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

on Implementation of Free Trade Agreements

1 January 2018 - 31 December 2018

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DATA USED FOR THE COMPILATION OF INDIVIDUAL REPORTS AND INFORMATION SHEETS

The trade statistics used in this report and the attached staff working document on the evolution of trade and investment flows are based on EUROSTAT data as available on 30 March 2019, except where indicated otherwise. The most recent annual data available for trade in goods are for 2018, and for services and investment for 2017, except where indicated otherwise.

PART I: NEW GENERATION FREE TRADE AGREEMENTS

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 EU-Canada Comprehensive Economic and Trade Agreement ("CETA") has been provisionally applied since 21 September 2017. 2018 was the first full year of provisional application. While it is too early to take a definitive view on the economic impact of the Agreement, trade flows suggest a positive trajectory with EU goods exports rising by 15% compared to the average of the previous three years. Good progress has also been achieved in implementing the institutional structure foreseen by the Agreement, with the parties identifying the co-chairs and contact points for the twenty committees and dialogues established under CETA and almost all committees and dialogues held their first meetings in the course of 2018 *(more details below)*. Important efforts were made to ensure that the conduct of these meetings is transparent and inclusive. Meeting schedules, provisional agendas and reports of all CETA committees and dialogue meetings were made public on DG TRADE's website (http://trade.ec.europa.eu/doclib/press/index.cfm?id=1811). Civil society mechanisms as foreseen by agreement were set up and further initiatives of civil society engagement were implemented for committees like the Regulatory Co-operation Forum, in light of the interest of stakeholders regarding the Forum.

On 26 of September 2018, the EU and Canada held the first CETA Joint Committee, which is the highest body under the agreement. They reviewed progress made by the various CETA committees and dialogues and discussed the effective implementation of the agreement. Several Member States and Canadian provinces participated in the meeting.

Issues of concern that the EU raised related notably to the cheese TRQ management by Canada, access to the Canadian Wines & Spirits and Geographical Indications (GI) protection in Canada. From the Canadian side, main concerns relate to EU legislation in the Sanitary and phytosanitary (SPS) field (Country of Origin Labelling, Maximum Residue Levels), the implementation of the conformity assessment protocol and the beef and pork TRQ management.

The Joint Committee formally adopted three recommendations, which set the stage for further work, namely to encourage small and medium-sized enterprises (SMEs) to use opportunities offered by CETA, to work jointly on climate action measures and the implementation of the Paris Agreement within the CETA context, and to work jointly to better understand how trade agreements can contribute to gender equality. The Parties also set up dedicated contact points for trade and gender and trade and SMEs. Work is underway to implement the concerned recommendations. For instance, a CETA Workshop on Trade and Gender, co-organised by the Commission and by the Mission of Canada to the EU, took place in Brussels on 1 April 2019. Participants from business, civil society, EU Member States and international organisations engaged with the objective to learn from women-led businesses about their experiences under CETA and challenges faced when participating in international trade more generally. Participants also discussed potential actions to implement CETA's trade and gender recommendation. To help SMEs, the EU and Canada put online a dedicated webpage with information useful to smaller businesses on accessing Canadian and EU markets such as import requirements and other information considered to be useful for SMEs.

In line with its commitments in the recommendation on climate action, a joint EU-Canada conference on Trade and Climate was organised in Brussels on 24 January 2019. The event provided a platform for policy makers, businesses, non-governmental organisations to engage *(more details below)*.

Work has also been ongoing on the foundations of the Investment Court System (ICS) already established in CETA. Although the ICS provisions are not provisionally applied, the contours of the further work on the ICS has been agreed between EU and Canada in the Joint Interpretative Instrument on CETA[1] and is also reflected in the Commission and Council Statement No 36[2]. In the course of 2018, the Commission has consulted with Member States and discussed with Canada on how to bring forward the work that has been committed to during the CETA ratification process.

In particular, the Commission has been working with the Member States at the Trade Policy Committee (Services and Investment) on four strands of action for the implementation of the Investment Court System: (1) the rules regarding the functioning of the Appellate Tribunal, (2) the code of conduct for the Members of the Tribunals, (3) the rules for mediation and (4) the procedure to adopt binding interpretations. The European Parliament has been kept informed of the discussions. At the first inaugural meeting of the CETA Committee on Services and Investment on 18 September 2018, the EU and Canada had first positive exchanges on the draft decisions. The Commission continued technical discussions on the texts with the EU Member States and with Canada. The aim is to reach a technical agreement on those texts in due course.

