 trade balance							
Total	532	596	590	599	632	660	781	818
Agricultural	121	154	161	166	181	188	199	207
Non-Agricultural	411	442	429	432	451	472	582	611

Source: European Commission

2.3. Preference Utilisation rate

The PUR for EU's exports to Kosovo was very low at 44%, which highlights a poor knowledge of trade operators regarding the preferential access to Kosovo's market, which can partly be explained by the still recent entry into force of the trade agreement (April 2016). By contrast, the PUR on imports into the EU from Kosovo was high at 92%.

Table 3

Use of preferences on imports into Kosovo from EU					
		2013	2014	2015	2016
use as % eligible					44%

Source: *Source: DG Trade own calculations based on statistics of Kosovo*

Table 4

Use of preferences on imports into EU from Kosovo					
	2013	2014	2015	2016	2017
use as % eligible	87%	84%	85%	89%	92%

Source: *Source: Eurostat - Includes all preferences (FTA, GSP, bilateral)*

2.4. Trade in Services and FDI

The service sector contributes 57.3% of gross value added in Kosovo, and it is the fastest growing export sector.

The EU is the main investor in Kosovo with 46.4 % of the overall inflow of FDI in 2017.

3. ISSUES ADDRESSED IN THE ANNUAL COMMITTEE MEETINGS

Commercial issues are discussed on an annual basis in the context of the Sub-committee on Trade, Industry, Customs and Taxation. The last two meetings took place on 6 April 2017 and on 14 June 2018. The main points discussed in 2017 included information from the EU side on the initiation of implementing procedures in order to ensure that the EU trade preferences foreseen in the SAA could be effective at the customs level. Export trends with the EU and at regional level were discussed as well as the foreseen measure by Kosovo to increase the cost efficiency of international transactions through simplification and standardisation of customs formalities and procedures. The 2018 trade meeting included a follow-up of trading trends as well as discussions on specific issues such as the need for Kosovo to adopt legislation which takes into account losses during transportation of goods (evaporation of petroleum and look into the possibility for recognition of losses for other perishable goods while transported from the loading site to the final unloading point).

The first EU-Kosovo Stabilisation and Association Sub-committee on Agriculture and Fisheries took place on 21 March 2017. It was agreed to continue aligning the legal framework with the EU acquis in all sectors, according to the best EU practices and to continue to strengthen all the bodies involved in the management of the agriculture, food safety and fisheries parts of the EU acquis.

4. SPECIFIC AREAS OF IMPORTANCE

The business environment is struggling with an inefficient judiciary, a lack of transparency of public procurement procedures, slow and inconsistent contract enforcement, a widespread informal economy, weak property rights, and an inefficient and unaccountable public administration.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Main open issues relate to Kosovo’s trade openness including the high administrative costs linked to procedural, quality, logistical and border barriers which reduce the level of exports and increase the price of imports. All these issues affecting EU businesses doing business in Kosovo are closely monitored and followed up through the SAA multidisciplinary subcommittee structures.

6. CONCLUSIONS

Even though Kosovo is yet to reap the full benefits of its trade liberalisation with the EU, the EU remains its main trading partner, accounting for 25% of total exports and 43% of total imports of goods. Kosovo’s business environment is hampered by the large informal economy which results in unfair competition from unregistered companies. However, it is expected that the renewed momentum of the **European integration** process will give further impetus to major reforms and consequently have a positive impact on the investment and business climate in the coming period. Similarly, the development of a **Regional Economic Area** based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.

ANNUAL INFO SHEET ON THE 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[131]. Under this process, all Western Balkans countries, including Montenegro, have a common future as EU Member States.

The SAA entered into force on 1 May 2010, however, 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 liberalised 95% of its tariff lines, representing 99% of EU imports during the three preceding years of 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. EVOLUTION OF TRADE

2.1. Trade in Goods

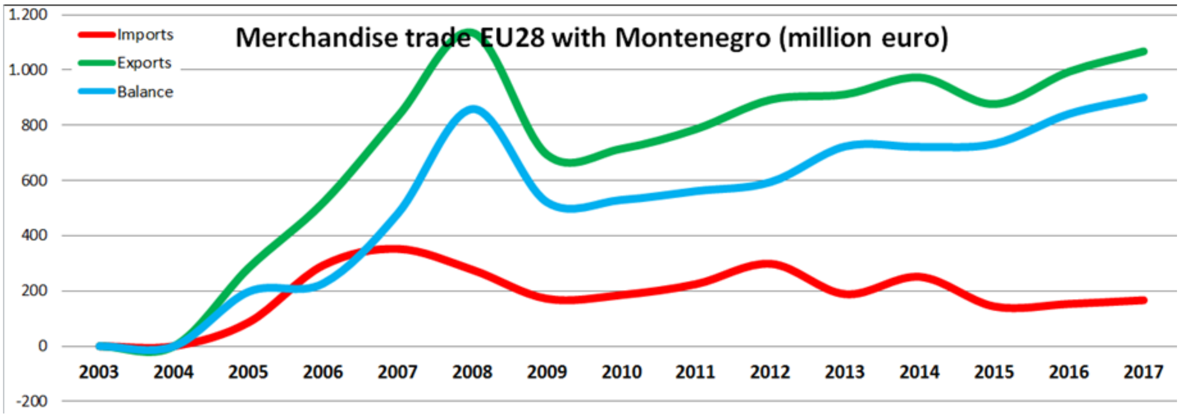
The EU is Montenegro's main trading partner, accounting for 81.3 % of total exports and 62.4 % of total imports of goods. Compared to 2016, total trade between the EU and Montenegro increased by 7.6% reaching EUR 1.2 billion in 2007.

Table 1

	EU28 trade in goods with Montenegro (million euro)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	276	172	185	225	298	188	251	144	153	166
Exports	1.135	693	715	786	893	912	973	877	994	1.068
Balance	859	521	530	562	595	724	722	733	841	901
Total trade	**1.412**	**865**	**901**	**1.011**	**1.191**	**1.100**	**1.224**	**1.020**	**1.147**	**1.234**

Source: Eurostat

[131] See *http://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/* for more information.



In the ten years since the application of the trade agreement, total trade in merchandise between the EU and Montenegro went **down by 12.6%** going from EUR 1.4 billion in 2008 to EUR 1.2 billion in 2017. This reduction can be explained by the fact that the structure of Montenegrin exports in the last 10 years has substantially changed in favour of exports of services, which increased to over 70% of total exports in 2016. The main sectors traded are machinery and appliances; transport equipment and mineral products. The EU has consistently recorded a large **trade surplus** with the country (averaging EUR 1.1 billion).

2.2. Trade in Agricultural Goods

The EU's trade surplus with Montenegro concerns both **agricultural** and non-agricultural products. Trade in agricultural products represents around **15% of the total bilateral trade**. In 2017, 3.6% of all EU's imports from Montenegro were agricultural products versus 17% of all EU's exports to Montenegro. In 2017, EU imports of agricultural products from Montenegro decreased by 25% since 2016 whereas EU exports of agricultural products to Montenegro increased by 3.7%. The EU imported mainly edible vegetables from Montenegro and exported meat to Montenegro.

Table 2

EU28 merchandise trade by AMA/NAMA sector with Montenegro (million euro)										
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
	EU28 imports									
Total	276	172	185	225	298	188	251	144	153	166
Agricultural	6	7	6	7	7	7	8	8	7	6
Non-Agricultural	270	165	180	218	292	182	243	136	145	161
	EU28 exports									
Total	1.135	693	715	786	893	912	973	877	994	1.068
Agricultural	124	115	121	134	184	159	195	164	177	183
Non-Agricultural	1.011	578	594	652	709	753	779	713	817	885
	EU28 trade balance									
Total	859	521	530	562	595	724	722	733	841	901
Agricultural	118	108	116	127	178	152	187	156	169	178
Non-Agricultural	741	413	414	434	417	571	535	577	672	724

Source: European Commission

Part of the agricultural trade between the EU and Montenegro is subject to Tariff rate quotas (TRQs), either duty-free or at a reduced customs duty rate. The agricultural TRQs granted by Montenegro were almost fully utilized by EU exporters.

The EU grants two agricultural TRQs to Montenegro (beef and wine). In 2017, the beef quota was not used by Montenegro's exporters and the wine quota was used at 14%.

Table 3.Utilisation of tariff rate quotas for EU exports to Montenegro in 2017

Product	Size of the quota	Fill rate (%)
Poultry meat	500 t	100
Cheese	65 t	100
Meat preparations	130 t	100
Waters (3 quotas)	14 800 hl	74
Wine	3 500 hl	100

Source: Montenegro's authorities

2.3. Preference Utilisation rate

The PUR is relatively high for both imports and exports, which highlight a generally good knowledge of trade operators regarding the preferential access to both markets, with some margin for improvement from the side of EU trade operators.

Table 4

Use of preferences on imports into EU from Montenegro					
	2013	**2014**	**2015**	**2016**	**2017**
use as % eligible	83%	85%	81%	83%	90%

Source: *Source: Eurostat - Includes all preferences (FTA, GSP, bilateral)*

Table 5

Use of preferences on imports into Montenegro from EU					
	2013	**2014**	**2015**	**2016**	**2017**
use as % eligible	86%	86%	85%	85%	86%

Source: *DG TRADE based on statistics from Montenegro*

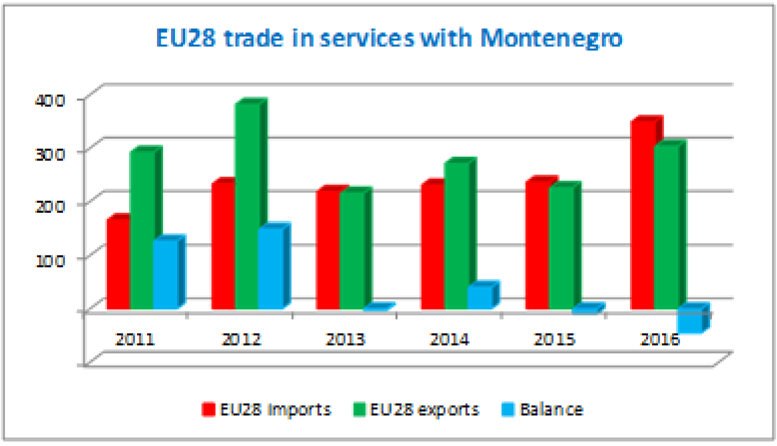
2.4. Trade in Services and FDI

In 2016, total trade in services represented nearly 57% of the total bilateral trade of goods and services with a share of 69.5% for EU imports and a much more modest 23% share for EU exports. This large imbalance allows Montenegro to run a surplus in its services trade with the EU, which is largely explained by important investment on high-end tourism facilities.

Table 6

EU28 services trade with Montenegro (million euro)						
	2011	2012	2013	2014	2015	2016
EU28 imports	165	233	219	231	236	349
EU28 exports	292	382	216	271	226	304
Balance	127	149	-3	40	-10	-46
Total trade	**458**	**615**	**435**	**502**	**462**	**653**

Source: European Commission



The EU's contribution to total FDI in Montenegro was 38.7% in 2017.

Table 7

Foreign direct investment EU28 with Montenegro (million euro)						
		Inward			Outward	
	2014	2015	2016	2014	2015	2016
Stocks	-2	75	5	1.663	1.396	1.307
Flows	-29	82	-72	128	5	140

Source: European Commission

3. ISSUES ADDRESSED IN THE ANNUAL COMMITTEE MEETINGS

Commercial issues are discussed on an annual basis in the context of the Sub-committee on Trade, Industry, Customs and Taxation. The last meeting of the Sub-committee on Trade, Industry, Customs and Taxation took place on 3 October 2017, during which the slight recovery of trade in 2016 was highlighted. In this respect Montenegro was encouraged to diversify its exports of goods and to increase added value in export-oriented production. Montenegro also recognised the need to further improve the business environment as an essential prerequisite to attract investments in the country.

4. SPECIFIC AREAS OF IMPORTANCE

The **business environment** is a key area of importance, in particular unfair competition from the informal economy, has a negative impact on the business environment. **Public procurement** is another area of concern. Under the SAA (Article 76) 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 needs to bring up implementation and enforcement capacities at all levels. Agricultural and fishery issues were discussed in the Sub-committee meeting on 6 November 2017.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Enhancing transparency and accountability -in particular ensuring the effective, efficient and transparent functioning of the public procurement system- and the fight against corruption are essential issues that affect EU businesses doing business in Montenegro that are part of the regular follow-up done under the SAA multidisciplinary subcommittee structures.

6. CONCLUSIONS

Montenegro and the EU are very close trading partners, even though Montenegro is yet to reap the full benefits of trade liberalisation with the EU. As a small country with an open economy it needs to diversify and steer its goods-export base away from low-value added sectors, which are exposed to volatile commodity prices, and from competition in low-value added sectors. While the trade agreement is generally implemented smoothly by Montenegro, the business climate is negatively affected by the large size of its informal economy and shortcomings in the rule of law which are a strong deterrent to investments. However, it is expected that the renewed momentum of the **European integration** process will give further impetus to major reforms and consequently have a positive impact on the investment and business climate in the coming period. Similarly, the development of a **Regional Economic Area** based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.

ANNUAL INFO SHEET ON THE 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 an EU Member State.

The SAA entered into force on 1 September 2013, however, 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. As regards the EU, in 2010, 97.5% of tariff lines were already duty-free, representing 96% of the value of imports from Serbia. On Serbia's side, by 2016, 95.6% of tariff lines for imports from the EU were liberalised.

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 (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 in 2013, a number of other legislation approximations with impact on trade were put in place in the fields of public procurement, standardization and the right of establishment.

2. EVOLUTION OF TRADE

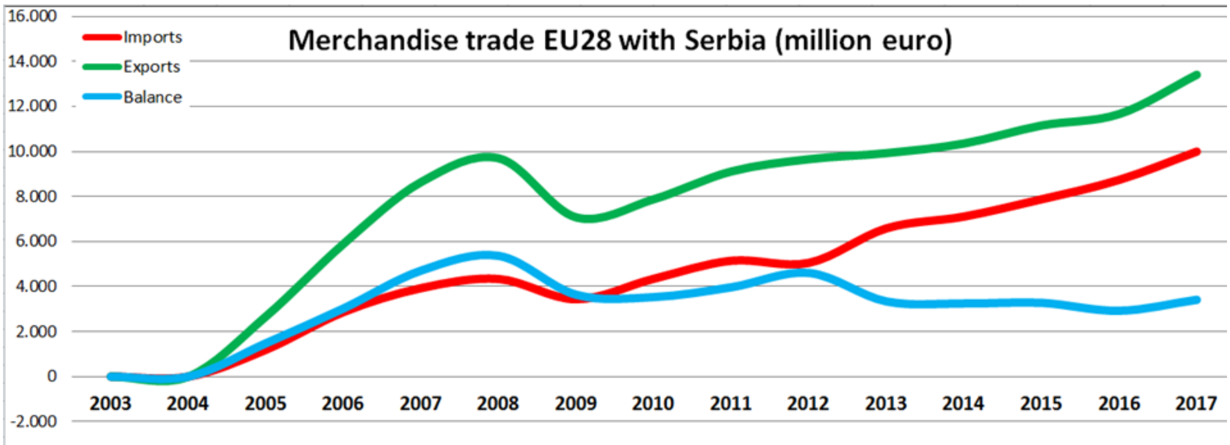
2.1. Trade in Goods

Compared to 2016, total trade between the EU and Serbia increased by 14.7% reaching nearly EUR **23.5 billion** in 2017. Unlike last year's trend, where imports from Serbia increased by almost 11% against a more modest 4.6% growth of EU exports to Serbia, 2017 saw an equal growth rate on both imports and exports.

Table 1

EU 28 trade in goods with Serbia (million euro)										
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Imports	4.335	3.436	4.349	5.147	5.053	6.588	7.110	7.879	8.739	9.997
Exports	9.700	7.071	7.881	9.116	9.660	9.927	10.357	11.155	11.664	13.408
Balance	5.365	3.635	3.532	3.969	4.606	3.339	3.247	3.277	2.925	3.411
Total trade	**14.035**	**10.506**	**12.230**	**14.264**	**14.713**	**16.515**	**17.466**	**19.034**	**20.403**	**23.405**

Source: Eurostat



Since the signature of the trade agreement in 2008, total trade between the EU and Serbia has increased by almost **67%** from EUR 14 billion to nearly EUR 23.5 billion. Over this period, the EU has further consolidated its position as Serbia's main trade partner: 64.5% of Serbia's total trade is now with the EU compared to only 56.5% in 2008. The five top traded products in 2017 remained machinery and appliances; base metals; transport equipment, mineral products; and chemicals.

Overall, the EU enjoys a **trade surplus** with Serbia, which has however declined by more than 36% since the start of the reciprocal trade preferences in 2008 and following the set of reforms undertaken by the country to make its economy more competitive.

Serbia has also consistently recorded a trade surplus in **agricultural products**, in average around EUR 200 million. In 2017 this surplus fell to EUR 54 million as Serbia was affected by a major drought which led to a sharp decline in its agricultural output.

2.2. Trade in agricultural goods

Trade in agricultural products represents around **10% of the total bilateral trade**. In 2017, nearly 12% of all EU's imports from Serbia were agricultural products versus 8.5% of all EU's exports to Serbia. This ratio has remained relatively stable over the last ten years of implementation of the agreement. In 2017, EU imports and exports of agricultural products from / to Serbia have increased by 3.4% and 23.4% respectively since 2016. The EU imported mainly fruits & nuts and cereals from Serbia. Serbia's key export products to the EU were food preparations and oil seeds & oleaginous fruits.

Table 2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	EU28 merchandise trade by AMA/NAMA sector with Serbia (million EUR)									
	EU28 imports									
Total	4.335	3.436	4.349	5.147	5.053	6.588	7.110	7.879	8.739	9.997
Agricultural	579	721	735	1.005	967	964	989	1.083	1.151	1.190
Non-Agricultural	3.756	2.715	3.614	4.142	4.086	5.624	6.120	6.796	7.587	8.806
	EU28 exports									
Total	9.700	7.071	7.881	9.116	9.660	9.927	10.357	11.155	11.664	13.408
Agricultural	550	476	505	563	694	768	838	911	924	1.136
Non-Agricultural	9.150	6.594	7.376	8.553	8.965	9.160	9.518	10.244	10.740	12.272
	EU28 trade balance									
Total	5.365	3.635	3.532	3.969	4.606	3.339	3.247	3.277	2.925	3.411
Agricultural	-30	-245	-230	-442	-273	-197	-151	-172	-228	-54
Non-Agricultural	5.394	3.880	3.762	4.411	4.879	3.536	3.398	3.448	3.153	3.465

Source: European Commission

Part of the agricultural trade between the EU and Serbia is subject to TRQs, either duty-free or at a reduced customs duty rate. The majority of agricultural and fish quotas were fully utilised by EU exporters. Quotas for fruit juices and wine were well utilised (60 and 80% respectively); quotas for wheat (31%) and sunflower seeds (10%) were little utilised and the maize quota remained completely unused in 2017.

The EU grants tariff quota to Serbia for beef, sugar and wine. The sugar quota is traditionally fully utilised with some take-up of the wine and beef quotas.

Table 3 Utilisation of TRQs for EU exports to Serbia in 2017

Product	Size of the quota	Fill rate (%)
Live pigs	200 t	100
Pork	200 t	100
Milk and cream (2 quotas)	260 t	100
Cheese	50 t	100
Potatoes	165 t	100
Vegetables	20 t	98
Wheat and meslin	300 t	31
Maize	270 t	0
Sunflower seed	60 t	11
Meat preparations	150 t	100
Sugar	70 t	100
Fruit juices	20 t	60
Wine	25 000 hl	81
Spirits	1 180	100
Tobacco	75	100
Cigarettes (2 quotas)	1 625	n.a.

Source: Serbian authorities

2.3. Preference Utilisation rate

The PUR is high for imports from Serbia, which indicates a good knowledge of trade operators regarding the preferential access to both markets.

Table 4

Use of preferences on imports into EU from Serbia					
	2013	**2014**	**2015**	**2016**	**2017**
use as % eligible	92%	94%	93%	90%	91%

Source: *Source: Eurostat - Includes all preferences (FTA, GSP, bilateral)*

Reliable data to calculate the PURs for EU exports was not made available by Serbia.

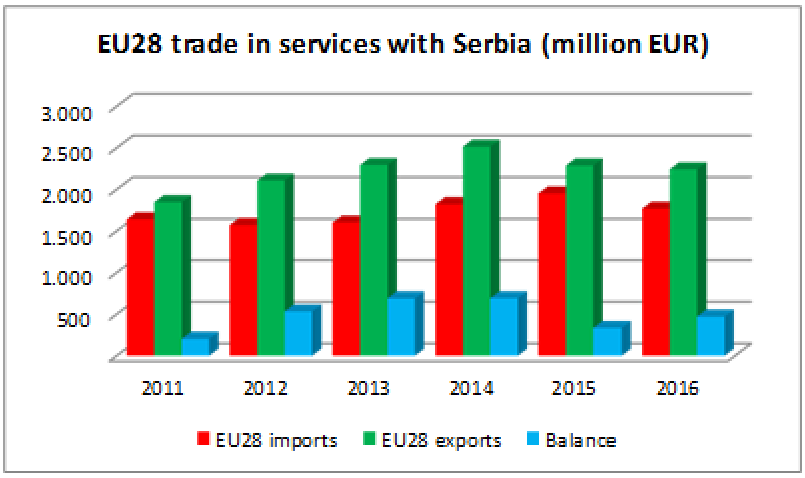
2.4. Trade in Services and FDI

In 2016, total trade in services represented nearly 20% of the total bilateral trade of goods and services with a share of 17% for EU imports and a 16% share for EU exports. Overall the EU records a surplus in its trade in services with Serbia which has averaged around EUR 488 million over the last 6 years.

Table 6

EU28 services trade with Serbia (million EUR)						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
EU28 imports	1.643	1.574	1.603	1.823	1.953	1.771
EU28 exports	1.848	2.108	2.295	2.516	2.288	2.244
Balance	205	534	691	693	335	473
Total trade	3.492	3.682	3.898	4.339	4.242	4.015

Source: European Commission



Regarding FDI, the EU is by far Serbia's main investment partner, accounting for more than three quarters of net FDI inflows. The EU continued to be the main source of foreign investment with a share in net FDI of 63% in 2016 and more than three-quarters of the cumulative FDI stock.

Table 7

Foreign direct investment EU28 with Serbia (million EUR)						
	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	20	156	165	12.570	11.941	12.657
Flows	271	69	26	185	262	403

Source: European Commission

3. ISSUES ADDRESSED IN THE ANNUAL TRADE COMMITTEE MEETING

Commercial issues are discussed on an annual basis in the context of the Sub-committee on Trade, Industry, Customs and Taxation. The last meeting took place on 7 February 2017, during which the positive trade trends were again highlighted, with the EU remaining Serbia's first trade partner with a share of nearly 64% of its global trade. Serbia's decision to discontinue the nearly two-year long safeguard measures against EU originating imports of dairy and pork products as of 1 January 2017 was welcome and the importance to respect the smooth implementation of the SAA was emphasised. Other trade issues addressed include the importance for Serbia to finalise its WTO accession; the need to effectively and consistently implement a risk-based methodology as the basis to exercise controls of exports and imports at borders and avoid excessive administrative and time-consuming barriers to trade that result from unnecessary inspections, and the excise discrimination of grain-based spirits, which tend to be imported from the EU, as opposed to the favourable treatment of fruit-based spirits, which tend to be produced domestically.

The most pressing open issue in 2017 concerned the [132]**restrictive measures** imposed by Serbia for the **export of non-hazardous waste**, in particular metal waste. These restrictions led to a complete halt in the issuing of new export licences for metal waste up until the end of March 2018 when a few, very limited, export licences were granted by Serbia. Since December 2017, the EU has repeatedly urged Serbia to lift those measures which it considers in breach of the SAA. After a series of bilateral consultations, the situation was resolved in May 2018.

Agricultural and fishery issues were discussed in the Sub-committee meeting on 9 March 2017.

The next annual trade committee meeting is foreseen on 17 October 2018.

4. SPECIFIC AREAS OF IMPORTANCE

The EU has repeatedly encouraged Serbia to finalise its accession to the WTO as it will anchor economic reform and trade liberalization carried out in the context of the EU Stabilisation and Association Process. **WTO accession** is a requirement for the closing of the External Relations Chapter (Chapter 30) in the process of Serbia's accession to the EU. The chapter on External Relations was opened at the Intergovernmental Conference in Brussels on 11 December 2017.