The Commission started work on other areas related to the implementation of the Investment Court System, in particular on the selection mechanism for the Members of the Court. Discussions on this issue with the Member States at the Trade Policy Committee (Services and Investment) started in December 2018 and are ongoing. In its Opinion 1/17 delivered on 30 April 2019, the Court of Justice of the EU confirmed the compatibility of the CETA's provisions on the Investment Court System with EU law[3].

At the time of writing, 13 Member States had notified the completion of their ratification process (Austria, Czech Republic, Denmark, Estonia, Spain, Croatia, Latvia, Lithuania, Malta, Portugal, Finland, Sweden and the UK). The ratification process is still ongoing in other Member States and the Commission continues to be engaged with Member States and stakeholders to create awareness of the opportunities and to ensure EU stakeholders are able to derive full benefits of the agreement. As part of these efforts, the Commission developed

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

2 Statement No 36 ("Statement by the Commission and the Council on investment protection and the Investment Court System (ICS)") of the Statements entered in the Council minutes in the occasion of the signature of CETA (OJ L 11, 14 January 2017, pp. 9–22)

3 The Opinion of the Court is available at: http://curia.europa.eu/juris/document/document.jsf?text=&docid=213502&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=6942898.

specific guides to assist EU businesses which are or want to become active on the Canadian market (notably on the protection of geographical indications and public procurement). More such guides are in the process of being developed (notably on services and investment). The Commission also updated its Market Access Data Base to provide more information useful to EU exporters to Canada, in particular SMEs.

2. EVOLUTION OF TRADE

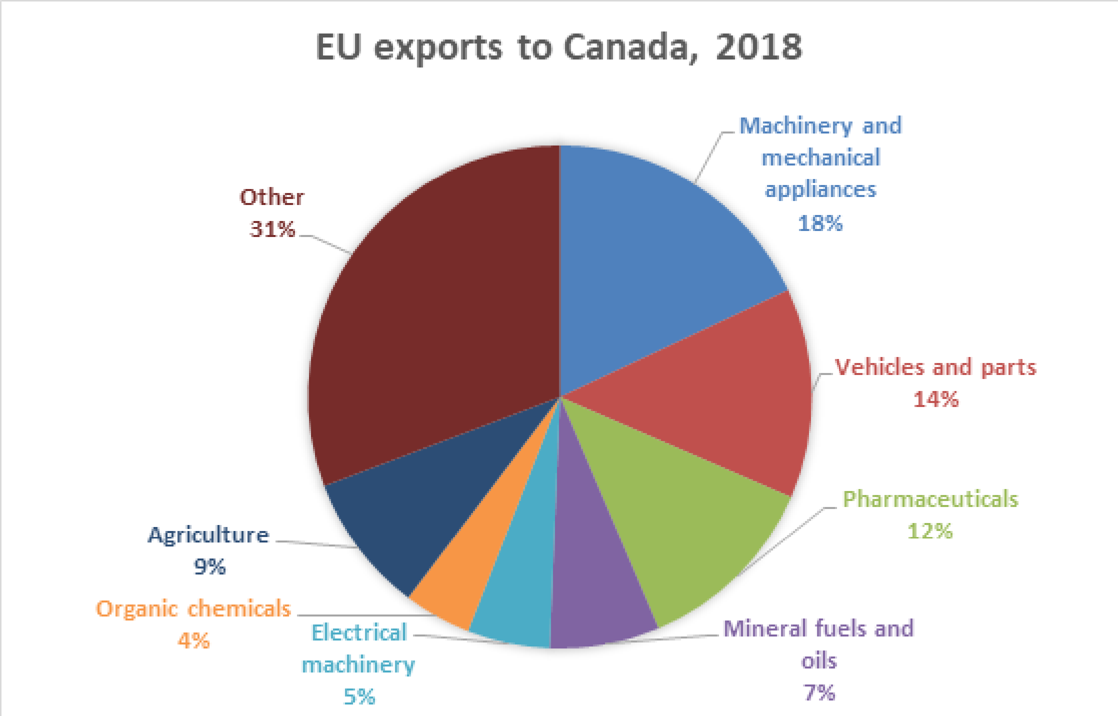
In terms of trade in goods, Canada is now the EU's 10th largest trading partner (imports plus exports), with total trade flows worth €72 billion, or 2% of the EU's total trade with third countries[4].

The EU had a trade surplus of €10.4 billion, which amounted to a €3.9 billion improvement compared to the average between 2015 and 2017.

Although one year after the provisional application of CETA some caution is needed to interpret the limited data available, EU exports were on a positive trajectory in 2018. EU goods exports to Canada increased by 15% percent when compared to the average of the three previous years (€36 billion). This meant a stronger increase than for EU goods exports to third countries, which went up by 8% during the same period. Over the same period, total EU goods imports from Canada increased by 5% or €1.5 billion.

The EU's most important export items all experienced a significantly stronger export performance when compared to the average of the three previous years: 'Machinery and mechanical appliances' were up 16% (accounting for almost one-fifth of total EU exports to Canada); 'Vehicles and parts' were up 11% (accounting for 14% of total EU exports to Canada); 'Pharmaceuticals' were up 29% (accounting for 12% of total EU exports to Canada); 'Agricultural goods' were up 7% (accounting for 9% of total EU exports to Canada); 'Electrical machinery' was up 2% and 'Organic chemicals' were up by 77%.

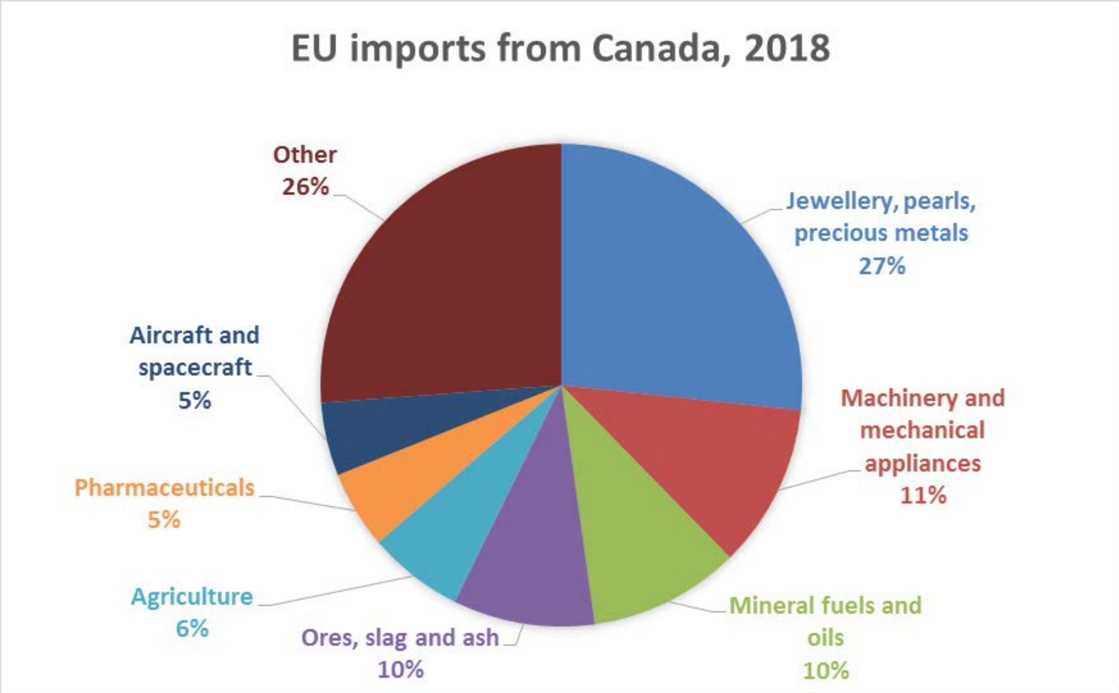
[4] Total 2018 trade in goods, imports and exports combined.



At the same time, EU imports from Canada increased during the same period by 5% or €1.5 billion, from on average €29.5 billion in 2015-2017 to €31.0 billion in 2018. Imports from Canada grew at a slower pace than overall EU imports from third countries, which over the same period grew by 12%.

Canada is the EU's 12th largest source of imported goods, accounting for 2% of all goods imported from countries outside the EU. To put this into perspective, 20% of the EU's total imports originate from China (€394 billion), which is the EU's first trading partner in terms of imports.

The EU's most important imports from Canada are displayed in the graph below.



With the exception of aircraft and spacecraft and ores, slag and ash, these sectors are also part of the EU's top ten sectors when it comes to overall world imports.

Concerning services, total exchanges in 2018 amounted to €38.7 billion, an 11% increase compared to 2017 (see section statistics for the 2017 data). EU exports to Canada amounted to €23.5 billion, whilst Canada's exports to the EU amounted to €15.1 billion; the EU maintained a trade surplus at around €8.3 billion.