[132] Since the second half of 2017

Serbia applied for WTO membership in 2005. Serbia's WTO membership remains dependent on the adoption of a WTO and EU acquis-compliant law on genetically modified organisms and on the completion of market access negotiations with a number of WTO members.

5. Main open issues and follow-up actions

Although Serbia has continued to build a record of accomplishment in implementing the interim agreement and then the SAA provisions since their entry into force, some non-compliance issues remain. These concern mainly State aid regulation (article 73 of the SAA), restrictions to free movement of capital - in particular restrictions to the acquisition by foreigners, including EU citizens, of agricultural land - (article 63), respect for the transparency and non-discrimination principals in public procurement procedures (article 73) and fiscal discrimination on alcohol (article 37). All these pending issues were raised in the relevant EU-Serbia Sub-committee meetings held or planned in 2018.

6. Conclusions

Serbia and the EU have a very close and growing trade partnership which increased their total trade by almost 67% since the entry into force of the trade agreement (SAA). The EU is Serbia's main trading partner, accounting for 67.6 % of total exports and 62.3 % of total imports of goods.

The EU continued to be the main source of foreign investment too, with a share in net FDI of 63% in 2016 and more than three-quarters of the cumulative FDI stock.

Despite very good trade and investment dynamics, companies still face a number of challenges, including an unpredictable business environment and issues of non-compliance with the SAA, regarding in particular a lack of transparency of public procurement procedures, restrictions on capital movements, state aid control, fiscal discrimination on imported spirits.

Overall, it is expected that the renewed momentum of the **European integration** process and progress in accession negotiations will give further impetus to major reforms and consequently have a positive impact on the investment and business climate in Serbia in the coming period. Similarly, the development of a **Regional Economic Area** in the Western Balkans based on the CEFTA agreement and on the EU rules and standards, to which all regional economies have committed, has the potential to generate untapped growth.

FIRST GENERATION FREE TRADE AGREEMENTS WITH LATIN AMERICAN COUNTRIES

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-CHILE ASSOCIATION AGREEMENT[133]

1. INTRODUCTION

The trade pillar of the **EU-Chile Association Agreement** ('the Agreement') entered into force on 1 February 2003 and was fully implemented after finalisation of all ratifications on 1 March 2005. During the following 15 years there has been continuous work and cooperation by both sides to implement the agreement. The Agreement with Chile is one of the EU's first generation FTAs and was considered highly ambitious at the time of its conclusion. It was the first trade agreement subjected to an ex-post evaluation study to analyse the impact it had had. This study was concluded in 2012. Another study conducted in 2017 clearly showed the need for modernising the agreement, to avoid the EU losing further ground to other partners trading with Chile, such as the US and China.

Against this background, at the **EU-CELAC** (Community of Latin American and Caribbean States) summit in Santiago in January 2013, the EU and Chile agreed to explore options for **a comprehensive modernisation of the Agreement**. The 2015 Trade for All Communication[134] highlighted the objective of pursuing a modernisation of the Agreement. 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 on 13 November in 2013[135]. The EU and Chile are now engaged in a negotiation process for 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 Chile interest, (5) more comprehensive investment liberalisation disciplines, (6) public procurement rules and improved coverage in terms of entities, (7) intellectual property rights, including the protection of GIs on foodstuffs, (8) TSD and (9) 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 the sustainable development goals and reaffirming commitments of international conventions.

[133] More information can be found at: http://ec.europa.eu/trade/policy/countries-and-regions/countries/chile/
[134] http://ec.europa.eu/trade/policy/countries-and-regions/countries/chile /
[135] http://www.consilium.europa.eu/media/32405/st13553-ad01dc01en17.pdf

2. EVOLUTION OF TRADE

2.1. Trade in Goods

Overall evolution since the FTA provisional entry into force

Bilateral trade in goods between 2003 and 2017 more than doubled in value, increasing 114% in total. Overall, the rise is substantially sharper for EU exports, which increased 197% over the period, compared to a 65% grow in EU imports from Chile. Chile's share in total EU trade has remained stable since 2003, at around 0.5% of total EU trade, with a 0.7% peak in 2006.

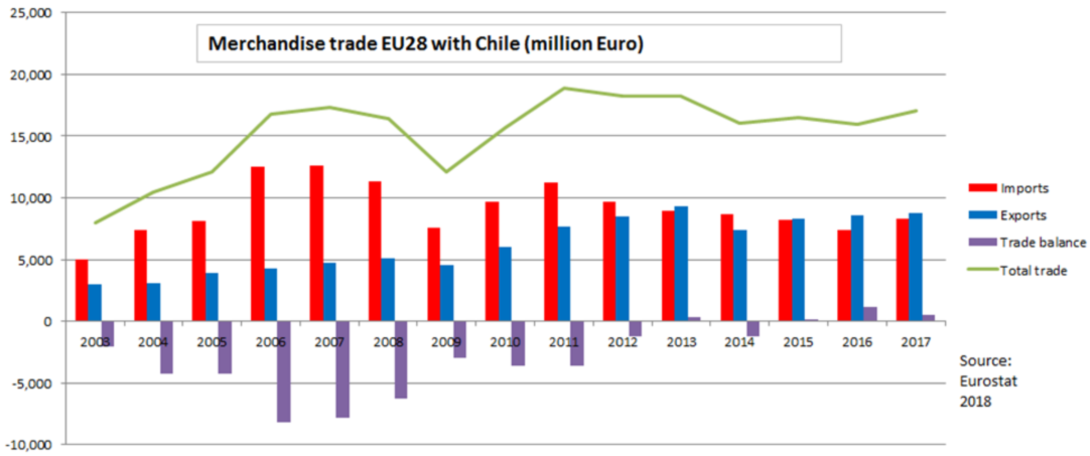
Merchandise trade EU28 with Chile (million EUR)

Chile	Base 2003	Latest 2017	Growth total	Growth average
EU28 imports	5 004	8 259	65%	6%
EU28 exports	2 963	8 785	196%	9%
Balance	-2 041	526		
Total trade	7 967	17 044	114%	7%

Source: Trade G2 Statistics/ISDB

The evolution of bilateral trade in goods can be divided into three distinct periods, with marked differences:

1. 2003-2007 was characterised by a substantial increase in EU imports, a more moderate growth in EU exports and an increasing trade deficit.
2. 2008-2011 saw an initial fall in EU imports, followed by comparable growth rates in EU imports and EU exports and a smaller trade deficit. In 2011 bilateral trade reached a historic high of EUR 18.9 billion.
3. Since 2012 EU imports have fallen slightly while EU exports have remained relatively stable and bilateral trade has been close to balance, with a slight trade surplus for the EU (except in 2014), which is due to price effects rather than quantities.

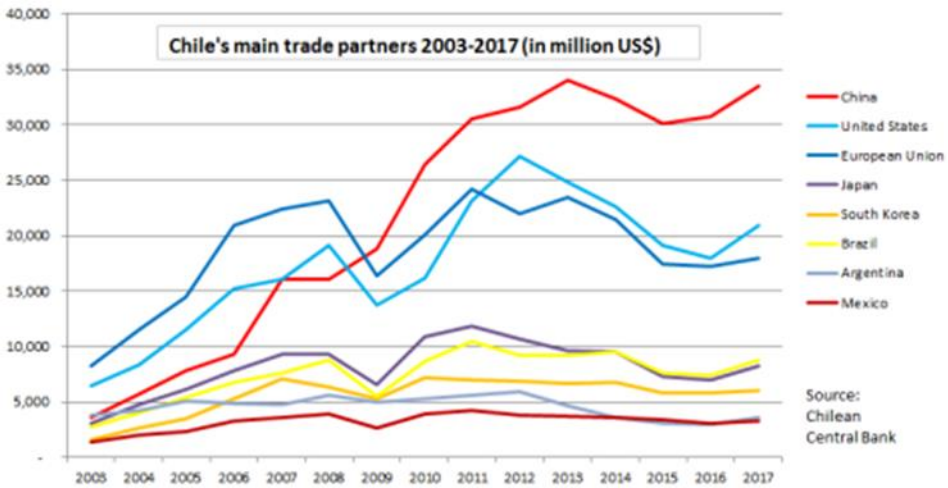


Trade flows in 2017

In 2017 EU-Chile bilateral trade grew by 6.7% in value compared to 2016, reaching 17 billion. The EU experienced a trade surplus worth EUR 544 million, the fourth trade surplus in the EU's favour since 2007. While EU exports increased 2.3% year-on-year, EU imports grew by 11.7%. The increase in the value of Chile's exports to the EU is mainly, although not exclusively, attributable to the recovery of copper prices. Compared to 2016, copper imports from Chile grew by 18% in value.

Performance of the EU compared to other trade partners of Chile

Despite the *prima facie* strong bilateral growth rate since 2003, over time the EU has progressively lost market share in Chile to other trading partners. Between 2003 and 2009 the EU was Chile's 1st trading partner. The EU was overtaken by China in 2009 and by the US in 2011[136], and is therefore currently Chile's third trading partner. Whilst China's share in Chile's total trade continues to increase (partly due to China's increasing imports of Chilean copper), the gap with the US has narrowed recently.



The external ex-post assessment of the impact of the FTA commissioned by DG TRADE in 2012 concluded that the FTA had helped to prevent the EU market share in Chile from further substantial falls, thereby mitigating the crowding-out effect of the FTAs concluded by Chile with third parties since 2003. The 2017 ex-ante external study commissioned by DG TRADE to support the impact assessment on the modernisation of the Agreement confirmed that in relative terms there is clear erosion in bilateral EU trade flows to Chile since 2003 in favour of third partners.

[136] The Chile-USA FTA entered into force on 1 January 2004 and Chile-China FTA entered into force on 1 October 2006.

2.2. Trade in agricultural products

Almost **a third of EU imports from Chile are agricultural products**. The main agricultural products shipped by Chile to the EU are fruits (notably grapes, of which Chile is the world's top exporter, apples and pears), vegetables, wines, nuts and fruit juices. In 2017, imports of agricultural goods from Chile were worth EUR 2 371 million. While EU agricultural exports to Chile were much smaller at EUR 716 million in (constituting 8% of the total value EU exports to Chile), ex**ports of agricultural products to Chile grew by almost 30%** between 2016 and 2017.

EU products subject to TRQs are cheese, tuna, salmon and hake. The fish quotas are less used, except for tuna where industry calls for an extension of the quota. Cheese, however, is one of the top EU agricultural exports to Chile, with exports worth EUR 67 million in 2017. Although the quota increases by 75 tons each year, cheese exports to Chile by far exceeded the quota in recent years. The quota for 2018 was filled on 14 February. Quantities exported in excess of the quota are subject to Chile’s flat 6% import duty.

Utilisation of TRQs for EU exports to Chile in 2017

Product	Size of the quota (tons)	Fill rate (%)
Cheese	2 550	100
Hake	5 000	n.a.
Salmon	40	n.a.
Canned tuna	150	97

Source: Chilean authorities

For Chile, products subject to tariff quotas are certain types of fish (hake, Pacific salmon and tuna), meat (beef, pork, poultry meat, sheep meat), garlic, processed cereals, mushrooms, cheese, preserved cherries and sweets, chocolate and biscuits. The poultry meat quota was fully filled in 2016 but the utilisation rate fell to 77% in 2017. Only a quarter of the pork and sheep meat quotas were utilised in 2017. The use rate was smaller for beef (14% in the 2016-2017 quota year) and garlic (2%), and even zero for all the other quotas.

2.3. Trade in Services and FDI

Bilateral trade in services in 2016 stood at EUR 5.5 billion (EUR 3.7 billion in exports and EUR 1.8 billion in imports), compared to EUR 5.6 billion in 2015. Between 2010 and 2016 EU exports of services increased 25%, while EU imports increased 18%.

Trade in Services EU-28 with Chile (million EUR)

	2010	2011	2012	2013	2014	2015	2016
EU28 (imports)	1 518	1 335	1 517	1 573	1 681	1 907	1 787
EU28 (exports)	2 956	3 192	3 064	3 081	3 417	3 677	3 684
Balance	1 438	1 857	1 547	1 507	1 736	1 770	1 897
Total trade	4 474	4 527	4 580	4 654	5 098	5 584	5 470

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

The EU remains Chile's first FDI provider, with outward FDI stocks worth EUR 47.2 billion in 2016 but EU FDI flows in 2016 (EUR 3.2 billion) were less than half the outward flows registered in 2014. 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. With 2016 data, in 2017 Chile remained the 3rd recipient of FDI in Latin America overall, after Mexico and Brazil, according to UNTACD. However with 2017 data, in 2018 report it is not among the top 5 host regional economies.

FDI inflows from Chile to the EU recorded EUR 331 million in 2016, slightly above the average. Since 1998, Chile has been the World Economic Forum's most competitive nation in the region (in 2017 it ranked 33 of 138 globally). Chile used to be regional leader on the World Bank Doing Business Report (DB) but it is now second after Mexico. In 2018 Chile ranks 55 of 190 on DB and 71.22 on the distance to frontier (DTF) measure (Mexico ranks 49 and 72.27 respectively)[137]

FDI EU28 with Chile (million euro)				
	2013	2014	2015	2016
Inward stocks	998	1,707	823	1,387
Outward stocks	29,134	42,723	42,576	47,233
Inward flows	846	205	-687	331
Outward flows	5,746	8,180	1,716	2,899
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics				

2.4. Preference Utilisation Rate (PUR)

In 2017 the **use of preferences on EU imports from Chile was 95%**, a high rate that has remained stable over recent years.

Use of preferences on imports into the EU from Chile

	2014	2015	2016	2017
use as % of eligible	94%	95%	95%	95%

Source Trade G2 Statistics/ISDB. Includes all preferences (FTA, GSP, bilateral)

The use of preferences for EU exports to Chile was 75.7% in 2017 as compared to 74% in 2016, showing a **slight improvement in the take-up of the opportunities by EU firms**. Utilisation by EU companies can be expected to increase over time once the modernised Agreement and its improved will be applied, offering, inter alia, a better market access for EU exporters and a better framework for doing business in Chile.

[137] Chile currently ranks 55th out of 190 countries on the list, down from 34th in 2014. Its ranking declined to 41st in 2015, 48th in 2016, and 57th in 2017, according to the World Bank's reports.

Use of preferences on EU exports to Chile (adjusted utilisation rate)

	2013	2014	2015	2016	2017
use as % of eligible	78.3	77.9	75.7	73.9	75.7

Source Trade G2 based on Chilean national statistics

3. ANNUAL TRADE COORDINATORS MEETING AND TRADE-RELATED SUB-COMMITTEES

Both sides have invested the necessary resources in the institutional work under the Agreement and the meetings under the Agreement have been very regular. The Trade Coordinators Meeting and Subcommittees on trade related matters are organised every year. The Trade Coordinators Meeting of the EU-Chile Association Agreement met in Brussels on 15 November 2017. It was preceded by meetings of all the trade-related subcommittees created by the Agreement except for the Special Committee on Customs Cooperation and Rules of Origin, which will be held at a later date.

The Committee on Standards, Technical Regulations and Conformity Assessment took place on 30 October 2017, the Joint Committees on Trade in Wine and Spirits/Aromatised drinks on 13 November 2017 and the Joint Management Committee on SPS Measures on 14-15 November 2017.

Trade-related sub-committees

- The **Special Committee on Standards, Technical Regulations and Conformity Assessment Procedures**: the EU questioned Chile on a draft Technical Regulation on the sector of cables that deviates from international standards. Chile stated that after receiving and analysing numerous comments, the relevant authorities have decided to undertake an impact study of the proposed measures before they are adopted. Also, another issue discussed concerned the withdrawal of the certification of a specific category of electric cables produced by the EU that had been deemed to be deficient according to Chilean test results. The affected companies were re-admitted to certify the cables in May 2018.

- The **Joint Committee on Trade in Wine and Spirits/Aromatised drinks:** the Parties agreed to finalise the textual modifications of the wine and spirits agreement and Chile committed to conclude its examination of the pending EU GIs registration. Regarding the Agreement on Trade in Organic Products,[138] which entered into force on 1 January 2018, Chile requested a transition period of six months during which both the new agreement and the previous recognition by the EU of equivalent Control Bodies in Chile would be valid.

[138] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:331:TOC

- The **Joint Management Committee on SPS Matters:** The Joint Management Committee on SPS Matters: the EU highlighted that good progress was made on EU applications to access the Chilean market in the case of products of animal origin, but pointed out the lack of effective market access for fruits and vegetables, except kiwis, exported to Chile by the EU. The parties agreed that the work of the Animal Welfare Group, established by the Joint Management Committee, was satisfactory and also exchanged views on the need of updating some of the Appendixes of Annex IV[139].

Trade Coordinators Meeting

The Trade Coordinators Meeting, to which the sub-committees on trade related issues report, reviewed recent bilateral trade and investment flows, and exchanged information on relevant multilateral developments and on trade negotiations with third partners. The Trade Coordinators Meeting reviewed the reports on the outcome of the trade-related sub-committee meetings. EU highlighted a number of issues related to government procurement, urging Chile to make progress to ensure compliance with the obligations arising from the existing Agreement. The EU also raised the issue of the access of its vessels fishing for swordfish to Chilean ports. Chile took note and agreed to inform the Chilean competent authorities. The issue was further discussed at the EU-Chile Ocean Governance Dialogue in Lima in January 2018 where Chile confirmed that there are no longer reasons to prevent the EU swordfish vessels from accessing Chilean ports, as long as certain requirements, applying to all national and foreign vessels, are met.

4. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The main open issue on FTA implementation is related to some of the existing obligations on government procurement, which Chile is yet to implement. Although Chile has made some progress (e.g. creating a common procurement portal and registry), a number of pending issues remain, and the EU continues to urge Chile to make progress, to ensure full compliance with its obligations, and to possibly adopt interim measures in case legislative changes are needed.

Moreover, the 2002 wine and spirits agreements were amended last time in 2009. Therefore, they need to be up-dated, in particular adding the new wine and spirits names that have been granted protection in the EU and Chile since then. This process has proven to be challenging, due to the lengthy Chilean internal assessment procedures necessary for amending the wine and spirits agreements.

In March 2017 Chile opened its market for EU beef. The last remaining obstacle was the identification of meat cuts which was also reflected in amending the terms of the export health certificate. With regard to SPS measures, Chile opened its market for bovine embryos from

[139] Annex IV, to the Association Agreement, is the 'Agreement on Sanitary and Phytosanitary measures applicable to trade in animals and animal products, plants, plant products and other goods and animal welfare', the SPS Agreement currently in force between EU and Chile.

Belgium, porcine semen from the Netherlands and casings from Denmark. These two openings in 2017 added to an already long list of agri-food commodities that the EU exports to Chile. The Market Access procedure derived from the EU/Chile SPS Agreement has proved to be advantageous for the Member States. Chile recognises applies the same import requirements to the entire EU. In addition, the market access procedure has been simplified. Namely once the market is open for a commodity from one or more Member States and when another Member State wants to export for the first time, Chile evaluates the information provided by the Commission. Further information is only needed when Chile has some doubts on specific aspects. Chile rarely requires to carry out on-the-spot verifications of the information provided. In such cases, Chile visits some EU Member States and extends the conclusions to the entire European Union. For certain commodities such as gelatine, collagen, egg products, prepared meals, meat extract all MS are authorised. Chile approves the EU exporting establishments with a pre-listing procedure in a short delay (within days).

5. CONCLUSIONS AND OUTLOOK

As in previous years, the process of implementation through the work of the various trade-related sub-committees and the Trade Coordinators Meeting has worked very well, dialogue is fluid and potential problems have been generally addressed early on. The key issues are the above-mentioned list of pending obligations for Chile on public procurement and the up-dating of the wine and spirits agreement.

In absolute terms the evolution of bilateral trade and investment is at first sight overall positive, both Chile and the EU have concluded numerous trade agreements since 2003, and both sides face challenges to retain their respective market share and preferential status in competition to other preferential trading partners.

It is against this backdrop that the EU and Chile decided to modernise to upgrade and replace the existing EU-Chile trade agreement with a completely new and very ambitious framework for bilateral trade and investment. This process is under way and two substantial rounds of negotiations have already taken place in January 2018 in Santiago de Chile and in May 2018 in Brussels[140].

[140] http://trade.ec.europa.eu/doclib/press/index.cfm?id=1395

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-MEXICO ASSOCIATION AGREEMENT [141]

1. INTRODUCTION

In 1997 Mexico was the first country in Latin America to sign an **Economic Partnership, Political Coordination and Cooperation Agreement** with the EU, which came into force in 2000 ('Global Agreement'). Its trade provisions were later developed into a comprehensive Free Trade Agreement (hereinafter called 'the FTA'), which entered into force in October 2000 for goods and 2001 for services, respectively. It has now been applied for 18 years.

At the time the FTA was concluded, **it was the most extensive trade agreement** that had ever been signed by the EU. The Agreement was considered ambitious and worked well for both sides, but over time it became clear that its provisions needed to be modernised to be fit for the 21st century. Bilateral goods trade between the EU2 and Mexico has expanded significantly after the entry into force of the FTA, with exports and imports having more than doubled. Bilateral imports and exports developed in a similar pattern, although the exports from the EU to Mexico have grown slightly faster than exports from Mexico to the EU.

Although the FTA between the EU and Mexico includes some elements of non-tariff measures besides tariff reductions, it does not yet go as far as the deep and comprehensive FTAs that the EU recently concluded with other partner countries. Nowadays, there is a clear trend for FTAs to focus more on the Non-Tariff Measures (NTMs) aspects of trade, as tariffs have become relatively less important barriers to trade than are NTMs. In this context, the EU and Mexico agreed to explore the possibility of deepening the level of its commitments during the CELAC summit in Santiago de Chile in 2013. Following these exploratory talks, trade negotiations to modernise the existing EU-Mexico Global Agreement which includes an FTA were launched on 25 May 2016 and carried out over 9 rounds.

An 'Agreement in principle' was reached at ministerial level on the trade part of a modernised EU-Mexico Global Agreement on 21 April 2018. Discussions are now focussing on completing the technical details of the new FTA, which, once in force, will replace the existing FTA. In view of the above, trade relationships between the EU and Mexico were marked in 2017 by the negotiation process to modernise the EU-Mexico Global Agreement.

2. EVOLUTION OF TRADE

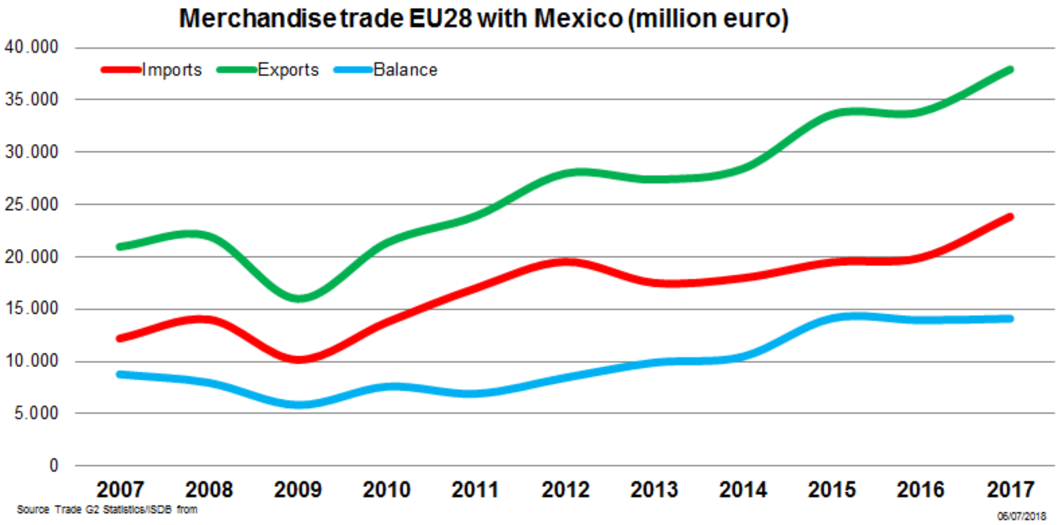
2.1. Trade in goods

In 2017, bilateral trade in goods between the EU and Mexico increased by 14.7% compared to 2016, and totalled EUR 61.7 billion. Mexican exports to the EU (EUR 23.2 billion) grew faster than the EUR 37.9 billion worth of exports that the EU sent to Mexico (19.6% and 12.0%, respectively), even though the EU continues to register a trade surplus with Mexico, which grew from EUR 13.9 to EUR 14.1 billion in 2017. In 2017, the EU remains Mexico's

[141] See detailed information available on: http://ec.europa.eu/trade/policy/countries-and-regions/countries/mexico/

second largest export market, with a share of 6% of total exports and totalling EUR 23.8 billion.