In 2017, total FDI stocks amounted to €600 billion.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

In 2018, 18 of the 20 the committees and dialogues established under CETA met (only the Dialogue on electronic commerce and the Mutual recognition of Professional Qualifications Committee did not meet). For more details, the agendas and reports of these meetings can be found on the Commission's "CETA – Meetings and documents" webpage[5].

Committees

The **CETA Joint Committee** met in Montreal on 26 September 2018 *(details provided in the introduction)*. The activities of the other committees and dialogues were as follows:

The first meeting of the CETA **Committee on Government Procurement** took place on 15 March 2018 in Brussels. The Parties exchanged recent legislative developments and discussed *inter alia* technical updates that need to be made to Annex 19-8 of Canada's market access schedule, ongoing work in developing Canada's single point of access for public procurement, existing bid challenge mechanisms/domestic review procedures, as well as public procurement opportunities, particularly in the space sector.

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

The first meeting of the **Sanitary and Phytosanitary Joint Management Committee (JMC)** on 26-27 March 2018 in Ottawa, achieved the following outcomes (i) identification of priority SPS issues affecting trade between the European Union and Canada, and (ii) establishing the foundations for bilateral exchanges of information and for ongoing cooperative efforts including cooperation on animal welfare and antimicrobial resistance. More specifically, the EU and Canada identified the topic of long distance transport of animals as a topic for engagement within the context of the CETA Regulatory Cooperation Forum meeting of December 2018.

During the 2nd SPS JMC meeting in February 2019 the agreed follow-up actions were further deepened to make the outcome more result- oriented on several pending market access issues, as reflected in more detail in the public report (http://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157809.pdf).

The **Committee on Geographical Indications (GIs)** convened on 17 May 2018. Canada explained the important changes it had made to its legislative framework to meet its CETA commitments on the protection of GIs. Concerns were raised by the EU about Canada's implementation of CETA articles regarding administrative enforcement of GI protection and the lack of a list of companies entitled to use the grandfathering clause. Canada committed to organising explanatory meetings in certain EU Member States, which notably took place in Brussels, Paris, Madrid and Rome.

The **Joint Customs Cooperation Committee (JCCC)** convened in Brussels on 22 June 2018. Parties exchanged information about recent legislative and regulatory developments in the field of customs, explored bilateral and international cooperation topics and made progress towards the mutual recognition of the EU and Canada Authorised Economic Operator programmes.

The **Wine and Spirits Committee** met in Brussels on 5 July 2018. Parties had a detailed discussion on the implementation of the CETA Joint Declaration on wines and spirits, which contributed to developing a mutual understanding of their respective views. The EU expressed concerns about the enforcement of the protection of certain EU Wines and Spirits GIs, which the Canadian counterparts explained they were resolving. The EU provided an overview of its legislation on certain duty reductions, as well as on the on-going recast of the EU wine legislation, which should address Canada's concern about red ice wine.

The **Financial Services Committee** met in Brussels on 19 June 2018. The Parties discussed financial sector developments as well as regulatory and supervisory issues relating to banking and capital markets. They also discussed issues pertaining to financial stability as well as cybersecurity, consumer and data protection and sustainable finance.

The **Committee on Trade and Sustainable Development (TSD)** met in Brussels on 13 September 2018. The meeting was preceded and informed by exchanges of the first CETA Civil Society Forum, which took place on 12 September 2018. In addition, the Parties met with the representatives of the domestic advisory groups (DAGs) referred to by the TSD chapters, and debriefed them on the TSD Committee discussions. They exchanged views on the subjects raised during the TSD meeting and discussed expectations for future work between the DAGs and the Parties. The EU and Canada acknowledged the envisaged adoption of three recommendations on trade and climate, trade and gender and trade and

SMEs, which had been prepared in the framework of the TSD implementation work and which were subsequently adopted by the CETA Joint Committee on 26 September 2018.

The **Committee on Services and Investment** met in Brussels on 18 September 2018. On investment protection, the Parties discussed the functioning of the Appellate Tribunal, the code of conduct and rules for mediation. Both the EU and Canada agreed that subsequent work will be carried out at technical level to produce a draft decision in early 2019. On services, the Parties exchanged information on Mutual Recognition Agreements, Canada's coastal shipping legislative reform, ongoing negotiations relating to the development of performance requirements obligations for financial services, and the provision of information on temporary entry. Both Parties agreed that technical level discussions would advance these issues further.

The **Agriculture Committee** met on 19 September 2018 in Brussels. Reviewing their respective trade data, both Parties welcomed increased imports across most agricultural goods. Canada raised concerns about the EU's beef and pork quota management system and asked about data access, while the EU expressed concern about the Canadian cheese quota administration and the very low uptake of the quota until late in 2018. Other issues discussed were Canada's price class for milk protein ingredients as well as European national measures on origin labelling. Both Parties agreed to engage in information sharing to remedy the flagged issues, calling for more collaboration in order to take advantage of CETA's new opportunities.

On 16 November 2018, the **Joint Sectoral Group (JSG) on Pharmaceuticals** convened by videoconference. Six administrative arrangements to facilitate the effective implementation and monitoring of the CETA Good Manufacturing Practices Protocol (GMP) on Pharmaceuticals were approved (Components of the Information Sharing Process; Two-way Alert Program; Procedure for Evaluating New Regulatory Authorities; Equivalence Maintenance Program; Components of a GMP Compliance Program; Contact Points). Canada's Proposal on a Mutual Recognition Agreement (MRA) for Drug Facility Inspections in third countries and the Recognition of the Active Pharmaceutical Ingredients Program under the CETA GMP Protocol on Pharmaceuticals were discussed, with Parties agreeing to develop a common approach and propose a plan. The JSG confirmed the continued mutual recognition of GMP inspections and batch certification between the Parties.

On 29 November 2018, the **Trade in Goods Committee** convened via videoconference. The Committee welcomed the progress made on the reciprocal exchange of information on the safety of consumer products and discussed the implementation of the Protocol on conformity assessment. The Parties also exchanged information regarding the informal IPR dialogue in June 2018, the joint report of the Joint Sectoral Group on Pharmaceutical products, which took place on 16 November, as well as legislative developments. The Reports of the Agricultural Committee and the Wines & Spirits Committee were discussed thereafter, covering a range of issues (including the cheese TRQ, provincial discriminatory measures against EU wines exporters, enforcement of W&S GI protection, origin declaration on Wines & Spirits, veterinary medicines regulation, and country-of-origin labelling, amongst others).

The **Regulatory Cooperation Forum** met on 14 December 2018 in Brussels (and videoconference) and agreed on a work plan. It was also agreed that the plan should be published online and updates should be published regularly. Topics retained in the work programme were ‘cybersecurity and the Internet of Things’, ‘animal welfare’, ‘cosmetics-like drug products’, and ‘pharmaceutical inspections’. Both Parties emphasised the importance of safety of consumer products and welcomed the new administrative arrangement adopted to exchange non-personal information on dangerous non-food consumer products. Finally, the Forum debriefed civil society stakeholders and in response to requests of stakeholders conveyed openness to receiving suggestions for new topics, if there is a common interest. Stakeholders welcomed the increased transparency.

The **Joint Committee on Mutual Recognition of Professional Qualifications** met in Brussels on 16 April 2019. The Committee officially acknowledged the receipt of documents submitted by the Canadian Architectural Licensing Authorities (CALA) and the Architects’ Council of Europe (ACE) with a view to providing a joint recommendation on a Mutual Recognition Agreement (MRA) between Canada and the EU concerning the profession of architects. The Committee discussed the joint submission in light of Article 11 of CETA and exchanged views about the next steps in the process of the possible negotiation and adoption of the MRA.

Dialogues

The **Bilateral Dialogue on Forest Products** held a productive meeting on 23 May 2018 by videoconference, discussing resource efficiency of wood-based products, their sustainable use, product standards, hazard-based approach to regulation of plant protection products/biocides and EU-Canada cooperation on research and innovation.

The **Bilateral Dialogue on Raw Materials** took place on 16 November 2018 and discussed research and innovation aspects of the raw materials life cycle. The EU and Canada also agreed to continue to exchange best practices on sustainable mining as well as to find synergies to boost investment opportunities in exploration and mining in the EU and Canada. Stakeholder representatives joined part of the meeting to report on the main outcome of the EU-Canada Raw Materials Stakeholders Forum.

The 14th **Joint Science and Technology Cooperation Committee** meeting - the first under CETA- acknowledged the importance of the recent research and innovation policy developments in Canada and in the European Union - *Budget 2018* and *Horizon 2020*. Reinforcing the links between industry and research was a key objective of both Parties for this meeting and they agreed to continue their strong cooperation in key areas like marine, health, aeronautics and agricultural research. Mobility of Canadian and European researchers was strongly reaffirmed and continued development of appropriate framework conditions for research cooperation was agreed.