Graph 1: Merchandise trade between the EU and Mexico



Source: Eurostat.

As can be seen from the above graphic the structure of Mexico's trade with the EU maintains a coherent pattern with the main sectors and their respective share of the bilateral trade remaining quite stable over the years.

<u>Imports into the EU from Mexico</u>: Imports into the EU from Mexico totalled EUR 23.2 billion. The largest export categories of products imported from Mexico to the EU were machinery and appliances (EUR 6 billion – 25% of EU imports from Mexico), followed by transport equipment (cars mainly EUR 5.6 billion – 23.6%), oil-related products (17.8%) and optical/photographic instruments (12%). The import growth is widespread throughout the sectors as all sectors showed positive growth rates above 2015 levels (except for the oil sector). This marks a positive trend compared to the year 2016, which was marked by a significant decrease of overall trade flows due to a marked reduction of oil-related products imports from Mexico.

<u>EU Exports to Mexico</u>: European exports to Mexico totalled EUR 37.9 billion; the main categories remain the same in comparison to previous years, namely: industrial machinery (EUR 13.6 billion - 36% of EU exports to Mexico), followed by the automotive sector (EUR 6.3 billion – 16.5%), then products of the chemical or allied industries (EUR 5.4 billion), base metals (EUR 2.8 billion) and plastics (EUR 1.8 billion). The increase was widespread throughout the different sectors.

2.2. Trade in agricultural goods:

Trade in agricultural and fisheries products totalled EUR 2.7 billion, which represented 4.4% EU-Mexico trade flows consisting of EUR 1.3 billion EU imports from Mexico and EUR 1.4 billion EU exports to Mexico.

Table 1: Agrifood trade flow between the EU and Mexico

Agrifood trade EU28 with Mexico				
Mexico	2007	2017	Growth	
			mio €	annual %
EU28 imports	11.589	22.545	10.957	6,9%
EU28 exports	20.206	36.492	16.286	6,1%
Balance	8.617	13.946	5.329	
Total trade	31.795	59.037	27.242	6,4%
Source Trade G2 Statistics/ISDB				

Source: Eurostat

2.3. Preference Utilisation rate (PUR)

This rate shows to what extent Mexican importers and EU exporters are using the FTA preferences, i.e. take advantage of the FTA's duty reductions. In 2017, **the PUR for Mexican imports into the EU was 70.5%.** This compares to 57.8% in 2016, 52.1% in 2015, and 60.7% in 2014 and 66.8% in 2013.

According to statistical data received from the Mexican authorities on the **utilisation of preferences by EU exporters**, covering the period from 1 July 2016 to 30 June 2017, EU preferential utilisation rates increased significantly reaching 85%, while EU exports to Mexico have decreased in value during the same period. During the consecutive period (i.e. 1 July 2016 to 30 June 2017), EU exports increased substantially in value (by more than 16%) but this was accompanied by a reduction of the preferential utilisation rate to a level comparable to the year 2015 and 2016, (from 85% to 75%).[142]

As a general pattern, it can be noted that the existing agreement does not provide tariff reduction to approximately two thirds of the EU exports to Mexico due to the fact that, depending on the product, the corresponding MFN applied rate is zero or because there is no preference under the agreement.

See below statistics provided by the Mexican authorities on the PURs for EU exports to Mexico. Note that Mexican data are not consolidated over a calendar year but over a temporal window of 12 months starting on 1st July each year.

Table 2. Preferential Utilisation Rate for EU exports to Mexico (1000 EUR)

Period	Total EU exports to Mexico	Preference eligible exports	Preferential exports	Preference Utilisation Rate (%)
1/7/2014 to 30/6/2015	31 603 733.6	10 694 933.1	8 263 931.2	77.3
1/7/2015 to 30/6/2016	37 226 535.6	12 775 592.0	9 745 100.7	76.3

[142] The fluctuation in the PUR for 2016 and 2017 could also have other reasons, including lack of detailed tariff line data from Mexico for some product categories concerning exports worth 2.4 billion EURO (out of a total of 43.2 billion EUR). The remaining "unknown" preference utilisation in lines with real preferences concerns less than 1 million euro.

Period	Total EU exports to Mexico	Preference eligible exports	Preferential exports	Preference Utilisation Rate (%)
1/7/2016 to 30/6/2017	36 419 907.6	12 307 045.4	10 467 239.1	85.1
1/7/2017 to 30/6/2018	**43 277 509.6**	**13 527 132.4**	**10 178 425.3**	**75.2**

Source: Secretariat of Economy of Mexico

2.4. Trade in services and FDI

Growth in **trade in services** was more limited than in goods, increasing marginally from EUR 14.6 billion in 2015 to EUR 14.8 billion in 2016 (+2.1%). The trade surplus remained stable as the EU registered a EUR 4.8 billion surplus with Mexico, identical to the one from the previous year.

Table 3

Services trade EU28 with Mexico (million euro)				
Mexico	2015	2016	Growth	
			mio €	annual %
EU28 imports	4,850	5,015	164	3.4%
EU28 exports	9,696	9,843	147	1.5%
Balance	4,845	4,828	-17	
Total trade	14,546	14,858	311	2.1%
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics				

As for **FDIs,** according to Eurostat BoP statistics, Mexican investment in the EU went up to EUR 42 million in 2016, whereas EU investment reached EUR 137 million down from EUR 152 million in 2016.

According to the Mexican Central Bank, the EU contributed with 27% (EUR 6.5 billion) of the total FDI in 2017. Over 60% of the EU's contribution came from two member states (Spain and Germany). Total stocks of EU FDI in Mexico since 2000 is estimated to EUR 130 billion and represents 31% of Mexico's total accumulated FDI since 2000, which positions the EU as the second largest investor behind the US. According to the World Bank classification, Mexico rank 49 in the 2018 'Doing business' ranking and its 'Distance Frontier' index increased from 72.09 to 72.27 owing, essentially, to the electricity reform.

Table 4

FDI EU28 with Mexico (million euro)				
	2013	2014	2015	2016
Inward stocks	25,119	31,392	33,351	42,257
Outward stocks	110,180	135,203	152,741	137,266
Inward flows	1,832	7,560	2,353	5,812
Outward flows	22,885	24,528	16,990	-11,960
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics				

3. ISSUES ADDRESSED IN THE ANNUAL JOINT COMMITTEE MEETING

In 2017, the EU and Mexico focussed their efforts in advancing in the negotiations for modernizing the existing agreement. As a consequence, no joint meeting was held in 2017 but in these regular meetings the EU and Mexico were also able to address some existing trade irritants.

4. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The following paragraph presents below the evolution of the barriers which have been registered under the EU market access database[143].

Two barriers have been solved in the course of 2017:

- **Registration and approval of health products and agro-chemicals**: EU companies complained about the length to receive the marketing authorization from the Mexican Authority. During the last years, Mexico improved significantly the efficiency of the process and reduced the delay to get products registered. In 2017, the EU did not register new complaints on this matter and considers that this barrier has been de facto lifted.

- **Restrictions on FDIs**: The barrier has been solved as a result of a reform carried out by Mexico. There is no more equity cap for FDI in Telecom and satellite communications, Energy (marketing of gasoline and distribution of liquefied petroleum gas; drilling of petroleum and gas wells; construction of pipelines for petroleum and petroleum products) and insurance institutions, bonding institutions, credit information companies, securities rating institutions and insurance agents.

On **SPS matters**, the SPS Committee under the current Agreement did not meet in year 2017 due to the commencement of the negotiation for the modernisation of the Agreement. In parallel of these negotiations, regular exchanges/meetings between the EU and Mexico took place to find solutions on pending market access issues.

Mexico keeps several SPS measures in place which are considered a barrier to trade affecting EU exports of fresh fruit and vegetables due to cumbersome administrative procedures with disproportionate and overly costly mitigation measures including for some products, costly pre-shipment inspections in the country of origin to be paid by the industry (preclearance). Also for imports of meat and meat products, Mexico applies a burdensome application procedure and when market access is granted for a limited number of approved establishments, further on-the-spot inspections by Mexico have to be carried out for each new establishment with the costs of this procedure to be covered by the EU establishments visited. In 2017, more frequent exchanges between the EU and Mexico took place on SPS related market access issues due to the ongoing negotiation on the modernisation of the existing EU-Mexico FTA. The EU has carried out regular meetings with the competent Mexican authorities, the SENASICA, in order to speed up the approval of pending applications by

[143] See: http://madb.europa.eu/madb/barriers_crossTables.htm?isSps=false

Member States. This method has proved successful with many applications (some of which were longstanding) approved and related to some key EU exports such as pork meat (Belgium, France, Germany and Italy have been authorised) or poultry (Mexico applied the recognition of regionalisation for exporting EU Member States affected by avian influenza outbreaks in 2017). Also in 2017, further market access was granted to some EU Member States for products such as pears, dairy, and fishery products. Current tariff measures limit still the full benefit of the SPS barriers which have been addressed and further work continues with the Mexican authorities for progressing on these issues. In April 2017, Mexico agreed upon a certificate for poultry manure and opened the market for Tilapia fry from The Netherlands. Early 2017 Mexico agreed upon a certificate on bees for reproduction for Italy. In September 2017, a certificate was accepted by Mexico which opened the market for hydrolysed proteins from porcine and avian origin for animal feed originating from The Netherlands. On pig products, France received a communication from Mexico, October 2017, that France can export cured ham with prelisting.

The EU monitored the other identified barriers, and continued pressing the Mexican authorities for progressing on these issues. Most of these barriers (i.e. Enforcement problems of IPR, SPS restrictions and pre-listing, Government Procurement) will be tackled when the modernised agreement will enter into force.

5. CONCLUSIONS AND OUTLOOK

In 2017 EU trade relations with Mexico confirmed their positive trends. Overall trade flows increased well above the average to 14.7% and amounted to EUR 67.7 billion. In 2017, the opening of negotiations to renegotiate NAFTA caused uncertainty as to the future of regional trade and could have impacted investment decisions. Mexican growth GDP grew by 2.3%, which compares favourably to the rest of Latin American region (+/ 0.9%) but is below its long-term average of 2.6%.

In 2017, the EU-Mexico trade relations were focussed on progressing on the negotiations for modernising the Global Agreement. An ‘Agreement in principle’ was reached on 21 April 2018.

The outcome of negotiations is highly satisfactory given that the level of ambition of the modernised agreement is very high and in line with the most recent FTAs signed by the EU, such as the one with Canada or with Japan. As a result the modernised agreement will bring improvements across the board of EU-Mexico trade and investment relations, for example:

- **Goods:** The EU has obtained significant market access on key EU exports (e.g. pork, poultry, PAPs and dairy).
- **Services**: Mexico committed to open up its services market with comprehensive and ambitious concessions, including on Maritime Transport, Financial Services and Telecommunication.
- **Investment protection**: Mexico has agreed to the ICS and to the substantive rules for protection and to replace the existing 16 BITs with EUMS 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.
- **GIs**: Mexico has agreed to protect the shortlist of 340 EU GIs with a high level of protection.
- **TSD, civil society mechanism & anti-corruption**: For the first time ever in an EU trade agreement there will be an annex on anti-corruption to fight against bribery and money laundering, with an enforcement mechanism. The modernised FTA will contain a fully-fledged TSD Chapter in which Mexico committed to effectively implement labour and environmental standards and agreements. For the first time ever, the civil society consultation mechanism which previously was limited to the TSD chapter will be extended to the whole agreement. This will allow the civil society on both sides (but in particular in Mexico) to make its voice heard also on the human rights provisions of the political pillar.

Some technical issues still remain to be finalised. Meanwhile the EU and Mexico have decided to start the process for legal revision to allow the Commission to present its proposal to the EU Council and European Parliament for the signature and conclusion of the modernised agreement before the end of this Commission in the second half of 2019.

Now that the negotiations are closed, the Commission will seek to reinitiate the regular dialogue with Mexico regarding the implementation of the existing EU-Mexico Global Agreement. The Commission has proposed to Mexico organising the meetings of the Joint Committee in early 2019.

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FIRST GENERATION FREE TRADE AGREEMENTS WITH THE EFTA COUNTRIES NORWAY AND SWITZERLAND

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE EU-NORWAY FREE TRADE AGREEMENT

1. INTRODUCTION

On 1 July 1973, a **Free Trade Agreement between Norway and the EU** entered into force. It foresaw the progressive abolition of customs duties and the creation of a Joint Committee. It concerns **goods only** and is one of the oldest trade agreements signed by the EU.

Although the bilateral Free Trade Agreement is still in force, it has been in practice 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 not cover the common agricultural and fisheries policies, the customs union, the common trade policy, the common foreign and security policy, the field of justice and home affairs, the economic and monetary union (EMU).

2. EVOLUTION OF TRADE

2.1. Trade in Goods

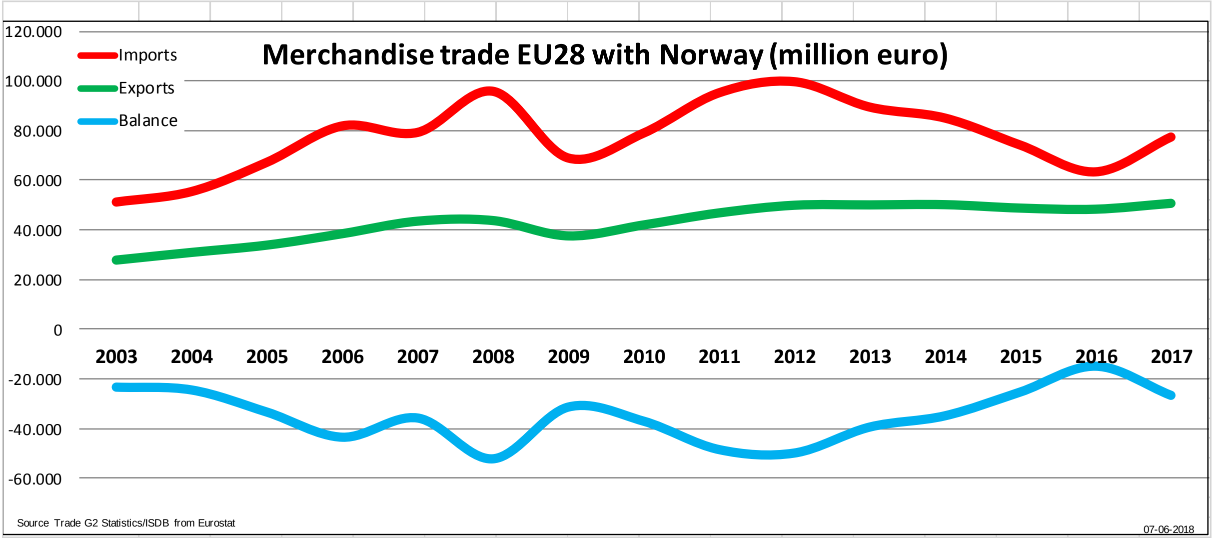
The EU remains the first import and export partner for Norway, capturing 70 % of the latter's trade. Norway is the EU's third largest FTA trade partner overall and its seventh largest partner for trade in goods. Norway's trade with the EU shows a surplus. However, the balance is in favour of the EU in the services' area, with a balance of almost EUR 13 billion in 2016, comparable to figures the EU has with China or Japan. For agricultural products, the trade balance is also positive for the EU (almost EUR 4 billion).

Exchange in goods is very dynamic between Norway and the EU. Between 2016 and 2017, imports from Norway grew by 22%. Exports to Norway grew also, but not at such pace (by 4.9%).

Table 1

	EU 28 trade in goods with Norway (million Euro)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	79.295	95.945	68.918	79.026	95.325	99.843	89.559	85.107	74.156	63.315	77.414
Exports	43.470	43.719	37.492	41.933	46.819	49.930	50.079	50.168	48.780	48.324	50.707
Balance	-35.824	-52.226	-31.426	-37.093	-48.506	-49.913	-39.479	-34.939	-25.376	-14.991	-26.707
Total Trade	**122.765**	**139.664**	**106.411**	**120.959**	**142.143**	**149.773**	**139.638**	**135.276**	**122.936**	**111.639**	**128.122**

Figure 1



2.2. Trade in agricultural goods

Agriculture is not covered by the EEA agreement (with the exception of processed agricultural products). However the EEA agreement encourages further liberalisation of agricultural trade through its Article 19. Negotiations based on this Article started in 2015 and were concluded successfully at negotiators' level in April 2017. **This agreement**[144]**, signed on 4 December 2017, will enter into force on 1 October 2018**. The concessions consist of 36 fully liberalised tariff lines and TRQs to be opened by both sides. This will offer new trade opportunities for EU and Norwegian exporters of agricultural products. The impact will be duly monitored by the Commission.

The EU exported agricultural products worth EUR 4.5 billion to Norway and the trend is increasing. Agricultural exports to Norway doubled in the last decade and increased by 4% from 2016 to 2017. In 2017, the EU's key agri-food exports to Norway consisted of fruit & vegetables (13%), pasta, pastry, biscuits and bread (8%), wine, vermouth, cider and vinegar (7%), cigars and cigarettes (7%). The EU imported agri-food products worth EUR 575 million from Norway. The EU's main agricultural products imported from Norway were oilcakes (13%), raw hides, skins and furskins (13%) and vegetable oils (11%).

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.

In general, Norway makes little use of the agri-food TRQs granted by the EU. Only four TRQs are fully utilised (waters, feedingstuff for fish, potato slices, cheese) and two TRQs are utilised by about 50% (ethyl alcohol, chocolates).

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[144] Agreement in the form of an Exchange of Letters between the European Union and the Kingdom of Norway concerning additional trade preferences in agricultural products, OJ L 129/3, 25.05.2018 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.129.01.0003.01.ENG&toc=OJ:L:2018:129:TOC

Table 2

	EU28 merchandise trade by AMA/NAMA sector with Norway (million euro)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	EU28 imports										
Total	79.295	95.945	68.918	79.026	95.325	99.843	89.559	85.107	74.156	63.315	77.414
Agricultural	385	414	382	427	469	499	523	531	535	544	575
Non-Agricultural	78.910	95.530	68.537	78.599	94.856	99.344	89.036	84.576	73.621	62.771	76.840
	EU28 exports										
Total	43.470	43.719	37.492	41.933	46.819	49.930	50.079	50.168	48.780	48.324	50.707
Agricultural	2.441	2.674	2.552	2.909	3.398	3.832	3.983	4.025	4.091	4.308	4.486
Non-Agricultural	41.030	41.045	34.940	39.024	43.421	46.098	46.096	46.144	44.689	44.015	46.222
	EU28 trade balance										
Total	-35.824	-52.226	-31.426	-37.093	-48.506	-49.913	-39.479	-34.939	-25.376	-14.991	-26.707
Agricultural	2.056	2.260	2.170	2.483	2.929	3.332	3.460	3.494	3.555	3.764	3.911
Non-Agricultural	-37.880	-54.485	-33.596	-39.575	-51.435	-53.245	-42.939	-38.433	-28.932	-18.755	-30.618
Source Trade G2 Statistics/ISDB									Definition AMA UR AoA		

2.3. Preference Utilisation rate (PUR)

The PUR overall on imports into the EU from Norway is for the second consecutive year below 70%. However, the declining trend since 2013 has been reverted in 2017. Figures to calculate the PUR on EU exports to Norway were not available.

Table 3

Use of preferences on imports into the EU from Norway					
	2013	2014	2015	2016	2017
use as % eligible	74%	72%	71%	66%	69%
Source: Eurostat - Includes all preferences (FTA, GSP, bilateral)					
Source Trade G2 Statistics/ISDB					

2.4. Trade in Services and FDI

Regarding **trade in services**, the trade balance is positive for the EU. In 2016, after several years of regular increase, the value of services provided by the EU to Norway however slightly decreased while the value of imported services stabilised in 2015 and 2016 after several years of increase.

Table 4

EU28 trade in services with Norway (million euro)						
	2011	2012	2013	2014	2015	2016
EU28 imports	11.993	12.764	14.346	16.418	15.679	15.169
EU28 exports	22.639	24.964	27.122	28.179	29.595	27.947
Balance	10.646	12.200	12.776	11.761	13.916	12.779
Total trade	**34.632**	**37.728**	**41.467**	**44.597**	**45.274**	**43.116**
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

FDI is an important aspect of the EU-Norway relations. In 2016, Norwegian investment in the EU was worth approximately 74 billion EUR while European investments in Norway represented 94 billion EUR.

Table 5

Foreign Direct Investment EU28 with Norway (million euro)						
		Inward			Outward	
	2014	2015	2016	2014	2015	2016
Stocks	73.824	77.748	74.719	81.302	82.993	94.064
Flow s	4.977	2.592	2.854	5.488	6.209	5.927
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

3. Issues addressed in the EEA and FTA Joint committees

The EEA Joint Committee, where the European Action Service represents the EU side, meets six to eight times per year[145]. Four subcommittees assist the Joint Committee (on the free movement of goods, the free movement of capital and services including company law, the free movement of persons and horizontal and flanking policies). 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. Trade in agricultural products belongs to the topics raised in the 2017 and 2018 EEA Council conclusions[146].

In practice, since the signing of the EEA agreement, the bilateral FTA have 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.

Trade issues are also discussed on a case-by-case basis, notably at the occasion of high-level meetings. In 2017, bilateral trade irritants such as reclassification and tariff switch issues were notably raised from the EU side, in addition to pointing at areas with room for further trade liberalisation, such as processed agricultural products or GIs.

4. Specific areas of importance

The integration in the Internal Market via the EEA agreement is a main achievement of EU-Norway relation and the main driver of our trade relations. Norwegian companies participate in the Single Market almost under the same conditions as Member States, and vice-versa. The same rules apply (for example, technical requirements of certain products or competition rules) to ensure a level-playing field. EU Single 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 (554 acts as of May 2018) are however still pending incorporation into the EEA Agreement, creating the so-called "backlog" in this dynamic approximation. A joint effort is required, especially in the area of financial services, where the backlog is concentrated.

Agricultural and fisheries products, which are excluded from the scope of the EEA agreement, are not in free circulation between Norway and the EU and quotas exist in a number of areas.

As Norway and the EU did not form a Customs Union, customs procedures apply – unlike among Member States.

[145] https://eeas.europa.eu/diplomatic-network/european-economic-area-eea/348/european-economic-area-eea_en
[146] http://www.efta.int/EEA/EEA-Council-1315

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Processed agricultural products

Trade in processed agricultural products is regulated by Protocol 3 to the EEA agreement (and by Protocol 2 to the FTA, which still offers a more preferential treatment than the EEA for a few products). 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. Despite the fact that the Protocol foresees annual consultations and possible new concessions to make sure that the terms are adapted to market developments, there have been only two adaptations since the entry into force of the EEA Agreement in 1994.

The EU is ready to engage in discussions on further liberalisation of trade in processed agricultural products, as indicated at several occasions. This was notably discussed at three meetings with Norwegian authorities in 2012-2014. At the last meeting in December 2014, Norway said that such negotiations might only be envisaged if and when Article 19 negotiations on trade in agricultural products would be successfully concluded – which eventually happened in 2017 as indicated above. Hence, the EU expects the discussions to resume.

GIs

The last EU-Norway bilateral agreement negotiated under Article 19 of the EEA Agreement contains also a commitment of the parties to encourage trade in agricultural products with GIs (GIs). The GIs negotiations were launched on 20 November 2013 but were suspended at the request of the Norwegian side following the 5th negotiating round on 5 April 2016. The EU is ready to resume these negotiations.

Trade irritants

A recurring trade irritant since 2012 was linked to the reclassification and tariff switch by the Norwegian Customs Authorities of several agricultural products under different HS tariffs codes. These issues were successfully addressed in the framework of the recent EU-Norway Article 19 negotiations, mentioned above. Additional export possibilities should be in October 2018 . This outcome will be duly monitored by the Commission.

During 2017, the Commission also sought clarification from Norwegian authorities on a change of classification for kalanchoe varieties, one of the most popular potted plants in Norway. Adopted in November 2016, it resulted, according to stakeholders, in duty increase from 0% to 72% for the hybrid type of kalanchoes. This issue is being followed up with Norwegian authorities.

Over the years, stakeholders have indicated that in several instances the auction fees for the TRQs granted by Norway to the EU under bilateral agricultural trade agreements and managed via auctioning, raise as high as the MFN duty. These fees may be passed on indirectly to EU exporters eroding thereby the preferences given to the EU under bilateral agreements.

In general, European companies or business associations report burdensome administrative/ tax procedures when exporting to Norway. The issues will be further examined and if appropriate raised with the Norwegian partners.

6. CONCLUSIONS AND OUTLOOK

Institutionally, through the EEA agreement, Norway is as closely linked to the Internal Market as a third country can be. There is however room for further strengthening of trade relations in the area of basic and processed agricultural products. Politically, Norway and the EU are close allies. Norway 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. In multilateral trade fora, notably the WTO, the EU and Norway very often defend the same position.

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE EU-SWITZERLAND FREE TRADE AGREEMENT[147]

1. INTRODUCTION

The EU-Swiss trade relations are among the deepest worldwide outside the context of a customs union/internal market. Switzerland is the EU's largest FTA trade partner and its third largest trade partner overall (number 2 for services). For Switzerland, the EU is by far the most important trading partner. The EU's trade in goods surplus with Switzerland amounted to more than EUR 40 billion in 2017 (EUR 20 billion in 2016) while the services surplus reached EUR 20 billion in 2016 (EUR 44 billion in 2015).

The cornerstone of EU-Swiss trade relation is the EU-Switzerland **Free Trade Agreement of 1972**[148]. It concerns **goods only** and is one of the oldest trade agreements signed by the EU. It does not contain provisions on services, investment, IPR, government procurement or social and environmental values. No dispute settlement mechanism is foreseen beyond the regular annual dialogue at Joint Committee meetings.

As a consequence of the rejection of EEA membership in 1992 by the Swiss people, 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[149] allows for the provision of services, limited in time.
- The Mutual Recognition Agreement in relation to conformity assessment[150] ensures that, in twenty regulated sectors, the conformity assessment provided by one party is recognised by the other, which of course facilitates trade between the parties.
- The Public Procurement Agreement[151], that builds on the WTO Government Procurement Agreement;
- The Agreement on trade in agricultural products[152], which includes SPS rules, as well as tariffs and quotas for agricultural products, except for cheese that is liberalised.
- A protocol on processed agricultural products (protocol 2) was also 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.

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147 http://ec.europa.eu/trade/policy/countries-and-regions/countries/switzerland/
148 https://eur-lex.europa.eu/legal-content/en/ALL/?uri=OJ:L:1972:300:TOC
149 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22002A0430%2801%29
150 http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_152006.pdf
151 https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:22002A0430(06)
152 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2002.114.01.0132.01.ENG

Overall, the EU-Swiss relationship is characterised by a complex web of approximately 120 bilateral sectoral agreements. Since 2015, both parties are negotiating an **Institutional Framework Agreement** to streamline the operation of some of these agreements. The aim is to provide an overarching framework with clear mechanisms for dynamic acquis take-over, uniform interpretation of rules and an efficient dispute settlement mechanism.

Between 2014 and end-2016, the EU-Swiss relation has been overshadowed by the popular vote 'against mass immigration', which is now being implemented in a way that is compatible with the Free Movement of Persons Agreement. New impetus was brought to the relation in 2017: the Swiss President and the President of the European Commission met at two occasions and agreed that progress should be made on all open files in parallel - and in particular on the institutional front.

2. EVOLUTION OF TRADE

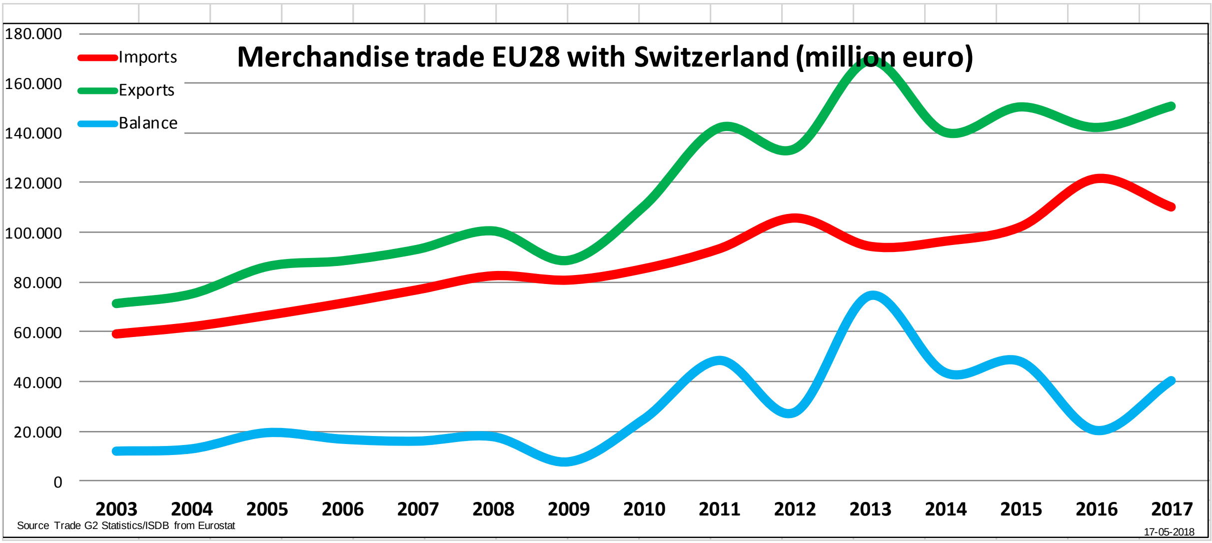
2.1. Trade in Goods

The EU is Switzerland's main trading partner by far, representing 52% of its exports of goods, followed by the United States (with approximately 10%) and China (with around 6%). Switzerland is the EU's third trading partner, representing 7% of its trade, after the USA and China. 60% of Swiss imports come from the EU while 45% of their exports go to the EU. The total value of goods exchanged in the last decade grew by 65%. European exports to Switzerland grew by 6% between 2016 and 2017.

Table 1

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Merchandise trade EU28 with Switzerland (million euro)										
Imports	77,047	82,650	80,909	85,493	93,498	105,900	94,532	96,546	102,356	121,730	110,423
Exports	93,234	100,623	88,797	110,470	142,095	133,619	169,142	140,269	150,514	142,284	150,414
Balance	16,187	17,973	7,888	24,977	48,598	27,719	74,610	43,723	48,159	20,554	39,991

Figure 1



2.2. Trade in agricultural goods

With EUR 4.7 billion imported yearly from Switzerland, and EUR 8.2 billion exported, the Swiss and European markets for agricultural products are closely linked and on a lasting increasing path. Our imports of agricultural products tripled since 2003 and our exports doubled in the same period.

The EU imports mainly coffee and tea (HS 09), followed by beverages (HS 22), edible preparations (HS 21), cocoa (HS 18) and dairy products (HS 04). The EU exports mainly beverages (HS 22), fruits & nuts (HS 08) and cereals, flour and starch (HS 19). Between 2016 and 2017, our agri-food exports to Switzerland grew by 4.3% whereas our imports from Switzerland declined slightly by 0.3%.

The EU utilised 25 of 32 agricultural TRQs by more than 85% (including EU key export products such as cured ham & pork products). Five TRQs were utilised between 43-54% (such as poultry meat, honey) and only two were below 33% (gherkins, frozen fruit – the latter includes frozen strawberries and frozen raspberries for which the MFN is at zero %). In 2017, Switzerland hardly utilised the agri-food quotas granted by the EU. The majority of the quotas were not used at all, or used by a very low percentage, notable exceptions being Dried Bovine Meat and Cream & Yoghurt, that were used entirely.

Table 2

EU merchandise trade by AMA/NAMA sector with Switzerland (million EUR)											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	EU 28 imports										
Total	77.047	82.650	80.909	85.493	93.498	105.900	94.532	96.560	102.362	121.723	110.336
Agricultural	2.576	2.911	3.049	3.400	3.839	4.189	4.349	4.433	4.611	4.674	4.659
Non-Agricultural	74.471	79.739	77.860	82.092	89.659	101.711	90.183	92.127	97.751	117.049	105.677
	EU 28 exports										
Total	93.234	100.623	88.797	110.470	142.095	133.619	169.142	140.286	150.513	142.219	150.813
Agricultural	4.913	5.572	5.507	6.011	6.450	6.715	7.080	7.211	7.652	7.875	8.213
Non-Agricultural	88.321	95.051	83.290	104.459	135.646	126.904	162.062	133.075	142.861	134.344	142.599
	EU 28 trade balance										
Total	16.187	17.973	7.888	24.977	48.598	27.719	74.610	43.726	48.152	20.496	40.476
Agricultural	2.337	2.661	2.458	2.611	2.611	2.526	2.731	2.778	3.041	3.201	3.554
Non-Agricultural	13.850	15.312	5.430	22.366	45.987	25.194	71.879	40.947	45.110	17.295	36.922
Source Trade G2 Statistics/ISDB										Definition AMA UR AoA	

2.3. Trade in Services and Investment

Switzerland is a very important partner of the EU for trade in services, in particular for commercial services. The value of services provided by EU companies in Switzerland, and vice versa, is on a fast growing path. The balance is positive for the EU. However, between 2015 and 2016, EU imports of services from Switzerland grew faster than EU exports, thus reducing the size of the surplus, which nevertheless represents EUR 20 billion. Between 2016 and 2017 EU exports of services increased by 12% while EU imports decreased by 26%, more than doubling the EU trade surplus, which amounted to 58 billion EUR in 2017.

Table 3

EU28 services trade with Switzerland (million euro)						
	2011	2012	2013	2014	2015	2016
EU28 imports	47.414	50.849	54.563	63.304	72.636	94.090
EU28 exports	82.201	96.573	100.203	107.703	114.477	115.028
Balance	34.788	45.724	45.639	44.399	41.842	20.938
Total trade	**129.615**	**147.421**	**154.766**	**171.008**	**187.113**	**209.118**
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

FDI is a prominent feature of the EU-Swiss relationship. The Swiss stocks of the FDI represents 12% of all FDI in the EU.

Table 4

Foreign Direct Investment EU 28 with Switzerland (in million euro)						
		Inward			Outward	
	2014	2015	2016	2014	2015	2016
Stocks	510.669	656.900	766.992	721.599	852.438	976.744
Flows	38.317	121.641	80.468	-31.037	32.832	62.396
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

2.4. Preference Utilisation rate

The PUR on EU exports to Switzerland has remained relatively stable over the past four years and amounted to 78% in 2017 (table 5). The downward trend of the PUR on imports into the EU from Switzerland was reverted in 2017 when the PUR amounted to 85%, back to the level of 2015 (table 6).

Table 5

Use of preferences on imports into Switzerland from EU					
PUR (%)	2013	2014	2015	2016	2017
EU	80.3	80.3	79.0	78.8	78.3

Table 6

Use of preferences on imports into EU from Switzerland					
PUR (%)	2013	2014	2015	2016	2017
EU	92.0	90.8	85.7	83.4	85.0

3. ISSUES ADDRESSED IN THE ANNUAL JOINT COMMITTEE MEETING

At the 63rd meeting of the Joint Committee under the EU-Swiss FTA, which took place in Brussels on 26 November 2017, the main points on the agenda have been the following:

Processed agricultural products: Both parties exchanged latest reference prices for basic agricultural products. On that basis, the Swiss customs duties for processed agricultural products originating in the EU were lowered as of 1 May 2018. The processed agricultural products originating in Switzerland enjoy a duty-free market access to the EU.

Company tax reform: The EU inquired about the next steps envisaged by Switzerland to put an end, in line with a political agreement of October 2015, to the cantonal fiscal status of companies - considered discriminatory.

Reform of Swiss VAT law: The EU sought clarification on planned changes to VAT law in order to better assess its possible impact, notably on European SMEs and on e-commerce.

Access to market/ trade barriers: In line with Council conclusions adopted in February 2017[153], the EU highlighted difficulties faced by European companies in relation to market access, notably in the services sector. Switzerland has indeed put in place so-called "flanking measures" to accompany the implementation of the EU-Switzerland Free Movement of Persons Agreement[154]. Their objective is to monitor the respect of minimum working conditions in Switzerland notably of (comparatively very high) Swiss salaries and to provide for sanctions - where deemed necessary. The EU considers the flanking measures as burdensome and disproportionate, giving rise to barriers for EU companies accessing the Swiss services markets.

Radiometric controls: Parties discussed the difficulties encountered by the Swiss due to some administrative requirement set by a Member State, requiring radiometric controls on certain types of metal imports from Switzerland.

Steel surveillance: Switzerland emphasised the strong integration of European and Swiss companies in the steel sector and noted that the general prior surveillance measures introduced by the EU in 2016 to monitor steel imports are perceived as an administrative burden by Swiss companies involved in "just in time" delivery chains. They called for a smooth and harmonised implementation of these surveillance measures by different Member States.

Customs issues: Parties addressed two unrelated customs issues with negative impact on the partner country: the change of classification of dog and cat food by the EU and changes to seasoned meat by the Swiss customs authorities.

PURs: Despite relatively high utilisation rates of the FTA, the Joint Committee noted a slight downward trend, especially on imports into EU from Switzerland, and agreed to examine in more detail if – and how - further use could be made of the FTA.

In addition to the yearly meeting of the FTA joint committee, about a dozen joint committees under other bilateral agreements take place on a regular basis but there is no overarching committee which oversees bilateral economic relations in their entirety.

The Annual Joint Committee meeting on agriculture, for example, took place on 16 November 2017 and several working group met on technical issues such as GIs, organics and wine & spirits drinks. The EU and Switzerland are also cooperating to protect the homonymy of the denomination 'Gruyère' in agreements with third countries.

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 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: free movement of goods (with the exception of most agricultural products and approximately half of processed agricultural products, where access is limited), and free movement of persons (which includes also cross-border provision of services limited in time). The sectoral agreements are largely

[153] http://www.consilium.europa.eu/en/press/press-releases/2017/02/28/conclusions-eu-swiss-confederation/
[154] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22002A0430%2801%29

static: the arrangements between Switzerland and the EU are usually based on recognition of the identical or equivalent nature of the EU and Swiss legislation in the sectors. However, Switzerland is taking over – on a contractual or even on an autonomous basis - parts of the EU *acquis*, for example in the area of recognition of professional qualifications. Hence the need for an Institutional Framework Agreement mentioned above.

5. Progress made, main open issues and follow-up actions

Basic agricultural products: Liberalisation of agricultural products is very limited (the most notable exception being cheese which is fully liberalised on both sides). Although there was a commitment in 2002 to progressively further liberalise trade in agriculture, the negotiations stalled in 2010.

Processed agricultural products: A protocol annexed to the FTA in 2004 foresees a rather burdensome and asymmetric mechanism whereby in practice Switzerland receives compensation for the very significant price differential between the EU and Switzerland of basic agricultural products, which serve as inputs to processed agricultural products. The EU considers that a review of protocol 2 is needed and expects discussions to start in due course.

SPS issues: Negotiations to extend the scope of the SPS rules currently applicable between Switzerland and the EU are on-going. A new agreement addressing notably labelling or food security issues could facilitate trade between the parties. Transiting Swiss territory by road of EU live animals is not allowed (Namely Swiss animal welfare standards are more stringent than the EU standards).

Services: There is no comprehensive services agreement between the EU and Switzerland, only a partial coverage through the Land and Air agreements and the Free Movement of Persons agreement, showing the potential for further trade development.

Trade barriers: The main trade barriers for EU businesses in Switzerland are linked to the services sectors, in particular to the implementation of the EU-Swiss Free Movement of Persons Agreement and the "flanking measures", as described above.

Dispute settlement: the bilateral trade relationship lacks any reliable dispute settlement mechanism.

6. Conclusions and outlook

EU and Switzerland remain very important trade partners and bilateral trade continues growing. However, there is room for improvement. The institutional setting for EU-Swiss bilateral trade relations is very complex with the coexistence of an old FTA and numerous sectoral agreements addressing a variety of trade issues. The improvement of the institutional setting for EU-Swiss trade relations is discussed in the broader context of the negotiations on an Institutional Framework Agreement between the EU and Switzerland.

THE CUSTOMS UNION WITH TURKEY

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 by the EU-Turkey Association Council Decision No 1/95, which is currently in force.[155]

The Customs Union ensures the free movement of all industrial goods and certain processed agricultural products between the EU and Turkey. It also established a requirement for Turkey's alignment to the EU's customs tariffs and rules, commercial policy, competition policy, intellectual property rights, as well as to 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**[156], along with relevant competition rules. **Association Council Decision No 1/98**[157] **(amended by Decision No 2/2006**[158]**)** provides for preferential concessions on trade in certain agricultural and fishery products.

On 21 December 2016, the European Commission adopted its 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 once the Council adopts the related negotiating directives. The proposal is pending authorisation by the Council.

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155 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21996D0213(01):EN:HTML

156 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21996A0907(01):en:HTML

157 http://eur-lex.europa.eu/legal-content/en/ALL/?uri=OJ:L:1998:086:TOC

158 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22006D0999&from=EN

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE EU-TURKEY CUSTOMS UNION AND TRADE AGREEMENTS [159]

7. EVOLUTION OF 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[160]. 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. Turkey is now the EU's 5th largest trading partner overall (it is the EU's 5th biggest export market and 6th largest source of imports), whilst the EU is by far Turkey's most important trading partner.

7.1. Trade in Goods

Trade in goods between the EU and Turkey has seen a sharp increase over the last two decades. In 2017, the total two-way trade amounted to EUR 154 billion up from 100 EUR billion in 2007. When comparing the more recent years 2016 and 2017, the data shows that EU's exports to Turkey grew by 8.4% from 2016 to 2017, and the EU's imports from Turkey also increased by 4.5%.

Table 1. EU merchandise trade with Turkey (million EUR)

Merchandise trade EU28 with Turkey (million euro)

Turkey	2016	2017	Growth	
			mio €	annual %
EU28 imports	66,767	69,766	2,999	4.5%
EU28 exports	77,937	84,507	6,569	8.4%
Balance	11,171	14,741	3,571	
Total trade	144,704	154,272	9,568	6.6%

Source Trade G2 Statistics/ISDB

Figure 1 shows the overall evolution of trade in goods since 2007.

Figure1. EU Merchandise trade with Turkey (million EUR)

Merchandise trade EU28 with Turkey (million euro)

Imports	47,378	46,288	36,446	43,062	48,820	48,822	50,657	54,409	61,696	66,767	69,766
Exports	52,830	54,476	44,486	61,929	73,336	75,491	77,624	74,743	78,966	77,937	84,507
Balance	5,451	8,188	8,040	18,867	24,516	26,669	26,966	20,333	17,270	11,171	14,741

Regarding the sectoral split, the EU's biggest export category in 2017 was machinery and appliances (26.3% of overall EU exports), followed by transport equipment (16.8%), base metals and article thereof (11.8%) and chemical products (11.6%). Turkey's biggest export sector was transport equipment (26.2%), followed by textiles and textile articles (20.8%) and machinery and appliances (17.2%)

[159] More information on EU-Turkey trade relations can be found at the following website of the European Commission: http://ec.europa.eu/trade/policy/countries-and-regions/countries/turkey/

[160] World Bank: Evaluation of the EU - Turkey Customs Union, March 2014

7.2. Trade in agricultural goods

In 2017, Turkey was our 9th largest destination and 8th largest supplier of agricultural goods. The EU had a trade deficit in agriculture with Turkey of EUR 816 million. However, that trade deficit decreased by 602 million down from EUR 1.4 billion in 2016.

Table 2. EU-Turkey agricultural trade (million EUR)

	2013	2014	2015	2016	2017
EU imports	3 751	4 105	4 966	4 262	4 492
EU exports	2 639	2 600	3 244	3 093	3 676

Source: Eurostat

EU agri-food exports to Turkey are well diversified. Only one specific category exceeded 10% of all agri-food exports in 2017, namely live animals (13.4%). The other biggest export categories were wheat (7.4%), food preparations (7.3%), cotton, flax and hemp (4.7%), cigars and cigarettes (4.6%), spirits and liqueurs (3.3%) and chocolate, confectionery and ice cream (3.2%). The categories that showed the biggest increases from 2016 were beef, cereals, rice and wheat. Beef, fresh, chilled and frozen, represents only 1.9% of agri-food exports but it increased 154% in 2017, amounting to EUR 71 million, up from EUR 28 million in 2016.

EU exports of live cattle increased from EUR 46 million in 2013 to EUR 494 million in 2017, making Turkey the EU's largest market destination in 2017. EU exports were boosted in particular by the temporary suspension of import duties by Turkey on an MFN basis.

For frozen beef, the 19 100 tons quota is used irregularly from one year to another, e.g. in 2016, 271 tons while in 2017, 10 800 tons. The quota is managed by a government agency, the Meat and Milk Institute (ESK), which has in most years not issued import licenses resulting in the non-utilisation of the quota.

In order to facilitate trade and ensure a better use of the quota, a Decision of the EU-Turkey Association Council amending Protocol 2 of Decision No 1/98 and the quota definition to include also fresh and chilled beef has been adopted on 28 March 2018 and has entered into force on the same date.

As regards agri-food imports from Turkey, fresh, dried or preparations of vegetables, nuts or tropical fruit represent around 70%. In 2017, these categories amounted to EUR 2 956 million (7% decrease, from EUR 3 184 million in 2016).

7.3. Preference Utilisation rate (PUR)

One of the specific features of the Customs Union is the free movement of goods between the partner countries, without the need to prove compliance with the rules of origin, thereby significantly reducing the overall cost of trade. It also makes it easier for traders to benefit from the preferential arrangements. In 2017, the PUR on imports into the EU from Turkey remained stable around 92%, while the PUR on exports from the EU to Turkey slightly decreased from 95% to 94%.

Table 3. Use of preferences on imports into EU from Turkey

Use of preferences on imports into EU from Turkey					
PUR (%)	**2013**	**2014**	**2015**	**2016**	**2017**
EU	91.7	92.5	92.8	92.5	92.0

Source: Trade G2 Statistic, includes all preferences.

Table 4. Use of preferences on imports from the EU to Turkey

Use of preferences on imports into Turkey from EU					
PUR (%)	**2013**	**2014**	**2015**	**2016**	**2017**
EU	-	-	-	95.3	94.3

7.4. Trade in Services and FDI

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 2016 and they show that a trade surplus for Turkey, reflecting the high barriers to enter the Turkish market as well as the net surplus of EU visitors to Turkey.

Table 4.

EU28 services trade with Turkey (million euro)						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
EU28 imports	15,042	14,577	15,124	15,904	16,617	13,913
EU28 exports	9,163	9,492	10,317	10,670	12,275	11,768
Balance	-5,879	-5,085	-4,807	-5,234	-4,342	-2,145
Total trade	24,205	24,069	25,441	26,574	28,892	25,681
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

As for **FDI,** the EU is by far the biggest source of FDI (FDI) in Turkey, with a total FDI stock exceeding EUR 72 billion in 2016 (the latest available data). In 2016, European investment in Turkey was much more limited (EUR 337 million) than in 2015 (more than EUR 10 billion).

Table 5.

Foreign direct investment EU28 with Turkey (million euro)						
		Inward			**Outward**	
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	9,238	9,688	9,429	66,492	76,769	72,318
Flows	1,720	957	281	4,648	11,876	337
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

8. Issues addressed in the Customs Union Joint Committee Meeting

The 34th and the 35th **Customs Union Joint Committee (CUJC) meetings** took place on 11 and 12 May 2017 in Brussels , and on 16 and 17 May 2018 in Ankara, respectively. At both meetings, the parties discussed issues linked to the proper functioning of the Customs Union, including the following:

- The state of play of the Commission’s proposal in the Council, as regards future negotiations on the **modernisation** of the EU-Turkey Customs Union.

- 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 which, however, are already put into free circulation in the EU, **surveillance measures** of certain products, **export restrictions** of copper and aluminium, **unnecessary testing requirements and customs procedures**, Turkey's **localisation policy** in the pharmaceutical sector, IPR enforcement, etc.

- The shortcomings of the IPR enforcement regime in Turkey and the new international exhaustion regime while participating in 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.

Under the umbrella of the Association Committee, the 13th meeting of the EU-Turkey Sub-Committee on Agriculture and Fisheries was held on 22–23 March 2017 in Ankara. Turkey's agricultural policy was still not aligned with the Common agricultural policy. However, the success of the Rural Development component of the Instrument for Pre-accession Assistance for 2007-2013 (IPARD I) was highlighted and progress for the period 2014-2020 (IPARD II) was on track. On 22 September 2017, consultations were held on hazelnuts in Ordu, Turkey.