The **Dialogue on Biotechnology** took place on 26 April 2018 by videoconference. Both Parties underlined the importance of information exchange on regulatory and technical issues affecting trade in agricultural products of biotechnology. Both sides exchanged information on legislative and policy developments. The EU raised the issue of Genetically Modified (GM) animals in Canada, specifically about GM salmon and its traceability requirements. Canada reaffirmed that all products exported to the EU, including salmon, must meet EU import requirements and therefore no GM salmon is exported to the EU.

The meeting of the **Bilateral Dialogue on Motor Vehicle Regulations** was held via videoconference on 5 October 2018 and focused on regulatory developments with respect to motor vehicles. Regulatory ambitions in the Automated Driving sector were discussed and the Parties agreed to hold additional technical meetings on regulations of relevance ahead of the UNECE meetings in Geneva. Both sides confirmed their willingness to continue technical exchanges on issues of common interest.

4. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

In the context of the Trade and Sustainable Development Committee, the EU and Canada discussed issues of common interest in the multilateral context and exchanged views on potential priority areas in the trade and labour, trade and environment and other cross-cutting fields. The Parties recalled the existing high intensity of bilateral relations on **environmental issues** in general, and noted their commitment to future cooperation under CETA. The Parties updated each other on their relevant processes in relation to multilateral environment agreements (MEAs). In this context, the Parties also exchanged views on areas of mutual interest, such as trade in plastics, trade and biodiversity and clean technology. The Parties provided updates on their respective mechanisms and practices in receiving communications on the Trade and Environment Chapter (Canada) and Trade and Sustainable Development (EU) from non-governmental stakeholders and the wider public.

To expand the awareness of EU-Canada trade and climate action in the context of CETA, the EU and Canada hosted a conference in Brussels on 24 January 2019 to explore how to best leverage CETA's institutional and legal framework to encourage further joint actions to support implementation of the Paris Agreement. At this conference business, civil society and policy communities from both sides of the Atlantic discussed topics such as the application of CETA to support sustainable and green investment, regulatory cooperation and trade in green technologies and services.

In relation to **trade and labour**, the Parties outlined their respective legal mechanisms for monitoring and ensuring compliance with core labour standards, and discussed possible priorities for cooperation. In this context, the EU and Canada expressed their preliminary interest in working jointly on (i) labour issues in relation to global supply chains in third countries; (ii) on collective bargaining in the context of the changing world of work, in particular on the platform economy; and (iii) on gender-related issues in the world of work, also in coordination with the work on the Trade and Gender Recommendation.

Under cross-cutting issues, the Parties also stressed the important role of businesses in promoting labour and environmental objectives and outlined their respective ongoing efforts in promoting responsible business conduct/corporate social responsibility with their trade partners. They agreed as a follow-up to explore potential synergies and cooperation activities.

Trade and Sustainable Development (TSD) review

The review process was formally initiated by an exchange of letters between the EU and Canada after CETA provisionally came into force on 21 September 2017. In the course of 2018, the Parties held several technical level discussions and exchanged views in the context of the early review of the Trade and Sustainable Development chapters. Canada and the EU reconfirmed their commitment to advance this process and agreed to intensify their efforts on this commitment, with a view to reviewing the implementation of the TSD chapters, including their enforcement mechanisms, to propose solutions and outcomes at the second CETA Joint Committee meeting and subsequent Joint Committee meeting as pertinent. In parallel, the EU Commission published a 15-point action plan to make EU trade and sustainable development chapters more effective and which is informing the EU position on TSD. The Parties devised a joint work plan to be implemented in advance of the second CETA Joint Committee meeting.

5. AGRICULTURE

Since the provisional application of CETA on 21 September 2017, the Commission has been closely following the implementation of the commitments made in the field of agriculture. Canada is the 10th most important market for EU agri-food exports. In 2018, the EU's trade surplus with Canada grew by 31.5% to reach €1.7 billion.

EU-28 agri-food exports to Canada were up 4% in value when compared to 2017 and increased by 7% when compared with the average of the last three years (2015-2017). This is just slightly below the 4.3% annual growth recorded in the previous 4 years.