9. SPECIFIC AREAS OF IMPORTANCE

In 2016 the Commission adopted a proposal to modernise the Customs Union to improve its functioning and extend the scope to reflect its more recent trade agreements. The proposal is pending authorisation in the Council. However, the General Affairs Council on 26 June 2018 concluded that no further work towards the modernisation of the EU-Turkey Customs Union would be foreseen.[161]

10. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

In 2017, Turkey introduced various trade barriers, which also affect European companies. A number of these measures are in breach of the Customs Union rules. As regards the implementation of the existing bilateral preferential trade framework, Turkey has created further trade barriers that breach the Customs Union agreement (ranging from localisation policy in the pharmaceutical sector and discrimination against EU exports of tractors to further deviation in the alignment of import tariffs to the EU and export restrictions on leather products). The European Commission has been raising and addressing these barriers in various fora, including the Customs Union Joint Committee and other bilateral meetings.

At the same time, during 2017 Turkey also solved a number of trade barriers. For example, Turkey abolished export restrictions on copper and aluminium scrap and removed paper products from the scope of its import surveillance scheme.

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[161] See also conclusions of the General Affairs Council of 26 June 2018; http://www.consilium.europa.eu/en/meetings/gac/2018/06/26/

11. CONCLUSIONS AND OUTLOOK

Turkey's obligation to align to the EU's common customs tariff, as well as to EU technical legislation which are important for the free movement of goods, go much beyond classic trade agreements and thus make the bilateral trade relationship unique. The Customs Union has therefore led not only to 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.

The European Commission has 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 and the 'Trade for All' Communication, thus 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. It remains to be seen when the political circumstances will allow for the Council to resume its suspended work on the above Commission proposal.

PART IV: ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENTS (EPAS) WITH AFRICAN, CARRIBEAN AND PACIFIC COUNTRIES

The Economic Partnership Agreements (EPAs) with African, Caribbean, and Pacific groups of states aim at **leveraging trade and investment to accelerate sustainable development** in the partner countries.[162] A total of **7 EPAs** were being implemented with **29 ACP countries** in 2017.[163] These include **14 Caribbean countries, 13 African countries** and **2 Pacific countries**. In addition, two regional agreements (with West Africa and with the East African Customs Union) have been negotiated and are awaiting signature and implementation.

EPAs implemented in 2017	**EPA partners**
CARIFORUM	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago
Pacific	Fiji, Papua New Guinea
Eastern and Southern Africa (ESA)	Madagascar, Mauritius, Seychelles, Zimbabwe
Southern African Development Community (SADC)	Botswana, Lesotho, Mozambique, Namibia, Swaziland, South Africa
Central Africa	Cameroon
Ghana	Ghana
Côte d'Ivoire	Côte d'Ivoire

EPAs are **asymmetric trade agreements**. The ACP side liberalises around 80% of trade over a period of 15 years (20 years for some products), while the EU grants duty free quota free access for all products from day one. Numerous instruments, from generous rules of origin to special safeguards, ensure that the EPAs support **economic development, export diversification and regional integration** in partner countries. While EPAs have some common characteristics, they **differ** from each other in order to respect the interests and needs of different regions.

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162 More on EPAs online: http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/; EPA State of Play: http://trade.ec.europa.eu/doclib/docs/2009/september/tradoc_144912.pdf

163 For the EPAs negotiated by 2007, the terms 'comprehensive/full' and 'interim' have been used. The term, 'full' EPAs indicated regional EPAs with comprehensive thematic and country coverage. 'Interim' EPAs with more limited thematic (trade in goods, development cooperation) and country (sub-regional) coverage, were meant as stepping stones for full EPAs. However, all EPAs are self-standing international agreements subject to signature, provisional application, ratification and ultimately entry into force. The dichotomy has lost much of its meaning as 'interim' EPAs are not limited in time and can be extended to cover wider areas.

ANNUAL INFO 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 EPA is an agreement between the EU and six countries from the Southern African Development Community (SADC): Botswana, Lesotho, Mozambique, Namibia South Africa and Swaziland.[164] 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 2018 will be the first year in which all SADC EPA states fully implement the agreement.[165]

The EU-SADC EPA ('the Agreement') 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[166].

2. EVOLUTION OF TRADE

2.1. Trade in goods

The EU-SADC EPA provides for asymmetric liberalisation of trade in goods. All SADC EPA States except for South Africa receive duty free and quota free treatment of all their goods (except arms and munition) in 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 TRQs.

In return, Botswana, Lesotho, Namibia, Swaziland and South Africa (who form the Southern African Customs Union, SACU) grant 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 TRQs). Mozambique (a Least Developed Country and not a member of SACU) liberalises a smaller percentage of exports from the EU.

Exports of SADC EPA States to the EU have been growing steadily in the last years. Exports to the EU have increased for Lesotho (+30%), Mozambique (+25%), Namibia (+19%) and South Africa (+0.7%) in 2017 (the first full year in which the EPA has been provisionally applied). A decrease in exports from Botswana (-37%) was caused by a drop in the value of diamond exports (EUR -683 million or -33% compared to 2016). The decrease in exports

[164] Of the remaining 9 SADC countries, 4 are Parties of the interim EPA with Eastern and Southern Africa (ESA), namely Mauritius, Madagascar, Seychelles and Zimbabwe. The reminder has the possibility of accession to either the ESA or SADC EPA.

[165] More on trade with SADC EPA states: http://ec.europa.eu/trade/policy/countries-and-regions/regions/sadc/

[166] The TDCA has been concluded in 1999 and governed the trade relations and development cooperation between the EU and South Africa. It has been fully replaced by the EPA.

from Swaziland (-28%) can be attributed to a contraction of its sugar exports due to the end of the EU's sugar quota system, as well as severe droughts in 2016-2017.

EU exports to SADC EPA States have increased by 5.6% in 2017, after a drop in 2016. The strongest increase in value (outside mineral products) was for motor vehicles (EUR +594 million), while the largest percentage increase was in animal products (+134%) and cereals (+88%).

Table1: EU28 Merchandise trade with SADC6 (million EUR)

	2014	2015	2016	2017
Botswana				
EU28 imports from Botswana	1 822	1 503	2 199	1 384
EU28 exports to Botswana	273	275	331	267
EU28 trade balance	-1 549	-1 228	-1 868	-1 117
Lesotho				
EU28 imports from Lesotho	247	254	208	271
EU28 exports to Lesotho	11	12	12	12
EU28 trade balance	-237	-242	-195	-259
Mozambique				
EU28 imports from Mozambique	1 366	1 435	1 326	1 664
EU28 exports to Mozambique	894	983	682	531
EU28 trade balance	-472	-453	-645	-1 133
Namibia				
EU28 imports from Namibia	963	1 039	1 092	1 305
EU28 exports to Namibia	585	404	372	476
EU28 trade balance	-378	-635	-719	-828
Swaziland				
EU28 imports from Swaziland	151	139	122	87
EU28 exports to Swaziland	29	35	51	49
EU28 trade balance	-122	-104	-71	-39
South Africa				
EU28 imports from South Africa	18 514	19 399	22 933	23 112
EU28 exports to South Africa	23 318	25 432	22 979	24 465
EU28 trade balance	4 804	6 033	46	1 353
TOTAL				
EU28 total imports from SADC-6	23 063	23 769	27 879	27 823
EU28 total exports to SADC-6	25 110	27 141	24 426	25 800
EU28 trade balance	2 046	3 372	-3 453	-2 022

Source: Trade G2 Statistics, from Eurostat

It should be borne in mind that all SADC EPA States, except for South Africa, already benefited from duty free and quota free access to the EU market before the entry into provisional application of the EU-SADC EPA. Similarly, South Africa already benefited from preferential treatment under the Trade, Development and Cooperation Agreement (TDCA), even though in less favourable term compared to the EPA.

However, the EPA created new legal certainty about trade relations between the EU and the SADC EPA States. In addition, the EPA included new elements to facilitate trade between the EU and the SADC EPA States, such as: (a) the possibility for SADC EPA States to use flexible rules of origin; (b) additional market access for agricultural products from South Africa; (c) some additional market access for the EU in SADC EPA states; and (d) a framework for the protection of GIs in the EU and South Africa. This value-added of the EU-

SADC EPA is already reflected in the trade statistics for specific products, in particular those that benefited from additional liberalisation.

For example, the EU-SADC EPA contains **additional market access concessions for South African exports** of sugar, frozen orange juice, wine, ethanol, flowers and fish. As a result, the following could be observed following the entry into application of the EU-SADC EPA:

- The value of South African exports of **sugar** to the EU increased from EUR 2.3 million in 2015 to EUR 52.6 million in 2017, indeed the TRQ of 150 000 t was nearly fully used in 2017;
- Similar situation was for the TRQs for wine and orange juice, on the other hand the TRQ for ethanol was used only partly;
- The value of South African exports of **fish fillet and fish meat** increased from EUR 34.93 million in the first semester of 2016 (under the TDCA) to EUR 42.5 million in the first semester of 2017 (under the EPA). Overall exports of fish, crustacean and molluscs from South Africa to the EU increased from EUR 192.7 million in 2016 to EUR 235 million in 2017 (+22%).

EU Imports from South Africa: TRQ fill rate for 2017

Product	Annual quota in 2017	Quota fill in 2017 (%)
Skimmed milk powder	500 t	0%
Butter	500 t	0%
Strawberries	385 t	0%
Cane sugar	150 000 t	95%
Glucose and glucose syrup	500 t	0%
Citrus jams	100 t	0%
Canned pears, apricots, peaches and mixtures	57 156 t	55%
Canned tropical fruit	3 020 t	0%
Frozen orange juice	1 057 t	100%
Apple juice	3 595 t	25%
yeast	350 t	24%
Wine in containers	77 741 300 l	75%
Wine	33 317 700 l	100%
Ethanol	80 000 t	14%

Source: European Commission

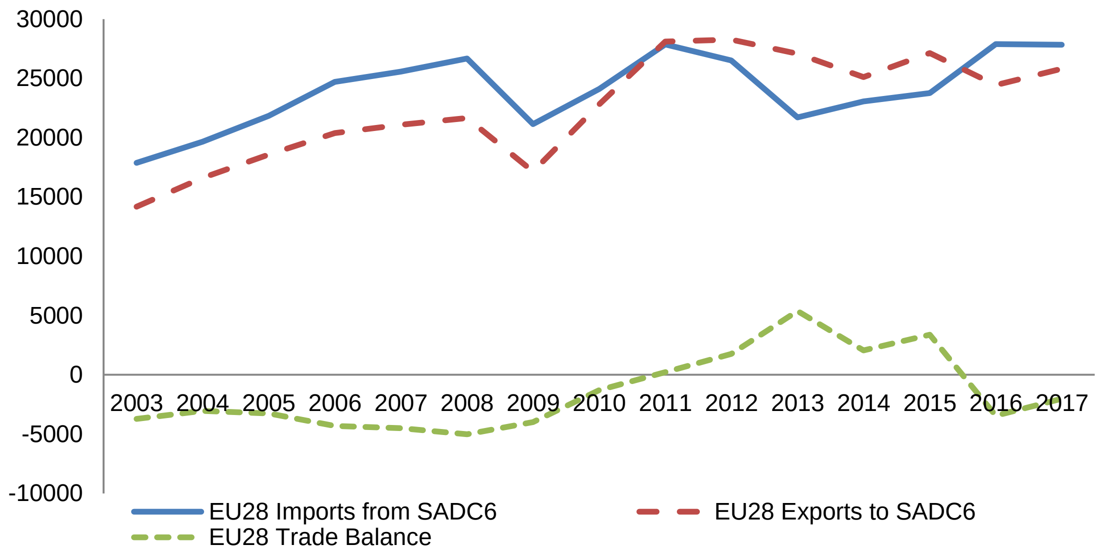
Exports from Botswana, Lesotho, Namibia and Swaziland (BLNS)[167] to the EU have also increased for a number of tariff lines despite droughts in Botswana, Namibia and Swaziland:

- For example, the value of exports of **soft drink concentrates** increased from EUR 2.98 million in 2015 to EUR 8.94 million in 2017 (+ 200.2%);
- The value of exports of **dates, figs, pineapples and avocados** increased from EUR 0.37 million in 2015 to EUR 1.49 million in 2017 (+ 299.7%);

[167] Mozambique has not been included in the analysis since they only started applying the EPA in February 2018

- The value of exports of **dried nuts and fruit** increased from EUR 1.18 million in 2015 to EUR 1.32 million in 2017 (+ 12.4%).

Figure 1: EU28 Merchandise trade with SADC6 (million EUR)



Source: Trade G2 Statistics/ISDB from Eurostat

Similarly, EU exports to SACU have increased for many products for which the EPA provides **additional market access**, in the form of additional or modified TRQs:

- The value of EU exports of **wheat** increased from EUR 223.8 million in 2015 to EUR 266.2 million in 2017 (+19%):
- The value of EU exports of **pig fat** increased from EUR 418 119 in 2015 to EUR 1 994 168 in 2017 (+ 376%);
- The value of EU exports of **frozen pork ham and shoulder** have increased from EUR 549 089 in 2015 to EUR 890 078 in 2017 (+ 62%);
- The value of EU exports of **butter** increased from EUR 5.56 million in 2015 to EUR 14.1 million in 2017 (+ 153%).
- In the case of the most prominent EU export products that are subject to TRQs by SACU, in particular wheat, pork, cheese, the TRQs were overall well used.

Table 1: SACU Imports from the EU: Usage of TRQs from 1 January to 1 September 2017

Product	Annual quota in 2017 (tons)	Quota fill till 1 September 2017
Pork	1 500	1 240
Pig fat	200	123
Butter	500	21
Cheese	7 550	5 767
Wheat	300 000	289 064
Barley	10 000	0
Cereal Based Food Preparations	2 300	0
Ice cream	150	0

Product	Annual quota in 2017 (tons)	Quota fill till 1 September 2017
Mortadella Bologna	100	0

Source: DG TRADE calculations based on data provided by the Office of the Executive Secretary of SACU

Table 2: EU28 merchandise trade with SADC6 by AMA/NAMA (million EUR)

	2014	2015	2016	2017	Growth 2016-2017	%
Trade in Agri-food products (AMA)						
EU28 imports from SADC	2 689	2 977	2 968	3 076	108	3.6%
EU28 exports to SADC	1 697	1 812	1 837	1 943	105	5.7%
EU28 Trade Balance	-993	-1 165	-1 130	-1 134	-3	
Total trade	4 386	4 789	4 805	5 019	213	4.4%
Trade in non-agricultural goods (NAMA)						
EU28 imports from SADC	20 374	20 792	24 911	24 747	-164	-0.7%
EU28 exports to SADC	23 413	25 329	22 589	23 858	1 269	5.6%
EU28 Trade Balance	3 039	4 536	-2 322	-889	1 433	
Total trade	43 787	46 121	47 500	48 605	1 105	2.3%

Source: Trade G2 Statistics/ISDB from Eurostat

Generally, there has been a clear increase in agri-food trade between the EU and the SADC EPA States in the years 2014-2017. Total trade in agri-food products went up from EUR 4 386 million in 2013 to EUR 5 019 million in 2017 (an increase of 14.4%). Throughout this period the trade balance has been in favour of the SADC EPA States.

Similarly, for non-agricultural goods, there has been a clear positive trend in trade from EUR 43 787 million in 2013 to EUR 48 605 million in 2017, representing an increase of 11%.

2.2. Trade in services

The EU-SADC EPA does not liberalise trade in services, but it should be noted that the EU and Botswana, Lesotho, Mozambique and Swaziland have started negotiations on trade in services. Services trade with the SADC EPA States has slightly increased over the last six years. The balance of trade is positive in favour of the EU.

Table 3. EU28 services trade with SADC EPA States (million EUR)

	2011	2012	2013	2014	2015	2016
EU28 imports	4 938	4 912	5 137	5 175	5 672	5 720
EU28 exports	8 555	8 597	8 334	8 439	9 815	8 870
Balance	3 617	3 685	3 197	3 264	4 143	3 151
Total trade	13 494	13 509	13 471	13 614	15 487	14 590

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

2.3. FDI

The EPA does not cover investment; however, it is expected to contribute to an increase in FDI in the region. Both the inward and the outward investment stock have seen variations in recent years. The outward investment stock continues to be much more significant than the inward investment stock. Of the EUR 74.6 million in EU FDI stocks in SADC EPA states in 2016, EUR 71.6 million were in South Africa. Similarly, the vast majority of inward investment is from South Africa. It should be noted that the international investment climate rankings of SADC EPA states, as well as macroeconomic outlooks (of South Africa in particular), have deteriorated over the past few years, and the debt situation in several of the countries has been worsening.

Table 4: FDI EU28 with SADC EPA States (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	12 602	9 766	13 076	63 040	94 397	74 563
Flows	698	-669	5 763	4 606	21 645	-11 753

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

3. Issues addressed in the annual EPA Committee meeting

Since the EPA entered into force in October 2016, the Trade and Development Committee has met three times (in February 2017, October 2017 and February 2018). During the meeting, Parties discussed the setting up of the institutional framework of the Agreement (in particular the setting up of the dispute settlement system) and differences of interpretation on specific provisions of the Agreement (in particular on bilateral safeguard measures and on tariff dismantling). Other issues included quota management systems, cumulation of origin[168] and the agricultural safeguard.

Since the entry into application there have also been meetings of the Customs and Trade Facilitation Committee (CTFC), of the Committee on GIs, Wines and Spirits (a bilateral Committee with South Africa only) and of the Agricultural Partnership. The meeting of the CTFC allowed partners to advance preparatory work for the start of diagonal cumulation of origin, but this work is not finalised yet.

In October 2017, non-state actors from both the EU and SADC held a first Civil Society Dialogue Meeting in Johannesburg, South Africa. Stakeholders elaborated a range of recommendations, including the establishment of a permanent civil society platform under the EPA and intensified outreach, using technology-based information and communication tools.

4. Specific areas of importance

Under the 10th European Development Fund (EDF)[169], the Regional Indicative Programme for SADC included regional economic integration as a key focal sector. In total EUR 20 million were allocated to the **Regional Economic Integration Programme (REIS)** and

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[168] SADC EPA States have the possibility to cumulate origin among themselves, as well as with a range of other ACP and non-ACP countries. Cumulation means that originating products from country X can be further processed or added to products originating in e.g. Botswana, just as if they had originated in Botswana. The final product would have the origin of Botswana. The SADC EPA allows SADC EPA States to cumulate with originating products from any country, as long as the product in question faces zero tariffs upon entry in the EU (e.g. products that fall under MFN zero, or face zero tariffs under the EBA regime or under an FTA).

[169] More on the European Development Fund: https://ec.europa.eu/europeaid/funding/funding-instruments-programming/funding-instruments/european-development-fund_en

EUR 32 million to the **Trade Related Facility (TRF).** The first one aimed at building trade capacities at regional level, while, under the second one, support was provided to the implementation of the regional free trade areas and to EPA implementation in each individual SADC country. In practice, however, the former also included support to national administrations to better integrate them into the wider regional context. For instance, under the REIS, each SADC EPA country requested funds to implement specific projects aimed at strengthening the capacities of their respective international trade administrations, competition and customs enforcement, SPS authorities and bodies in charge of standards, trade facilitation and private sector development. In addition, the EPA implementation unit in the SADC Secretariat has also been funded under this programme.

National EPA Implementation Plans (NEIPs) have been drawn up jointly between the EU and the partner country for all SADC EPA States except Namibia. The purpose is to identify necessary steps and measures the country would need to take in order to maximize the contribution of the EPA to long-term sustainable economic development. The NEIPs are a useful tool to align EPA implementation priorities with development assistance funds. Under the 11th EDF, a total of EUR 30 million are about to be earmarked to the 5 SADC EPA States other than South Africa specifically for EPA implementation. Under a separate instrument, EUR 10 million have been earmarked for the same purpose only to South Africa.

A significant part of development cooperation (under the range of EU external aid instruments available), at regional and national level, provides support to EPA-related policy fields including SME development, vocational education and policy dialogue, as well as support to agriculture and venture capital development, but also to connectivity (transport and energy) through blending.

Finally, the SADC region will also benefit under the 11th EDF of EUR 15 million for trade facilitation, EUR 18 million for industrialisation and productive sectors, and EUR 14 million for the investment and business environment.

The support provided by EU Member States individually should also been taken into consideration. For example, Germany, through a EUR 3.5 million project managed by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), is promoting sustainability aspects in the implementation of the SADC and CARIFORUM EPAs. GIZ is also implementing a EUR 20.7 million project on regional economic integration in SADC. The UK has allocated GBP 35 million under the UK prosperity fund to support economic growth in South Africa.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

2017 marks the first year when the Agreement was provisionally applied between all parties.[170] There are a number of outstanding issues with regard to the implementation of the EU-SADC EPA. To begin with, the institutional framework of the Agreement is not fully in

[170] With the exception of Mozambique which started to apply the agreement in 2018.

place yet. The dispute settlement system has not yet been agreed upon (roster of arbitrators, rules of procedure and code of conduct for arbitrators are pending). The Joint Council, the Trade and Development Committee and other Committees do not have rules of procedure yet, meaning that these institutions cannot take binding decisions at this stage.

Furthermore, the possibility to 'cumulate origin' between SADC EPA States, one of the key benefits of the Agreement, is not active yet. Cumulation of origin will allow SADC EPA states to fulfil origin requirements jointly and hence boost regional value chains. SADC EPA States have to notify (orally or in writing) the administrative cooperation agreements (a prerequisite for cumulating origin) that they have already put in place.

Differences of views about the interpretation of certain provisions of the Agreement would need to be resolved, particularly on the tariffs that apply to specific textile products exported from the EU to SACU.

SACU has carried out a safeguard investigation on EU poultry according to a legal basis and methodology the EU disagrees with.

With regard to SPS measures, since the Trade and Development Cooperation Agreement was signed in 1999, EU agri-food trade with South Africa has more than doubled, with EU exports increasing four-fold by 2017.

SPS issues are discussed in the Trade and Development Committee, which last met in November 2017. Foremost among the issues related to the EU exports was the suspension of nearly all exports of EU poultry (had reached over 200 billion euro in 2015 and 2016) by South Africa following the avian influenza (HPAI) outbreaks of the winter of 2017.

The Commission has been actively pressuring the South African authorities to recognise the HPAI-free status of Member States, and to recognise regionalisation in future outbreaks instead of imposing country-wide bans. However, South Africa has made the re-opening of market conditional on audit visits to EU Member States, to be conducted in 2018.

Finally, work is ongoing to agree a mechanism to monitor the operation and impact of the Agreement and on a way to regularly involve non-state actors from all Parties in the monitoring process.

6. CONCLUSIONS AND OUTLOOK

For 2017 we can observe a clear increase in trade flows for specific products from both the EU and South Africa that have benefited from additional liberalisation in comparison to TDCA regime. Exports of certain products from Botswana, Lesotho, Namibia and Swaziland also increased. Moreover, progress was made in preparing the future implementation of the Agreement through several EU-SADC Trade and Development and Sub-Committee meetings. However, it is clear that, to maximise the Agreement's positive impacts, in addition to tariff liberalisation, other outstanding implementation issues will need to be addressed. This will be easier once the institutional framework of the Agreement will be complete and fully operational.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND COTE D'IVOIRE

1. INTRODUCTION

Pending an EPA with the West African region, Côte d'Ivoire concluded a **stepping stone or interim Economic Partnership Agreement** with the EU in November 2008.[171] The stepping stone 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. Côte d'Ivoire officially announced that it would start liberalising its market for EU products by the 1st of January 2019. The stepping stone or interim EPA (iEPA) will be substituted by the regional EU-West Africa EPA once the latter enters into force.[172, 173]

2. EVOLUTION OF TRADE

2.1. Trade in goods

Trade with Côte d'Ivoire has been relatively stable over the last decade. Exports of Côte d'Ivoire to the EU have seen a steady increase. Côte d'Ivoire has a trade surplus, except for non-agricultural products, where the EU has a surplus.

Table 1: EU-28 Merchandise Trade with Côte d'Ivoire (million EUR)

	2014	2015	2016	2017
EU-28 imports from Côte d'Ivoire	3 258	4 255	4 548	4 678
EU-28 exports to Côte d'Ivoire	2 306	2 672	2 434	2 849
EU-28 trade balance	-952	-1 583	-2 114	-1 829

Source: Trade G2 Statistics/ISDB Eurostat

The EU is by far the most important trade partner of Côte d'Ivoire: In 2017, 40.5% of Côte d'Ivoire's exports went to the EU and 32.5% of Côte d'Ivoire's imports came from the EU.

Since 2008, all exports from Côte d'Ivoire enter the EU duty-free and quota-free. Main products imported by the EU from Côte d'Ivoire 2017 were cocoa beans (45% of total imports in value), processed cocoa products (23%), oil (9%), natural rubber (8 %) and bananas (5%).

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171 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'.

172 The Economic Partnership Agreement was signed in December 2014 by the European Union and 13 West African Countries. In 2017, three West African countries had still not signed the agreement (The Gambia, Mauritania and Nigeria). The agreement will enter into provisional application if the 16 West African Countries sign the agreement and 2/3 of these countries ratify it.

173 More on Trade with West Africa and Côte d'Ivoire: http://ec.europa.eu/trade/policy/countries-and-regions/regions/west-africa/

The main EU exports to Côte d'Ivoire in 2017 were machinery and transport equipment (35%), a variety of foodstuff and agricultural products (20%) and chemicals and pharmaceuticals (17%).

The interim EPA foresees that Côte d'Ivoire will liberalize 80% of imports from the EU in the coming years. Côte d'Ivoire has formally announced to the EU and the WTO that it would start liberalising its market for EU products by the 1st of January 2019.

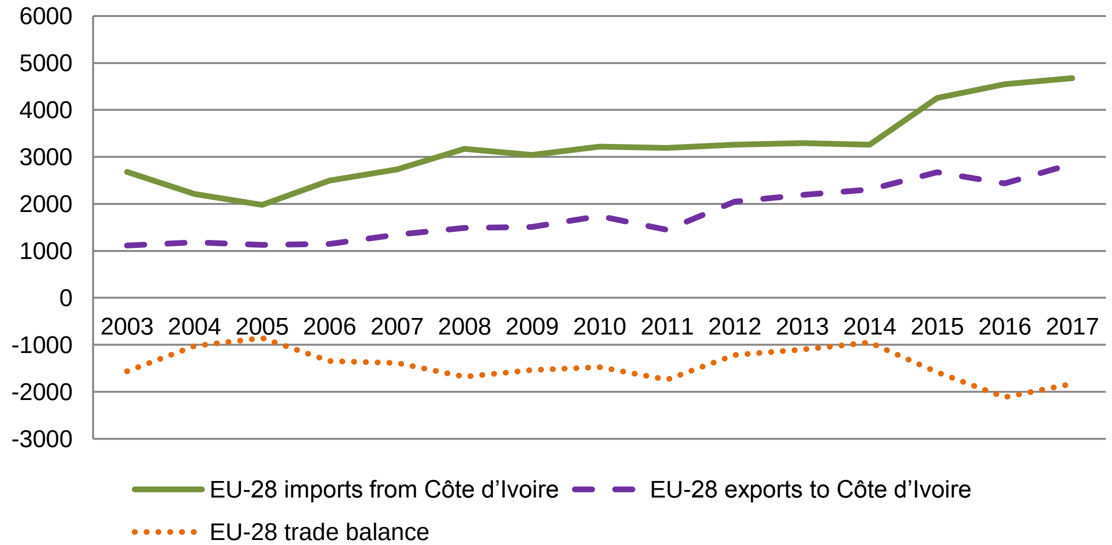
Table 2: EU-28 merchandise trade with Côte d'Ivoire (million EUR)

		2014	2015	2016	2017
	EU-28 imports from Côte d'Ivoire				
Total		3 258	4 255	4 548	4 678
	Agricultural	2 443	3 282	3 653	3 580
	Non-Agricultural	815	973	895	1 098
	EU-28 exports to Côte d'ivoire				
Total		2 306	2 672	2 434	2 849
	Agricultural	510	551	541	575
	Non-Agricultural	1 796	2 121	1 893	2 274
	EU-28 trade balance				
Total		-952	-1 583	-2 114	-1 829
	Agricultural	-1 933	-2 731	-3 113	-3 005
	Non-Agricultural	981	1 148	998	1 176

Source: Trade G2 Statistics/ISDB Eurostat

Between 2014 and 2017 Côte d'Ivoire made large use of EU preferences (MFN zero, GSP and EPA preferences) for its exports to the EU market. More than 98% of its products entered the EU market duty free in the past four years. For most years, the share of products entering under MFN zero is around 60-65% of total exports, owning to the large share of raw materials in Côte d'Ivoire's exports to the EU.

Figure 1. EU-28 Merchandise trade with Côte d'Ivoire (million EUR)

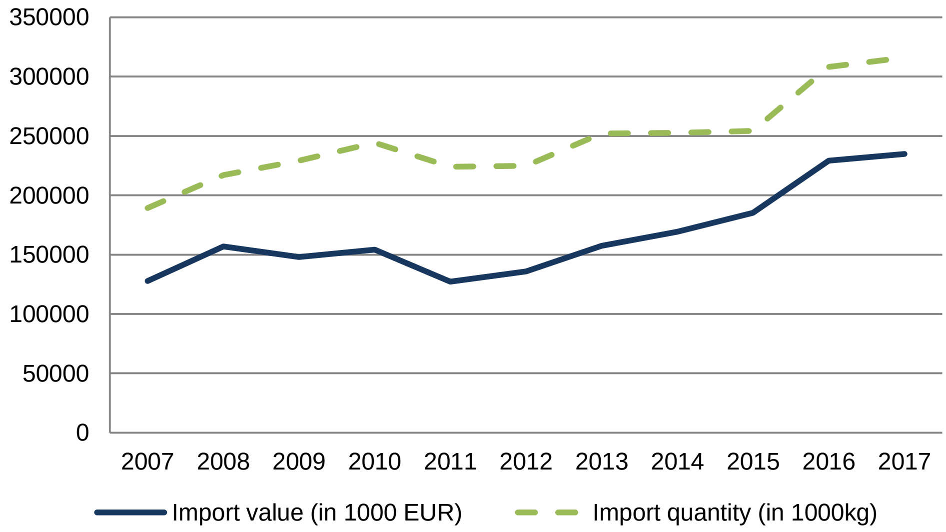


Source: Trade G2 Statistics/ISDB Eurostat

Success stories: Bananas from Côte d'Ivoire

EU imports of banana from Côte d'Ivoire expanded by 80% over the last decade (2007-2017), even as overall banana imports in the EU only increased by around 50%. Exports in quantity increased to 316 000 tons in 2017 (amounting to EUR 235 million in value in 2017). The upward trend was aided by having secured long-term duty free and quota free access to the European market through the interim EPA. The production of bananas for exports accounts for about 10% of agricultural GDP in Côte d'Ivoire and production covers about 8 000 hectares. Banana production is labour intensive, with a ratio of employment higher than other agricultural sectors in the country. The sector employs around 10 000 workers directly and another 3 300 workers are engaged in supporting activities. Taking into account family members, 60 000 people rely on the banana sector in Côte d'Ivoire for their livelihood.

Figure 2: EU-28 Imports of Bananas (incl. plantains, fresh or dried) from Côte d'Ivoire



2.2. Trade in services

The EPA does not cover trade in services. Trade in services between the EU and Côte d'Ivoire has shown some variation over the last years.

Table 3. EU28 services trade with Côte d'Ivoire (million EUR)

	2013	2014	2015	2016
EU28 imports	409	478	664	590
EU28 exports	926	796	793	797
Balance	517	318	129	207
Total trade	1 335	1 274	1 457	1 387

Source: Eurostat Balance of Payment statistics

2.3. FDI

The EPA does not cover investment. The EU investment stock in Côte d'Ivoire has seen some variation over last years, mostly unrelated to the EPA which does not yet cover investment.

However, sectors such as bananas and cocoa processing, where the EPA secures long-term duty-free and quota-free access to the EU market for final products, have seen an increase in European investment (see also above).

Table 4: FDI EU28 with Côte d'Ivoire (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	3	-183	-58	3 694	3 732	3 477
Flows	35	-216	62	-65	700	-176

Source: Eurostat Balance of Payment statistics

3. ISSUES ADDRESSED IN THE ANNUAL EPA COMMITTEE MEETING

The first EPA Committee meeting between Côte d'Ivoire and the EU took place on in April 2017, and the second meeting in March 2018, both in Abidjan. The parties finalised the transposition of Côte d'Ivoire's market access offer from the Harmonised System (HS) version 2002 to HS2017 and acknowledged Côte d'Ivoire's proposal for a updated tariff dismantling schedule (as the initial market access offer is from 2008, it includes liberalisation dates already in the past). This paves the way for Côte d'Ivoire to start opening its markets for EU imports from 2019 onwards. In addition, the second meeting approved the internal rules of the EPA committee and made substantial progress in the negotiation of reciprocal rules of origin. Parties furthermore discussed the future monitoring and evaluation arrangement for the agreement.

4. SPECIFIC AREAS OF IMPORTANCE

Development cooperation, particularly trade-related assistance, is an important pillar of the EPA, as it contributes to operationalizing the development dimension of the partnership.

The **Côte d'Ivoire EPA Implementation Strategy** was adopted in October 2017. Its implementation is already supported by the EU through a series of programmes and projects that target value chain development, export competitiveness and industrialization. The national component (EUR 9.9 million) for Côte d'Ivoire of the regional **"Competitiveness support programme in West Africa"** will aim at: (1) Upgrading and supporting consortiums 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, EUR 16 million, 2010-2015).

A dedicated programme in **support of EPA implementation** is currently under preparation. It will promote customs cooperation on tariff and non-tariff issues and provide support on SPS measures 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.

Two measures that came to an end recently were **support to the banana sector** (EUR 44.75 million**)** and the **sugar sector**. In the case of bananas, the programme contributed to increasing productivity of the sector and contributed to making Côte d'Ivoire the largest banana exporter in Africa. In the sugar sector, production of cane sugar and revenue earned increased for the targeted villages. Measures also focussed on social and environmental aspects of sugar production and supported the construction and rehabilitation of social infrastructure for sugar producing communities, as well as the introduction of environmental management practices.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The next steps towards full implementation of the stepping stone EPA with Côte d'Ivoire include:

a) Implementation of the different steps leading to the first tariff cut on the 1st January 2019;

b) Effective communication on the state of play, challenges and opportunities of the interim EPA to main stakeholders, including regional organisations, the private sector and civil society;

c) Preparing a study to examine the implications of the implementation of the interim EPA in Côte d'Ivoire for the regional economic integration;

d) Finalisation of the negotiation of the protocol on rules of origin;

e) Completing of work on a dispute settlement procedure.

6. CONCLUSIONS AND OUTLOOK

Based on the extensive preparatory work in 2017, the 2nd EPA EU- Côte d'Ivoire Committee opened the way for the liberalisation of the Côte d'Ivoire Market by the 1st of January 2019. This is an important step in EU trade's relationship with Côte d'Ivoire. Each step of the liberalisation process will be closely followed up by the EU in close coordination with Côte d'Ivoire and the regional organisations West African Economic and Monetary Union (UEMOA) and Economic Community of West African States (ECOWAS). The EU will support Côte d'Ivoire in the implementation of the EPA through trade related development assistance.

In terms of impact, it is too early to draw conclusions. Overall, trade flows have steadily increased and the EU remains the primary trading partner of Côte d'Ivoire. The EPA has provided predictability to new investors and led to increased production and market share in the EU for Côte d'Ivoire's cocoa and bananas production, among others. Moving forward, the impact of the EPA on trade flows, the business climate in general, fiscal revenue and sustainable development will be closely monitored to ensure that EPA objectives are achieved.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND GHANA

1. INTRODUCTION

Pending an EPA with the West African region, Ghana concluded a stepping stone (or interim) Economic Partnership Agreement with the EU in December 2007.[174] 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. Discussions are ongoing to update Ghana's market access commitments and timeline for implementation. Once completed, Ghana will start reciprocating its preferential access to the EU. This agreement will be substituted by the regional EU-West Africa EPA once the latter enters into force.[175] [176]

2. EVOLUTION OF TRADE

2.1. Trade in goods

Merchandise trade with Ghana has been relatively stable over the last decade. The decrease in value of imports from Ghana in recent years can be attributed to a decline in oil prices: the value of oil imports from Ghana dropped by EUR 800 million between 2014 and 2017. Non-oil imports from Ghana remained stable over the same period and stood at EUR 1 655 million in 2017. The EU has an overall trade surplus, but Ghana has a surplus on agricultural products.

Table 1. Total Merchandise Trade EU-28 with Ghana (million EUR)

	2014	2015	2016	2017
EU-28 imports from Ghana	2 885	2 645	2 308	2 119
EU-28 exports to Ghana	3 112	3 041	2 845	3 042
EU-28 trade balance	227	396	537	923

Source: Trade G2 Statistics/ISDB Eurostat

The EU is by far the most important trade partner of Ghana for imports (30% of Ghana's imports come from the EU) in 2017. The EU is also the 4th largest destination for Ghana's exports (13% of total exports), after Switzerland (17%), India (15 %) and China (13 %).

All exports from Ghana enter the EU duty-free and quota-free. In 2017, the main products exported by Ghana to the EU in value were cocoa beans (30% of total exports in value), cocoa

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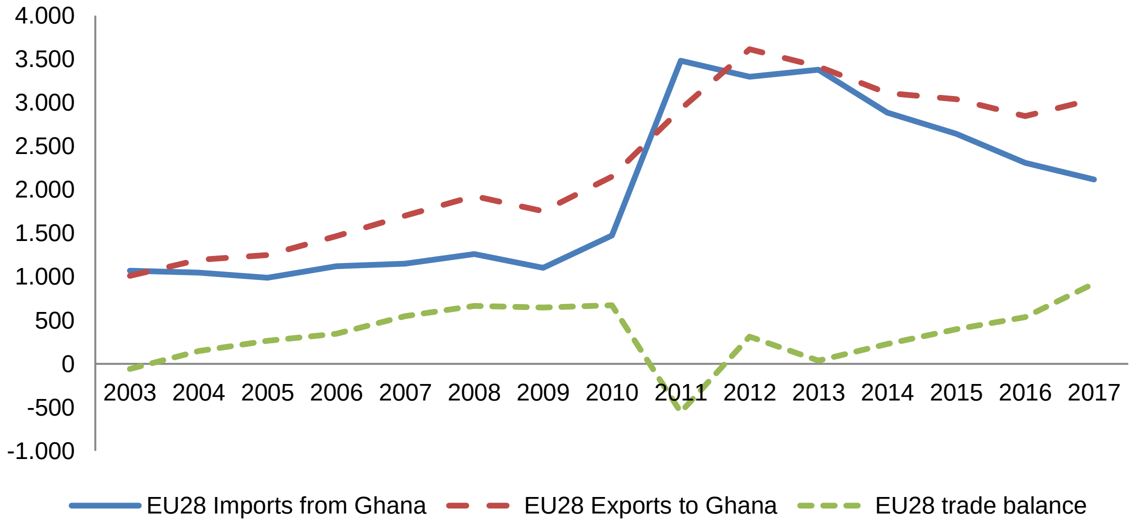
[174] The official name of the agreement ('stepping-stone agreement') reflects the fact that the initial and ultimate objective for economic partnership in West Africa is a comprehensive, regional agreement. It is also called 'interim EPA'

[175] The Economic Partnership Agreement was signed in December 2014 by the European Union and 13 West African Countries. In 2017, three West African countries still had not signed the agreement (The Gambia, Mauritania and Nigeria). The agreement will enter into provisional application if the 16 West African Countries sign the agreement and 2/3 of these countries ratify it.

[176] More on trade with Ghana: http://ec.europa.eu/trade/policy/countries-and-regions/regions/west-africa/

butter, paste and powder (23%), fuels (22%), and edible fruits and nuts (6%), half of which bananas. The main EU exports to Ghana in 2017 were machinery and transport equipment (30%)[177], fuels (16%), prepared foodstuff and animal products (16%) and chemicals (11%).

Figure 1. EU-28 Merchandise trade with Ghana (million EUR)



Source: Trade G2 Statistics/ISDB Eurostat

Table 2. EU-28 merchandise trade by AMA/NAMA sector with Ghana (million EUR)

		2014	2015	2016	2017
		EU-28 imports from Ghana			
Total		2 885	2 645	2 308	2 119
	Agricultural	1 335	1 508	1 650	1 313
	Non-Agricultural	1 550	1 136	658	806
		EU-28 exports to Ghana			
Total		3 112	3 041	2 845	3 042
	Agricultural	321	348	348	444
	Non-Agricultural	2 791	2 693	2 497	2 598
		EU-28 trade balance			
Total		227	396	537	923
	Agricultural	-1 014	-1 160	-1 301	-870
	Non-Agricultural	1 241	1 557	1 839	1 793

Source: Trade G2 Statistics/ISDB

The EPA foresees that Ghana will liberalize 80% of imports from the EU in the coming years. Effective liberalization is still pending (more on this below).

In the past years, Ghana made a large use of EU preferences (Most Favoured Nation (MFN) tariffs that are at zero percent, General System of Preference and EPA preferences) for its exports to the EU market. Between 96% and 98% of its products entered into the EU market duty and quota free in the years 2013 to 2017. For most years, the share of products entering

[177] Especially of HS chapters 83, 84, 85 and 87

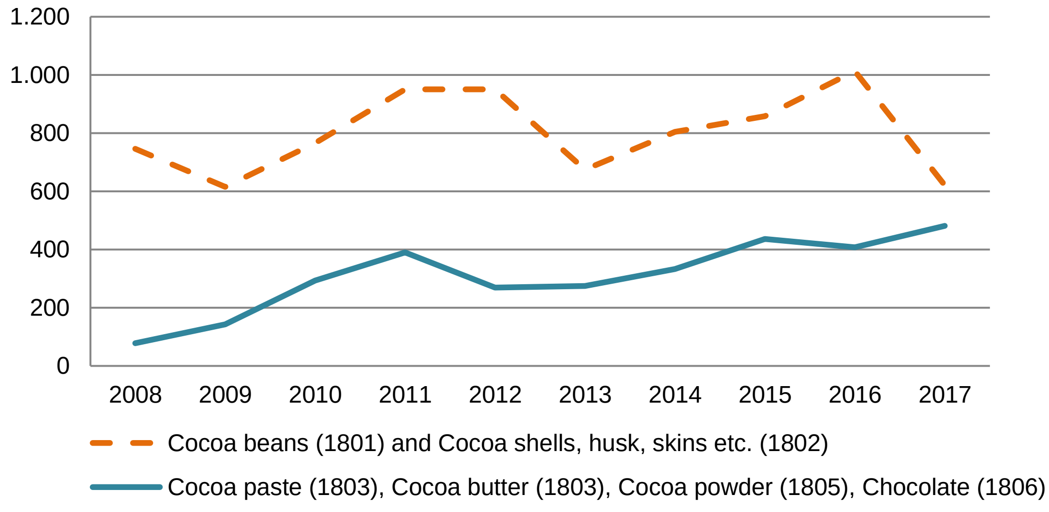
under MFN zero is far above 60% of total exports, owning to the large share of raw materials in Ghana's exports to the EU.

Increased exports of processed cocoa products provide for more local value-added

A key success story for Ghana has been its ability to increase exports of processed cocoa products. Since 2008, Ghana benefited from duty-free quota-free market access for processed cocoa products and steadily increased their exports of transformed cocoa products to the EU market. In the past 10 years, Ghana increased its exports of cocoa butter, cocoa paste and cocoa powder to the EU by 237%. By comparison, Nigeria, which remained under the GSP trade regime saw its processed cocoa exports to the EU stagnating.

Moving beyond the export of raw cocoa beans towards locally processed cocoa products makes Ghana more resilient to fluctuating world market prices for raw materials. Low prices for Cocoa beans in 2017 lead to a EUR 400 million drop in cocoa beans exports from Ghana to the EU. By contrast, the value of processed cocoa exports continued on an upward trend.

Figure 2. EU28 Imports of raw and processed Cocoa from Ghana, in million EUR



Source: ISDB/Eurostat

2.2. Trade in services

The interim EPA does not cover trade in services. Trade in services between the EU and Ghana has shown some variation over the last years.

Table 3. EU-28 services trade with Ghana (million EUR)

	2013	2014	2015	2016
EU-28 imports	568	1 174	1 353	1 340
EU-28 exports	973	1 553	1 968	1 800
Balance	405	379	615	460
Total trade	1 542	2 726	3 321	3 140

Source: Eurostat Balance of Payment statistics

2.3. FDI

The interim EPA does not cover investment. There was some variation in the EU investment stock in Ghana over the last years, unrelated to the EPA which does not cover investments.

Table 4. EU-28 FDI with Ghana (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	-567	-1 070	-1 431	2 665	4 888	3 412
Flows	-41	-396	-307	68	237	219

Source: Eurostat Balance of Payment statistics

3. ISSUES ADDRESSED IN THE FIRST MEETING OF THE JOINT EPA COMMITTEE

After Ghana's ratification in 2016, the preparatory work for implementation commenced. As a result, the first meeting of the EPA Committee was held in Accra, Ghana, on 24 January 2018. The EPA Committee adopted its rules of procedures governing the Joint EPA committee. The Parties exchanged information on the state of play in the implementation of the EPA with Côte d'Ivoire and the process of adoption of the regional EPA with West Africa.

The Parties have discussed Ghana's updated liberalization schedule. The interim EPA was negotiated back in 2007 and was only signed and ratified in 2016, therefore a certain number of dates in the market access offer were still in the past and had to be updated. At the same time, the Parties made substantial progress in the transposition of Ghana's market access commitments from HS2002 (in which it was originally drafted) to HS2017. The Parties furthermore discussed rules of origin, the institutional set up for the implementation of the EPA, the monitoring of operation and impact of the EPA, as well as the Aid for Trade accompanying measures.

4. SPECIFIC AREAS OF IMPORTANCE

Development cooperation, particularly trade-related assistance, is an important pillar of 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 EUR 12 million for 2018-2023 through the following actions: 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.

Previously, the EUR 12 million **Trade Related Assistance and Quality Enabling programme (TRAQUE),** helped to modernise the Ghanaian quality infrastructure and strengthen export competitiveness. Implemented from 2011 to 2017, the project facilitated the upgrading of equipment and provided training for staff in 28 Ghanaian laboratories.

Furthermore, with TRAQUE, Ghana was able to improve the inspection and control system for phytosanitary requirements at exit points – which resulted in the EU lifting an import ban on five vegetable commodities from Ghana (chilli pepper, bottle gourds, luffa gourds, bitter gourds and eggplants).

With regard to productive capacities, value chains and competitiveness, the EU supports Ghana's agricultural sector, through the **Market Oriented Agricultural programme (MOAP) (EUR** 35 million, 2017-2024) and the programme to promote **productive investments for sustainable agriculture in Northern Ghana** (2018-2025, EUR 102 million).

Furthermore, the EU is also supporting Ghana's **infrastructure** sector, e.g. the upgrade of Eastern and Western transport corridors and a power transmission line with neighbouring Cote d'Ivoire.

5. FOLLOW-UP ACTIONS

In regard to the next steps for the iEPA, EU and Ghana agreed to:

a) Review and endorse the final transposition of the tariff nomenclature in HS 2017;
b) Review and endorse the updated liberalization schedule;
c) Set up an appropriate mechanism to monitor the operation and impact of the EPA;
d) Start negotiating the procedures relating to a reciprocal Protocol on Rules of Origin.

6. CONCLUSIONS AND OUTLOOK

The implementation of the iEPA with Ghana is in its early stages. As Ghana moves to implement its market access commitments, close attention will be paid to the effects the iEPA might have for Ghana's economy in terms of trade and investment flows, government revenue and sustainable development. In the coming years, the implementation of iEPA should also be impacted by the ongoing business climate and fiscal reforms in Ghana and by the EU support to various aspects of iEPA implementation 2018.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND CAMEROON

1. INTRODUCTION

Pending an EPA with the Central African region, Cameroon concluded **an Economic Partnership Agreement (EPA)** with the EU on 17 December 2007[178]. This agreement was signed by Cameroon and the EU on 15 January 2009. It was approved by the European Parliament (EP) on 13 June 2013 and ratified by the Parliament of Cameroon on 22 July 2014. On 4 August 2014, the agreement entered into provisional application. In August 2016 and August 2017, Cameroon started reciprocating its preferential access to the EU, and the agreement has now reached cruising speed.[179] This EPA is a regional agreement and is open to the accession of other Central African countries[180].

2. EVOLUTION OF TRADE

2.1. Trade in goods

Trade with Cameroon has been relatively stable over the last decade. Cameroon's present trade surplus is slowly decreasing.

Table 1. Total Merchandise Trade EU-28 with Cameroon, 2014-2018 (million EUR)

	2014	2015	2016	2017
EU-28 imports from Cameroon	2 150	1 800	1 776	1 914
EU-28 exports to Cameroon	1 627	1 578	1 560	1 470
EU-28 trade balance	-523	-222	-217	-444

Source: Trade G2 Statistics, Eurostat

The EU is by far the most important trade partner of Cameroon: 32% of Cameroon's imports come from the EU and 54% of Cameroon's exports go to the EU.