Meanwhile EU imports fell by nearly 12%. This was largely due to a sharp decline of 40% in oilseeds (notably rapeseeds and soybeans) and a decline of 26% in wheat imports. The tariff rate quotas opened by the EU for the import of Canadian agricultural products were hardly utilised. The highest fill rate was 11% for the common wheat and sweet corn quotas. For meat, fill rates ranged from 0% for frozen beef to 4% for bison meat. They were particularly low (0%–1%) for the origin quotas for sugar-containing products, chocolate, food preparations and pet food.

The additional duty free quotas for cheese are among 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.

In 2018, the CETA cheese quota was nearly completely filled (96.4%), an even better result than in 2017. The quota uptake, however, was very slow to take off for well over the first half of 2018 and the EU raised its concerns in this regard to Canada, both in CETA's Agriculture Committee as well as in the CETA Joint Committee. In these forums, the EU also highlighted other concerns with the Canadian quota management system, which notably foresees that 50% of quota licenses be allocated to Canada's cheese manufacturers, which would not appear to constitute the most likely users of the quota. At the CETA Joint Committee it was agreed that in order to draw meaningful conclusions it was important to have data for the first full year of quota utilisation. The experience of the first full year of application of CETA has confirmed concerns raised by EU stakeholders about a large number of quota licenses (up to 40%) being transferred to other operators. Such transfers add costs to EU cheeses in Canada. In April 2019, the EU therefore requested that Canada conduct a mid-term review of its CETA cheese quota administration system.

Utilisation of the CETA quota for EU cheese

Tariff Code	Product	Quota 2018 (tonnes)	Utilisation 2018 (tonnes)	Utilisation rate
0406	Cheese	5 900	5 693	96,5 %
	of which:			
	high quality	5 333	5 290	99,2 %
	industrial	567	403	71,1 %

Source: Global Affairs Canada.

On various occasions in 2018, the EU also expressed concerns about Canada's price class for milk protein ingredients (milk class 7), which are made available to the food processing industry at world prices.

Canada for its part, raised concerns about the EU's quota management system for meat quotas, specifically the automatic on-demand issuance of import licenses. The EU explained that for volumes not allocated during the initial application period, import licenses are automatically issued on-demand after they are processed. Canada also called for better access to quota utilisation data. The EU pointed out that data on quota allocation, which is publically available on-line, was a reliable guide to actual imports.

Alcoholic beverages, in particular wines and spirits, top the list of EU agricultural exports, accounting for over 40%. Many discriminatory practices remain in Canada against imported wines and spirits, notably at provincial level. Ontario and Quebec have implemented the commitment foreseen in CETA and have moved away from ad-valorem cost of service differential fees to a volume based system. In accordance with the agreement, the EU has requested that Ontario and Quebec carry out new audits of their accounting system. In addition, the EU called for more transparency and clarity on cost allocation in relation to these cost of service differential fees (some costs are seen as unduly absorbed by imported products). The federal excise duty on imported wine (that exists since 2006) was increased in 2017 by 2% and an escalator clause linked to inflation was included. The EU requested that the discriminatory aspects of the tax to be removed. The tax has also been challenged in the World Trade Organisation by Australia. Finally, the Commission is working with the Canadian authorities to seek mutually agreed solutions to the multitude of concerns relating to the discriminatory treatment of EU alcoholic beverages compared to local ones across few provinces.

Since the entry into force of CETA 143 EU food **geographical indications** (GIs) enjoy full protection from imitations in Canada, at a level comparable to that under EU law. The Commission worked with Canada to ensure that the protection of these GIs would be fully enforced. The amendment of Canada's Trade-Mark Act to protect the geographical indications of food products, which was introduced as a result of CETA, established a procedure for the direct application for protection by EU rights-holders. The new system delivered its first result in September 2018 with the protection of an additional EU GI "Prosciutto di Carpegna". This progress should be seen as a concrete positive outcome of CETA. European producers who are interested in exporting to Canada have for the first time access to an effective and easy mechanism to protect their geographical indications. In order to assist EU GI right holders to fully avail themselves of this new mechanism, the EU produced a GI guide available to businesses on the Commission's webpage. Certain concerns remain as to how the administrative enforcement can be ensured notably for the 8 grandfathered GIs for which a specific regime applies in view of certain prior uses on the Canadian market. The Commission will continue to engage with Canada on this issue. In addition, the EU and Canada will also continue to work on updating the Annex of Wines and Spirits GIs. In the case of alcoholic beverages, CETA, as a result of the incorporation of the EU Canada wines and spirits agreement, only provides a list of GI names which are eligible for protection in Canada. EU GI rights-holders would still need to submit an application to Canadian authorities.