All exports from Cameroon enter the EU duty free and quota free. Main products exported from Cameroon to the EU are oil (32% of total exports in value), cocoa beans (22%), wood (15%), bananas (13%), and aluminium (5%) (Eurostat, 2017). Exports of processed cocoa products have increased by 82% since 2010, to EUR 84 million in 2017.

[178] The official name of the agreement ('stepping-stone agreement') reflects the fact that the initial and ultimate objective for economic partnership in Central Africa is a comprehensive, regional agreement.

[179] More on Trade with Cameroon / Central Africa: http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-africa/

[180] By 2016, negotiations for a comprehensive regional EPA with Cameroon, Central Africa Republic, Chad, Congo, Democratic Republic of Congo (DRC), Equatorial Guinea, Gabon and Sao Tome y Principe had come to a halt. For the time being, the Commission is focussing its efforts on the 'stepping stone' agreement with Cameroon.

Taking into account the share of raw materials in these exports, 75% of Cameroon's exports to the EU are free of duty on an MFN basis. The remainder, mainly bananas but also aluminium, processed cocoa and wood are imported under EPA preferences.

The EPA foresees that Cameroon will successively liberalize 80% of imports from the EU over the next years. 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 basic necessities, industrial and agricultural inputs, machines, chemicals, vehicles and spare parts, computers, papers, consumer products for households.

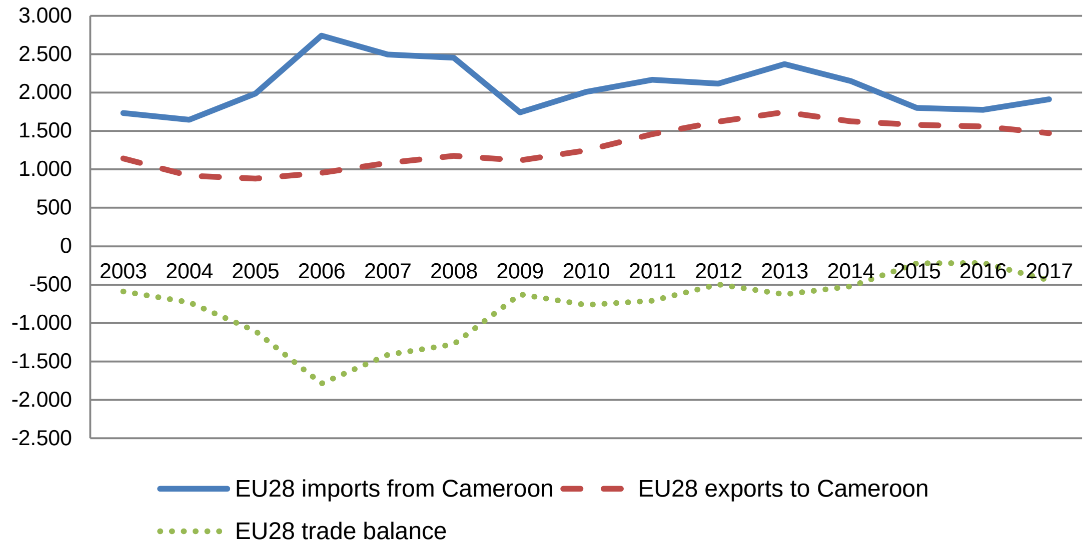
Table 2. EU-28 merchandise trade with Cameroon (million EUR)

		2014	2015	2016	2017
		EU-28 imports from Cameroon			
Total		2 150	1 800	1 776	1 914
	Agricultural	657	726	747	665
	Non-Agricultural	1 493	1 074	1 030	1 249
		EU-28 exports to Cameroon			
Total		1 627	1 578	1 560	1 470
	Agricultural	298	301	276	267
	Non-Agricultural	1 329	1 277	1 284	1 203
		EU-28 trade balance			
Total		-523	-222	-217	-444
	Agricultural	-358	-425	-471	-398
	Non-Agricultural	-164	203	254	-46

Source: Trade G2 Statistics/ISDB

The total value of goods imported into Cameroon under EPA preferences from August 2016 to February 2018 is estimated at EUR 150 million. Main products imported under EPA preferences according to Cameroon customs were clinker (31% of total value of imports under EPA preferences), machinery and Equipment (21%), articles for breweries (13%), chemical industries (10%), fertilizers (10%), electrical machinery and equipment (7%).

Figure 1. EU-28 Merchandise trade with Cameroon (million EUR)



Source: Trade G2 Statistics, Eurostat

Over the year 2017, the total value of forgone customs revenue as a result of the EPA was EUR 2.72 million or 0.4% of total 2017 customs revenue.[181] (Source: Cameroon Customs)

Parties are currently still negotiating a common reciprocal regime governing the rules of origin, to be annexed to the agreement. In the meantime, Cameroon benefits from the general EPA rules of origin included in EU Market Access Regulation 2016/1076. Before starting liberalization, Cameroon published a decree on rules of origin applicable to products imported from the EU (Decree 2016/367, 3 August 2016).

2.2. Trade in services

Trade in services between the EU and Cameroon shows little variation over the last years. The EPA does not yet cover trade in services.

Table 3. EU28 services trade with Cameroon (million EUR)

	2013	2014	2015	2016
EU28 imports	458	404	422	353
EU28 exports	673	933	601	640
Balance	215	530	179	287
Total trade	1 132	1 337	1 023	993

Source: Eurostat Balance of Payment statistics

[181] The 2018 Budget law estimate total yearly customs revenue at 670 million euros, including exports and imports taxes, stamp duties, etc. The IMF estimates customs revenues at 1.14 billion euros in 2017, also including VAT on imports.

2.3. FDI

The investment stock has been stable over the last four years. The EU investment stock remains largely tied up in extractive industries, although recent EU investments in Cameroon are diversified across various sectors such as infrastructure (transport, energy), agriculture (bananas, sugar), communication and distribution. Main investor is France with about 300 companies established that are estimated to contribute about 30% of the Government's tax revenue. The largest single EU investment announced in the last 12 months was Actis LLP, which plans a USD 200 million investment into a shopping mall and Business Park in Douala.

Table 4. FDI EU28 with Cameroon (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	43	-14	4	1 281	1 123	1 352
Flows	1	-46	33	44	44	95

Source: Eurostat Balance of Payment statistics

3. ISSUES ADDRESSED IN THE ANNUAL EPA COMMITTEE MEETING

The 3rd EPA Committee between Cameroon and the EU took place in December 2017 in Brussels. One of the main points of discussion was the assessment of the tariff dismantling process in Cameroon and its impact in terms of products concerned and customs revenue losses. A dedicated study on the fiscal impact of the EPA will be prepared over the coming months. Parties also further refined the tariff dismantling schedule. In particular, the Parties concluded transposition of Cameroon's market access commitments under Annex III of the EPA from Harmonised System (HS) 2002 to HS 2017.[182] In addition, parties took stock of the current negotiations of the protocol on rules of origin to be annexed to the agreement.

Furthermore, the parties discussed EPA accompanying measures and action programmes to be elaborated over the next few months. Other issues addresses during the meeting include Croatia's accession the EPA, trade barriers, and the presentation of the EPA to the WTO Committee on Regional Trade Agreements (CRTA).

4. SPECIFIC AREAS OF IMPORTANCE

The EU has been a long standing partner for Cameroon's economic development. Development assistance from the EU in recent years focussed for example on strengthening agricultural productivity and competitiveness. In anticipation of the EPA, the EUR 10 million PACOM programme (*Programme d'appui à l'amélioration de la compétitivité de l'économie camerounaise)*[183] facilitated the expansion of quality infrastructure, public private dialogue and enhanced productivity of Cameroon's enterprises. PACOM supported Cameroonian firms

[182] As Cameroon's tariff dismantling schedule runs over multiple years, it is important to regularly transpose it into the most recent HS nomenclature, to ensure that customs and traders always have correct, up to date information.

[183] Implemented from 2013-2018, under the 10th European Development Fund (EDF)

in upgrading their productive equipment and production processes, and in acquiring international quality certifications (ISO, OHSAS). For more than 10 years, the EU together with other international partners has been supporting the 'Cameroon Business Forum' as a platform for dialogue between the government and the business community. Also technical assistance and support for customs modernisation were provided. PACOM will be replaced in 2018 by DACC (*Dispositif d'appui à la compétitivité du Cameroun*), another EUR 10 million programme under the 11th European Development Fund (EDF) to provide direct support to companies, start-ups and intermediary organizations and to improve the provision of business services.

In addition, another programme of accompanying measures directly linked to the implementation of the EPA under the regional 11th EDF envelope is under preparation.

Part of the support provided will include a monitoring mechanism. Such monitoring should include among others the tax implications of the liberalization process, and the sustainable-development dimensions of the agreement.

Throughout 2017, various outreach and awareness raising events with civil society and private sector representatives were organized by the Cameroonian Administration and the EU Delegation to Cameroon.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Negotiations are ongoing on a common protocol of rules of origin, which was not included in the EPA at the time negotiations were concluded in 2007. The main open issue is adjusting the liberalization timetable (2008-2023) to the delay in implementation resulting from Cameroon's EPA ratification in 2014. Contacts are ongoing between the regional organisations and the EU on accession to this EPA by other Central African States.

6. CONCLUSIONS AND OUTLOOK

In 2017, Cameroon took again important steps in implementing its commitments, culminating in significant tariff cuts. While it is too early to discern any impact on trade and investment flows in 2017, there was a clear increase in the number of import declarations in Cameroon, without major additional revenue losses. Implementation will also be impacted by the ongoing domestic reforms and accompanying measures to be implemented from 2018.

In March 2017, the ministers in charge of EPA from the Central African region declared the availability of their countries to study their possible accession to the stepping stone agreement. However, uncertainty remains as to the effective resumption of negotiations and the possibility of concluding an agreement.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND CARIFORUM

1. INTRODUCTION

The EU-CARIFORUM (CF) EPA (hereinafter 'The Agreement') is a **regional agreement between the EU and its Member States and 15 Caribbean countries**.[184] 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 2017, this agreement was provisionally applied by the EU and by 14 Caribbean States (Haiti still needs to ratify the agreement in parliament before applying it, due to domestic legal requirements). By the end of 2017, 22 EU Member States and 9 Caribbean States had ratified the EPA.

The EU-CF 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).[185]

2. EVOLUTION OF TRADE

2.1. Trade in goods

The trade in goods chapter provides for reciprocal but asymmetric market opening by the Parties. All Caribbean products (except arms and ammunition) enter the EU market duty free and quota free. This largely represents a continuation of the trade preferences granted up to 2008 under the Cotonou Agreement. CARIFORUM states will open about 92% of its trade over a 25-year period (83% over 15 years), and will exclude about 8% of imports from liberalisation altogether. The first tariff cuts were scheduled for 1 January 2011, 2013, 2015 and 2017. As of November 2017, the bigger Caribbean countries were implementing the tariff liberalization schedule as planned, while some progress was still required in some of the smaller countries that form part of the Organisation of Eastern Caribbean States (OECS).

Table 1: Total Merchandise Trade EU28 with CARIFORUM-14 (million EUR)

	2014	2015	2016	2017
EU28 imports from CF states	4 057	4 043	3 176	3 561
EU28 exports to CF states	4 159	5 270	4 950	5 130
EU28 trade balance	102	1 228	1 775	1 569

Source: Trade G2 Statistics, Eurostat

[184] The EU-CARIFORUM EPA has been negotiated with 15 countries in the Caribbean Region, the Member States of the Caribbean Forum (CARIFORUM): Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. All except Haiti apply the EPA provisionally.

[185] More on trade with the Caribbean: http://ec.europa.eu/trade/policy/countries-and-regions/regions/caribbean/

The EU is the 2nd most important trading partner for the Caribbean, behind the USA. In total, 14% of Caribbean imports come from the EU and 14% of Caribbean exports go to the EU.

The overall trade volume between the EU and the Caribbean shows fluctuations over the last decade. Total Caribbean exports to the EU increased by 12% in 2017 (almost EUR 400 million), recovering from a significant drop in 2016. EU exports to the Caribbean also increased.

Table 2: EU28 merchandise trade sector with CARIFORUM-14 (million EUR)

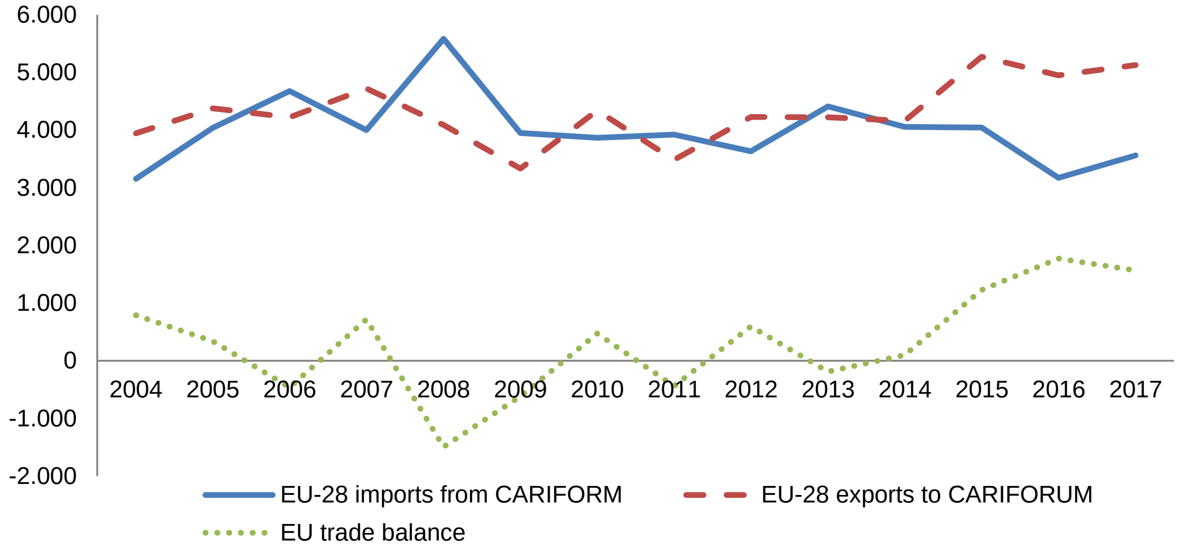
Agricultural trade EU28 with CARIFORUM-14							
	2013	**2014**	**2015**	**2016**	**2017**	**Growth 2016-2017**	**Growth 2016-2017 in %**
EU28 imports	931	918	1 021	1 026	909	-117	-11.4%
EU28 exports	567	626	741	751	786	35	4.7%
Balance	-364	-292	-279	-275	-123	153	
Total trade	1 498	1 544	1 762	1 777	1 694	-82	-4.6%
Non-agricultural trade EU28 with CARIFORUM-14							
	2013	**2014**	**2015**	**2016**	**2017**	**Growth 16-17**	**Growth 16-17 in %**
EU28 imports	3 450	3 107	2 989	2 109	2 604	495	23.5%
EU28 exports	3 488	3 339	4 340	3 996	4 118	122	3.1%
Balance	38	232	1 351	1 887	1 514	-373	
Total trade	6 938	6 446	7 329	6 105	6 722	617	10.1%

Source: Trade G2 Statistics, Eurostat

Main exports of Caribbean states to the EU in 2017 included oil and gas (around 14% of total exports in value), mineral products including gold, corundum, aluminium oxide and hydroxide (14%), fresh and dried bananas (10%), sugar (4%), rum (4%), cocoa beans (3%), as well as fertilisers, fish, crustaceans, rice and tobacco products.

Main exports from the EU to the Caribbean in 2017 were boats, ships, yachts and other vessels (around 14% of total value of exports), cars and other vehicles (4%), machinery and parts (9%), milk products (3%) and spirits (3%).

Figure 1: Merchandise trade EU with CARIFORUM14 (million EUR)



Source: Trade G2 Statistics, Eurostat

The Dominican Republic accounts for 25% of Caribbean exports to the EU and for 34% of EU exports to the region. Exports by the Dominican Republic to the EU have increased by 23% since 2010 and are the most diversified of the region.

In terms of agricultural trade, exports of tropical agricultural goods (sugar cane, tropical fruits and rice) from CARIFORUM into the EU have increased over the past years. However, Caribbean exports of several agricultural commodities (bananas, cocoa beans, rice) to the EU dropped in 2017, partly due to heavy cyclones that destroyed large parts of agricultural production. World market prices of cocoa beans also declined. EU agri-food exports to the Caribbean predominantly consist of processed food products and beverages (such as spirits, wine, dairy products, pasta,).

Most of the CARIFORUM countries are not yet implementing the regional preference clause which requires countries to grant each other treatment at least as favourable as that accorded to the EU (hence a provision that promotes regional trade and economic integration).

2.2. Trade in services

Trade in services shows a favourable balance for the CARIFORUM states and total volumes of services imports from the Caribbean are increasing. Services exports to the EU are dominated by the Bahamas (In 2016: EUR 15 638 million). Other exporters are the Dominican Republic (EUR 994 million), Barbados (EUR 424 million) and Jamaica (EUR 402 million).

Table 3: EU28 services trade with Cariforum-14 (million EUR)

	2011	2012	2013	2014	2015	2016
EU28 imports from CF	3 803	3 843	3 285	13 595	20 980	18 846
EU28 exports to CF	2 927	3 475	3 390	3 230	2 950	3 423
EU28 trade balance	-876	-369	105	-10 366	-18 030	-15 422
Total trade	6 730	7 318	6 675	16 825	23 930	22 269

Source: Trade G2 Statistics, Eurostat Balance of Payment Statistics

2.3. FDI

Investment is not covered under the EPA, nevertheless, positive spillover effects from liberalisation in trade in goods and services may be expected. The European investment stock in the Caribbean remained constant over the last three years, while the Caribbean investment stock in the EU substantially increased. However, this does not seem to reveal any clear trend in *productive* investment flows.

Table 4: FDI EU28 with CARIFORUM-14 (million EUR)

	Inward			Outward		
	2014	2015	2016	2014	2015	2016
Stocks	80 298	81 330	85 346	22 198	72 823	128 394
Flows	4 847	-7 552	2 795	5 087	2 005	49 829

Source: Trade G2 Statistics, Eurostat Balance of Payment statistics

3. Issues addressed in the EPA Committee meetings

The EPA establishes a full institutional structure to manage the implementation of the agreement, including the Joint Council (JC) (Ministerial level), the Trade and Development Committee (TDC) (Senior Officials), the Parliamentary Committee (Parliamentarians from the European Parliament and the Caribbean state's parliaments), the Consultative Committee (civil society representatives from the EU and the Caribbean); and Special Committees which meet on an ad hoc basis.

The JC meeting is the biannual ministerial meeting where the fulfilment of the objectives of the EPA is monitored, and the TDC meeting is the annual senior official meeting where the main issues concerning the implementation of the EPA are discussed. The last Joint Council and TDC meetings took place in Brussels in November 2017. Discussions took place on several issues, including CARIFORUM's tariff liberalisation schedule, Trade in Services, technology transfer, cultural cooperation, intellectual property rights, EPA monitoring and development cooperation. It was agreed to establish a special committee on Trade in Services as a forum to exchange more regularly on the topic. On Agriculture, the Parties referred to the progress achieved in the negotiations for the CARIFORUM-EU Geographical Indications Agreement.

The 3rd meeting of the Consultative Committee (CC) took place in November 2017 in Trinidad and Tobago, and its recommendations and conclusions were presented at the TDC meeting in Brussels in November. The CC emphasized the need to observe the social aspects and the core labour standards in the implementation of the EPA. The CC also called for the timely adoption of a monitoring mechanism.

The 3rd meeting of the Parliamentary Committee (PC) also took place in Trinidad and Tobago in November and its conclusions were also presented at the TDC meeting in Brussels in November. The PC particularly encouraged the Parties to make efforts in raising awareness around the opportunities provided by the EPA.

4. SPECIFIC AREAS OF IMPORTANCE

Agriculture: Parties are intensifying their cooperation on agricultural trade and development. The Special Committee on Agriculture and Fisheries held its first meeting in the Dominican Republic in October 2017. The meeting had a substantive agenda, including issues such as agriculture development (enhancing rural development and agribusiness though increased investment, value added production and technology development), SPS measures, technical barriers to trade, climate change and disaster risk management. A negotiation directive to negotiate an agreement on GI under the CARIFORUM EPA was adopted by the Council of the EU in November 2017; negotiations with CARIFORUM have started and will continue in 2018. EU delegations in the region are actively promoting awareness on GIs through tailor-made events and workshops with business community and producer groups.

Services: The Services chapter, and in particular Mode 4 (movement of natural persons for business purposes), is considered one of the key elements of the EPA. On the implementation side, tangible steps have been limited so far but both Parties agreed at the JC meeting in Brussels to establish a Special Committee on Services.

Monitoring: Both Parties continued working on the establishment of a monitoring mechanism for the EPA, exchanging documents and suggestions about the type of monitoring mechanism to be put in place. As a result of this work, a joint monitoring mechanism seems achievable.

Development Cooperation: The EPA is a genuinely pro-development agreement and directly linked to the European Development Fund (EDF) funds. The EDF provides considerable support to CARIFORUM and Caribbean governments for EPA implementation under the Caribbean Regional Indicative Programme (CRIP). Under the **10th EDF** (2008-2014), EUR 140 million (85% of the total CRIP, EUR 165 million) were allocated to regional economic integration and EPA implementation. Under the **11th EDF** (2014-2020), the total indicative allocation to CRIP is EUR 346 million which represents a substantial increase compared to the allocation of the 10th EDF. Once again, an important allocation in the CRIP is earmarked to regional economic cooperation and integration (EUR 102 million) in the Caribbean, including the EPA implementation. Support is provided at different levels, including institutional support to CARIFORUM and OECS Secretariats, support to Government services at national level, and support to the private sector via the Caribbean Export Development Agency (CEDA).

New programs were adopted in 2016/2017 under the 11th EDF, namely a new private sector development programme to be implemented by Caribbean Export Development

Agency (EUR 24 million) and a new programme to support CARIFORUM in the implementation of the EPA for further EUR 6.2 million. A new EPA implementation proposal is under discussion by the parties, new forms and themes for cooperation are being explored.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Discussions are ongoing on the monitoring system that needs to be established according to the EPA. Negotiations on GIs are ongoing. Parties also need to achieve progress in implementing and making use of the Services chapter.

6. CONCLUSIONS AND OUTLOOK

In 2017 progress was achieved in the implementation of the agreement, including notably on agriculture issues and services. Productive meetings of all EPA bodies took place. Continuous effort of all partners will be needed to ensure that benefits of the agreement fully materialize.

Caribbean exports to the EU increased by 12% in 2017, although the value of agricultural exports to the EU decreased by 11%, partly due to falling world market prices. The four main Caribbean Services exporters maintained a trade surplus with the EU.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND PACIFIC STATES

1. INTRODUCTION

Negotiations for an EU-Pacific EPA (hereinafter the 'Agreement') were concluded on 23 November 2007 with Papua New Guinea (PNG) and Fiji – 2 of the 14 Pacific States[186], representing the vast majority of regional exports to the EU.[187] The EU and PNG signed the EPA on 30 July 2009 and Fiji on 11 December 2009. The European Parliament approved the Agreement on 19 January 2011 and the PNG Parliament ratified it on 25 May 2011. Fiji is still to ratify the Agreement but has notified the Council of its provisional application as of 28 July 2014.

The objectives of this Agreement are to promote sustainable development and the gradual integration of Pacific States into the world economy. The EPA aimes to establish a free trade area between the parties, through progressive liberalisation, taking into account the specific needs and capacity constraints of the Pacific States. The EPA only covers trade in goods.

The Agreement is open for accession of other Pacific Island States.[188] Interested Parties will need to submit a market access offer that is compliant with GATT 1994 Article XXIV. In 2017, Samoa and Solomon Islands indicated their intentions to accede to the EPA.

2. EVOLUTION OF TRADE

2.1. Trade in goods

Under the Pacific EPA, the EU provides duty free and quota free market access for the Pacific states to the EU market. The Pacific states commit to liberalize 87% (Fiji) and 88% (PNG) of trade. PNG has already made all tariff cuts.

Table 1: EU28 Trade in goods with Fiji and PNG (million EUR)

	2014	2015	2016	2017
EU28 imports from Fiji and PNG	893	833	743	993
from Fiji	99	86	61	95
from PNG	794	747	682	898
EU28 exports to Fiji and PNG	234	342	279	228
to Fiji	99	177	64	65
to PNG	135	165	214	164
EU28 trade balance	-659	-491	-464	-765

Source: Trade G2 Statistics/Eurostat

186 Of which 5 LDCs (Kiribati, Samoa, Solomon Islands, Tuvalu, Vanuatu) and 9 developing countries (Cook Islands, Fiji, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Tonga).

187 More on trade with the Pacific: http://ec.europa.eu/trade/policy/countries-and-regions/regions/pacific/

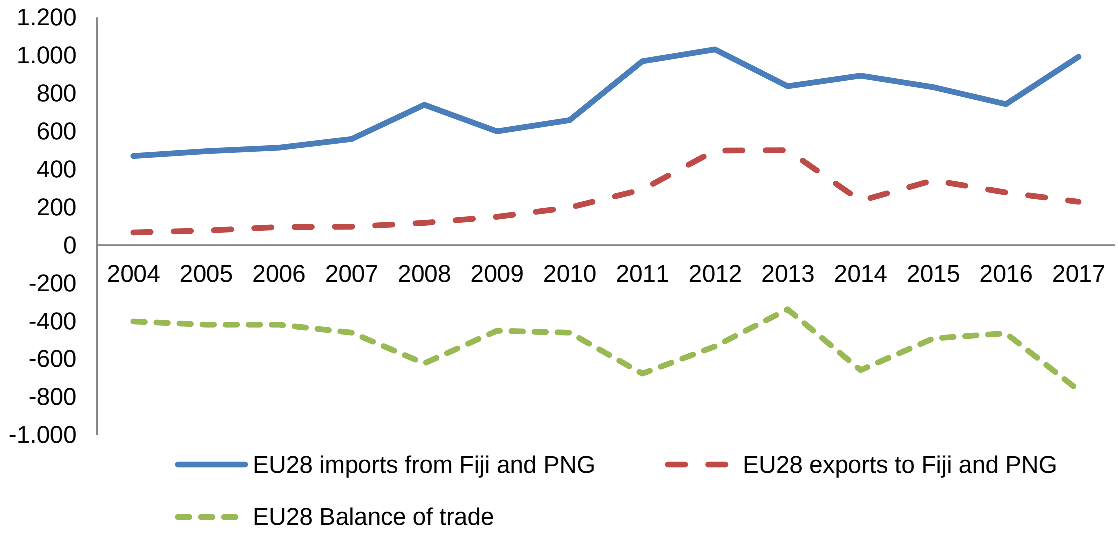
188 Accession is open to all Pacific Island States that are party to the Cotonou Agreement, and to Pacific Islands whose structural characteristics and economic and social situation are comparable to the above mentioned.

Overall, the EU is the Pacific countries' fifth largest trading partner, but trade remains very small in absolute and relative terms. Exports to the EU account for about 11% of the region's total exports while 3% of the region's imports come from the EU.

PNG and Fiji, together represent around 83% of all EU - Pacific trade. However, key trade partners of both countries are notably Australia, China and Singapore.

Exports from PNG to the EU have increased considerably over the last four years, while exports from Fiji to the EU are much smaller and more volatile. EU trade balance with the two countries continues to be largely negative.

Figure 1: EU28 Trade in goods with Fiji and PNG (in million EUR)



Source: Trade G2 Statistics/Eurostat

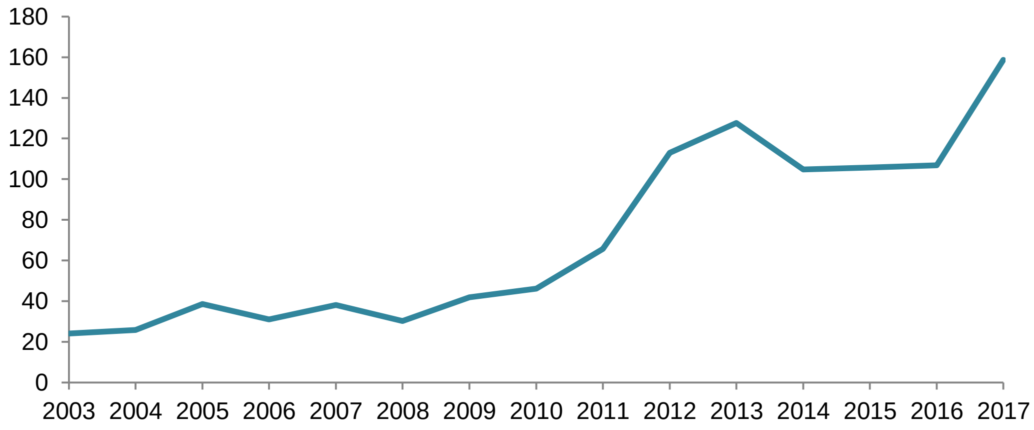
Fiji and PNG's main exports to the EU are commodities: palm oil, copper, sugar, coconut and fish. Their main imports from the EU are mechanical machinery, electrical machinery, vehicles and oil.

The Pacific EPA includes improved preferences (or rather a special derogation of the standard Rules of Origin) for processed fish products. The **'global sourcing' provision** allows Pacific EPA countries to source fish from any vessel for further processing (regardless of who caught the fish, or where it is caught). This exclusive exemption recognises the special importance of fisheries, especially canned tuna (HS 1604), for long-term economic development in the region. Thanks to the provision, countries can further develop their onshore processing capacity, creating local employment and income.

PNG has benefitted from the global sourcing provision since 2008 and thus substantially increased its exports of processed (canned) tuna to the EU (Figure 2). Processed or prepared fish products (HS 1604) accounted for 17.7% of PNG's total exports to the EU in 2017.

The provision comes with a comprehensive reporting requirement to ensure the promotion of sustainable fisheries and good fisheries governance. Based on the reports, the EU and the Pacific States hold consultations on the utilisation and effects of the provision.

Figure 2. EU imports of prepared or preserved fish (HS 1604) from PNG (million EUR)



Agricultural products[189] constitute the bulk of Fiji and PNG's export to the EU. Agri-food exports from PNG to the EU are dominated by palm oil (over 80% of total PNG's agri-food exports to the EU), with coffee as the second most important agricultural commodity. For Fiji, 94% of its agricultural exports to the EU consist of cane sugar.

EU agricultural exports to the region consist mostly of meat preparations and preparations of fruits, vegetables and nuts.

Table 2: EU28 Trade in goods with Fiji and PNG by AMA/NAMA sector (million EUR)

	2014	**2015**	**2016**	**2017**	**Growth 2017 (%)**
EU28 imports from Fiji and PNG					
Agricultural	593	583	556	700	25.9%
Non-Agricultural	300	251	187	293	57.0%
EU28 exports to Fiji and PNG					
Agricultural	16	17	17	18	3.6%
Non-Agricultural	219	325	261	210	-19.4%

Source: Trade G2 Statistics/ISDB

2.2. Trade in services

At present, the EU-Pacific EPA does not cover trade in services. Generally, Pacific exports have not diversified into other non-traditional exports or higher-value goods. However, services (particularly tourism services) are a major economic sector in many Pacific countries and show a high potential for growth, including in Fiji and PNG.

[189] Agricultural (or agri-food) trade considered comprises the HS Chapters 1 to 24, except fish and fish products (as defined in the WTO Agreement on Agriculture).

Table 3: EU28 services trade with Fiji and PNG (million EUR)

	2013	2014	2015	2016
EU28 imports	171.9	135.1	123.5	96.7
EU28 exports	633.9	227.8	676	566
Balance	462	92.7	552.5	469.3
Total trade	805.8	362.9	799.5	662.7

Source:Trade G2 Statistics/Eurostat Balance of Payment Statistics

2.3. FDI

EU outward investment stocks in both countries have increased over the last three years. The EPA does not cover investment.

In PNG, the biggest EU investment is SP Brewery (a Dutch-Singaporean joint venture producing beer). Other investments are in oil (Spanish) and liquid natural gas exports (French). A number of smaller investments in Services sectors are linked to the large energy infrastructure projects.

In Fiji, the most prominent EU investments are French investments in the banking sector and oil sectors. EU investment is also manifest in the tourism sector.

Table 4: FDI EU28 with Fiji and PNG (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	4	3	4	1 165	1 374	1 469
Flows	1	-1	1	-92	202	63

Source: Trade G2 Statistics/Eurostat Balance of Payment Statistics

3. ISSUES ADDRESSED IN THE EPA COMMITTEE MEETINGS

Five meetings of the Trade Committee established under the EPA have taken place between the Parties to the Agreement. The last Committee meeting in 2017 discussed the state of play of EPA implementation (particularly PNG and Fiji's tariff schedules) and ratification, as well as rules of procedure, rules of origin, sustainability issues (fisheries management and regulations, progress on labour issues, environmental protection reforms, etc.) and possible areas for deepening cooperation under the EPA. Accession of other interested Parties was also discussed. Samoa and Solomon Islands were invited and participated as observers to the Committee meeting.

4. SPECIFIC AREAS OF IMPORTANCE

EPA implementation is a top priority, with Fiji still to ratify and PNG having made all its tariff cuts and now seeking to extend export diversification beyond the fisheries sector.

Development cooperation is essential for EPA implementation, although it is not part of the Pacific-EU EPA or its accession process. For instance, the European Development Fund will be used under the Pacific regional indicative programme (a) to strengthen regional trade and business enabling environment and (b) to better involve the private sector in order to strengthen the economic integration of the Pacific region. These are in addition to the support already foreseen under the national indicative programme to strengthen the rural entrepreneurship, investment and trade in PNG.

The EU is supportive of the accession of other Pacific States to the existing Agreement with a view to extending EPA benefits to them.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

It is important to convene the next Trade Committee meeting, inter alia to follow up with PNG on the above implementation issues as well as technical matters, while pursuing efforts towards Fiji's effective implementation and ratification of the Agreement.

The end of 2018 is a target date for Samoa's accession in view of its graduation out of Least Developed Country (LDC) status.

In addition to Samoa, that graduated from LDC status in 2014, four other Pacific countries are projected to graduate soon (Kiribati, Solomon Islands, Tuvalu and Vanuatu) and will lose the EU's Everything-But-Arms (EBA) preferences. They will fall under the less generous General Scheme of Preferences (GSP) unless these countries decide to accede to the current EU EPA with PNG and Fiji. The Parties to the Agreement are open to consider each country's accession.

6. CONCLUSIONS AND OUTLOOK

Although the overall volume of trade in goods with the EU is small, the EPA is an important tool for the Pacific States in order to develop non-traditional exports. In particular they have a strong interest in safeguarding their rights to sell processed fisheries to the EU market by exploiting the improved rules of origin, subject to compliance with sustainable fisheries management, technical standards and food safety requirements.

Effective implementation, coupled with corresponding domestic reforms (especially in areas of trade facilitation and improvement of value chains and business climate) will enable Fiji and PNG to take full advantage of the EPA, including to attract EU investment.

The EU remains open to extend the benefits of the EPA to acceding countries.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE INTERIM ECONOMIC PARTNERSHIP AGREEMENT (IEPA) BETWEEN THE EU AND EASTERN AND SOUTHERN AFRICAN (ESA) STATES

1. INTRODUCTION

Pending an EPA with the full Eastern and Southern African region[190], an interim EPA was signed in 2009 by four ESA countries (Madagascar, Mauritius, Seychelles and Zimbabwe).[191] This ESA-EU interim EPA (iEPA; hereinafter 'The Agreement') is provisionally applied since 14 May 2012. In 2017, Comoros also signed it. It will become a Party to the agreement after it has ratified it. 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. In 2017, the four ESA states expressed their interest to deepen the agreement beyond trade in goods. Scoping missions and studies in that regard will be conducted in 2018.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

Total trade with the four ESA iEPA countries (ESA4) increased by 24.1% since its provisional application. The ESA4 exports to the EU increased faster and more (25.3%) than the EU exports to the ESA4 (22.6%). The trade balance has always been positive in favour of the ESA4.

Table 1. Total Merchandise Trade EU28 with ESA4, 2012-2018 (million EUR)

	2012	2013	2014	2015	2016	2017
EU28 imports from ESA4	2 272	2 505	2 580	2 450	2 469	2 848
Madagascar	583	738	840	904	986	1 178
Mauritius	1 050	1 086	960	895	866	925
Seychelles	221	293	270	249	282	291
Zimbabwe	417	388	510	402	334	454
EU28 exports to ESA4	1 913	1 961	1 865	1 981	1 958	2 347
Madagascar	517	537	532	563	556	685
Mauritius	848	862	875	899	949	1 170
Seychelles	266	321	237	302	279	298
Zimbabwe	282	241	221	220	174	192
EU28 trade balance	-359	-545	-715	-469	-511	-501

Source: Trade G2 Statistics, Eurostat

In addition to benefitting from "the Everything but Arms Initiative" **Madagascar** has seen clear benefits from EPA implementation, as its exports more than doubled over the period 2012-2017, albeit from a low start level, due to the political crisis and insolation of

[190] Eastern and Southern Africa (ESA) is a diverse EPA group including Indian Ocean islands (Comoros, Madagascar, Mauritius and Seychelles), countries of the Horn of Africa (Djibouti, Ethiopia, Eritrea and Sudan) and some countries of Southern Africa (Malawi, Zambia and Zimbabwe).

[191] More on trade with ESA: http://ec.europa.eu/trade/policy/countries-and-regions/regions/esa/

Madagascar between 2009 and 2013, before a return to stability and democracy as of 2013/2014. Main export products are textiles, followed by vanilla, fisheries, fruits and cobalt. **Seychelles'** exports (mostly fishery products) followed the same trend and increased by one third in the same period. For **Zimbabwe**, an 8.9% increase of its exports to the EU over the period is a particular success compared to the sharp decline of its exports to the rest of the world (2017 exports to the rest of the world were almost down to one third of 2012 exports level). Zimbabwe's main exports to the EU are tobacco, sugarcane, fruit, hides and leather, tea, flowers, metals and granite. Higher value agricultural products have been added (berries, stone fruit, peppers and peas) as a renewed diversification that may boost further its export values in the future. Exports of **Mauritius** destined for the EU saw a relatively steep decrease (-17.5%) in the first years 2012-2016 (attributed to the global economic conditions). However, this trend is now clearly reversing, with exports increasing by 7% in 2017, exceeding the level in 2016. Mauritius' exports to the EU remain concentrated on three main products, that is, sugar, textiles and fisheries making up 90% of total exports. Exports are starting to diversify slightly in recent years, including also pharmaceutical and beauty products, watches and medical devices.

Total **agricultural trade** between the parties has been growing stronger (+36% on average) than non-agricultural trade (+18.5%) since implementation of the EPA. For ESA4, agricultural exports to the EU grew by 43% annually, while non-agricultural exports grew by only 17.6% annually. ESA4 countries have a high trade surplus for agricultural goods while the EU has a slight surplus for non-agricultural goods.

The EU exports to ESA4 increased by 23% over the period 2012-2017 reflecting the market access liberalisation implemented by all ESA4 countries.

Table 2: EU28 merchandise trade by AMA/NAMA sector with ESA4 (million EUR)

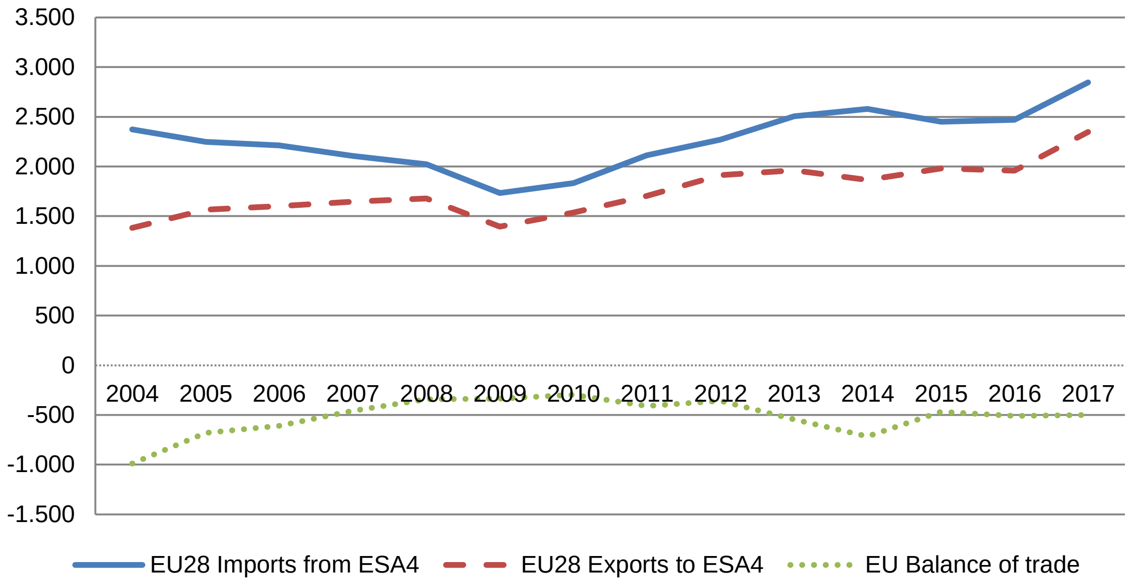
	2012	2013	2014	2015	2016	2017
	EU28 imports from ESA4					
Total	2 272	2 505	2 580	2 450	2 469	2 848
Agricultural	641	723	743	725	783	919
Non-Agricultural	1 630	1 782	1 837	1 725	1 685	1 928
	EU28 exports to ESA4					
Total	1 913	1 961	1 865	1 981	1 958	2 347
Agricultural	203	208	239	259	275	308
Non-Agricultural	1 710	1 753	1 626	1 726	1 683	2 036
	EU28 trade balance					
Total	-359	-545	-715	-469	-511	-501
Agricultural	-439	-516	-504	-466	-508	-611
Non-Agricultural	80	-29	-212	1	-1	108

Source: Trade G2 Statistics/ISDB

The **EU is the largest trade partner of ESA4** for its exports and the second largest partner for its imports. Seen from the individual countries, the EU is the largest trade partner for Seychelles and Mauritius for both their exports and imports, while for Madagascar the first for its exports and second for its imports. As for Zimbabwe, the EU is the fourth and third largest partner for its exports and imports respectively; Zimbabwe trades mainly with South Africa.

ESA4 countries have high **PUR**s in their exports to the EU. A large share of their exports are raw materials and hence duty-free on an MFN basis. The remainder of exports are imported under EPA preferences, with the exception of 1-2% of exports where the MFN tariff is positive but low enough to offset compliance costs for the preferential rate.

Figure 1: EU28 Merchandise trade with ESA4 (million EUR)



Mauritian edible flower wafers make their way to EU tables

In 2017, almost half of the Mauritius' exports found their way to the EU market. One of the companies benefitting from the EPA is Creasim Ltd, a Mauritian company that produces edible cake decorations of wafer-made flowers, fruits and leaves for pastry and bakery products. More than 180 tons of cake decorations per year are exported to EU markets, representing 60% of their turnover. Creasim has 230 workers, of which 30% have been employed since the EPA entered into force.

Wafer is becoming more and more popular because of its low cost and calorie content. Registered patterns and models are hand-made productions and are subject to a strict quality control conforming to EU standards.

2.2. Trade in Services and Investment

The iEPA does not cover trade in services. Trade in services between the EU and ESA4 has shown some variation between countries and over the last years. In the last years, the EU had a negative net balance with all ESA4 but Zimbabwe. However, this trend varies between them, showing that there are different patterns of trade.

Table 3: EU28 Services trade with ESA4 (million EUR)

	2011	2012	2013	2014	2015	2016
EU28 imports	2 416	2 143	2 030	2 355	2 476	2 336
EU28 exports	1 506	1 638	1 407	1 821	1 599	1 873

EU28 balance	-910	-505	-624	-534	-877	-463
Total trade	3 922	3 781	3 437	4 176	4 075	4 209

Source: Trade G2 Statistics/ISDB from Eurostat BOP statistics

2.3. FDI

The Agreement does not cover investment. On FDI, no clear pattern emerges either at regional or at country level. Investment flows have fluctuated for all countries, though they have increased for Zimbabwe in the last three years. Mauritius accounts for more than 90% of EU FDI stocks in ESA4.

Table 4: FDI EU28 with ESA4 (million EUR)

	Inward			Outward		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Stocks	6 289	6 301	6 412	21 506	22 336	20 017
Flows	1 410	-1 474	1 142	183	2 428	-3 911

Source: Trade G2 Statistics/ISDB from Eurostat BOP statistics

3. Issues addressed in the annual EPA Committee meeting

The main issues addressed by the 6th Meeting of the EPA Committee in October 2017 (in Madagascar) were:

- Continuous support to EPA implementation under both the 10th and the 11th European Development Fund (EDF);
- Agreement on modernisation of rules of origin;
- Agreement to hold a dedicated meeting in 2018 to discuss the scope and objectives of the envisioned deepening of the agreement (covering additional topics) which the ESA4 have asked for. The deepening may evolve around the issues mentioned in the rendezvous clause of the interim agreement.

4. Specific areas of importance

Development cooperation is essential for EPA implementation and for ensuring the long-term sustainable development impact of the agreement. In this context, it was an important achievement when envelopes of EUR 10 million were allocated to each of the four EPA countries under the SADC regional programme.

Through this support, Mauritius is now already implementing a project to improve the ease-of-doing-business and investment regulatory framework. An e-licensing platform has been developed as a single point of entry for business licenses and permits, shortening and simplifying the application procedure. In addition, Regulatory Impact Assessments (RIA) will be conducted for the first time to aid the improvement of policy formulation with regards to investment, trade and business regulation. Technical assistance is also provided for the implementation of the Intellectual Property Rights (IPR) reform, a key reform to support the transformation to a knowledge-based economy.

In Seychelles, the programme will focus on trade policy capacity building, private sector development in manufacturing and agriculture & fisheries, with a focus on niche sectors that could generate exports, and business to business trade promotion.

Projects are being finalised in the remaining ESA countries, with both Zimbabwe and Madagascar focusing on SMEs development and trade facilitation in selected value-chains. With EU support, Madagascar has successfully set up a well-functioning dialogue platform where business and government come together to discuss issues surrounding the EPA, export performance and the business climate.

5. PROGRESS MADE, MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

All ESA4 countries are implementing the Agreement and have made tariff cuts according to their liberalisation schedule.

The ESA States expressed their interest in 'deepening' (new issues) and 'widening' (new members) the existing iEPA[192]. Both sides agreed to jointly define the scope and objectives of the deepening before launching the negotiation process.

As for widening, the EPA is open for accession by other ESA states[193]. Comoros has already signed the agreement in July 2017 and is expected to ratify it in 2018. Zambia can, at any time, also sign and ratify the agreement that it initialled in 2007. The other ESA States will first need to submit market access offers before eventually joining the agreement.

There are challenges raised by non-tariff measures that need to be tackled by constructive dialogue between the competent services and by appropriate EU support. The prospects of an ESA4 Business Forum, an awareness-raising EPA seminar in Zimbabwe and specific training on GIs have been raised.

6. CONCLUSIONS AND OUTLOOK

In 2017, all the four ESA countries implemented their commitments, culminating in significant tariff cuts. The trade balance remained positive in favour of the ESA4, and there was sustained growth of exports, in particular from Madagascar, whereas exports from Zimbabwe started growing. Exports have further potential through the implementation of domestic reforms and accompanying measures. Comoros signed the agreement in July 2017 and is expected to ratify it in 2018. Uncertainty remains as to the intentions of Zambia to sign the iEPA.

[192] The full name of the agreement, 'Interim Economic Partnership Agreement' reflects the fact that the objective on both sides for an agreement in Eastern and Southern Africa was a comprehensive, regional agreement. However, negotiations for a regional EPA with the ESA4 and seven other ESA countries have come to a halt, and the Commission focused its efforts on the agreement already implemented by the ESA4.

[193] Comoros, Djibouti, Ethiopia, Eritrea, Sudan, Malawi and Zambia

ANNEX – LIST OF ABBREVIATIONS

ACP	African, Carribean and Pacific countries
Cariforum	Forum of the Caribbean Group of ACP States
CETA	Comprehensive Economic and Trade Agremeent EU- Canada
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
DAG	Domestic Advisory Group
DCFTA	Deep and Comprehensive Free Trade Area
EBO WWN	European Business Organisations worldwide network
EEA	European Economic Area
EEN	Enterprise Europe Network
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GIs	Geographical Indications
IPRs	Intellectual Property Rights
ILO	International Labour Organisation
MFN	Most Favoured Nation
PUR	Preference Utilisation Rate
SAA	Stabilisation and Association Agreement
SADC	Southern African Development Community
SME	Small and medium-sized enterprise
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TRQ	Tariff Rate Quota
TSD	Trade and Sustainable Development