SPS measures

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

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

For some plant commodities, Canada does not recognise alternatives to the use of methyl bromide as a pest mitigating measure for trade. In 2018, an EU project on alternatives to the use of methyl bromide was launched in close cooperation with Canadian authorities with the objective to identify risk measures not based on the use of a pesticide which is known to be an ozone depleting compound. A workshop with experts on both sides took place in March 2019. The outcome of this cooperation will result in a guidance document for EU exporters of plants and plant products for the Canadian market.

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

6. REGULATORY COOPERATION

Chapter 21 of CETA lays out the framework for voluntary regulatory cooperation activities, including the establishment of the “Regulatory Cooperation Forum” (the Forum). The Forum builds on the existing regulatory cooperation agreement between the EU and Canada signed in 2004.

To prepare for this first meeting, both the EU and Canada held stakeholder consultations to identify issues, priorities, and sectors that the Forum could consider to include into its first work plan. In January 2018, the Commission published a call for proposals inviting civil society to come forward with suggestions for topics for regulatory cooperation with Canada. The Commission received 26 responses to this call, which were made public[6]. From February to April 2018, Canada also sought comments from stakeholders on potential areas for regulatory cooperation with the EU. Canada received close to 40 responses, which were also made public[7].

The first meeting of the Forum took place on 14 December 2018 in Brussels (and via video conference). The topics to be included in the work plan were drawn from the consultations following feedback from EU and Canadian regulators, before being agreed between the EU and Canadian Co-chairs. In choosing the topics, the EU and Canada also took into account the readiness of the topics proposed for regulatory cooperation and whether or not the topics were already dealt with in other CETA committees or existing bilateral or international dialogues. Regulators from both sides provided an update on the feedback received during the consultations, how the initiatives were identified for cooperation, bilateral discussions to date and next steps. On this basis, the parties agreed on a work-plan including the following 5 topics: (i) cybersecurity and the internet of things; (ii) animal welfare – transportation of animals; (iii) re-testing of cosmetics-like products; (iv) co-operation on pharmaceutical inspections in third countries; and (v) exchange of information on the safety of consumer products.

The last topic already saw the conclusion of an administrative arrangement for the exchange of information on dangerous non-food consumer products between the European Commission's Directorate-General for Justice and Consumers (DG JUST) and Health Canada on 13 November 2018, during International Product Safety Week. The Forum welcomed the agreed administrative arrangement and took stock of the context, scope, and type of information that will be exchanged under the administrative arrangement. Furthermore, it was agreed that it would be relevant for the Forum to receive a report of the implementation of the administrative arrangement at the next meeting.

During the civil society meeting, co-chairs and regulators from the EU and Canada debriefed civil society stakeholders about the Forum's activities. Audiences from multiple physical locations participated in this exchange: stakeholders participating in person in Brussels, in Ottawa via video conference, and from desks and conference rooms via web streaming. Several stakeholders in Brussels and Ottawa participated and had the opportunity to comment on the outcomes of the Forum and indicated their interests for future initiatives to strengthen regulatory cooperation.

7. CONCLUSIONS AND OUTLOOK

The first year of provisional application of CETA showed good results. The institutional structure of the Agreement was set up and committees and dialogues started their activities. Important efforts were made to ensure the conduct of meetings was transparent and inclusive and this was welcomed by stakeholders and civil society.

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[6] http://trade.ec.europa.eu/consultations/index.cfm?consul_id=248.

[7] https://open.canada.ca/data/en/dataset/c45c4cda-7134-4e65-8e99-5214eb07bcf3

Trade statistics for 2018 indicated that companies were starting to benefit from the signficant reduction of duties applicable since 21 September 2017 (i.e. 98% of the overall duties which will be ultimately reduced by CETA). We can observe an increase in trade in many sectors, particularly in those sectors where duties were high before the entry into force of CETA. The preliminary statistics also indicated an increase of EU exports to Canada for agricultural products, in particular for processed agricultural products and cheeses where the EU has strong economic interests. CETA also offers the protection of 143 distinctive EU food products labelled with GIs. Thanks to CETA, the Canadian Trade Mark Act was amended to allow for a procedure for the direct application for protection by EU rights-holders of food GIs. A first successful additional protection of an EU GI was delivered through that mechanism in September 2018.

CETA also provides for a significant further opening of the Canadian procurement market, including at provincial and local level which represent an important percentage of public procurment. These openings have been vigourously welcomed by EU companies. CETA also 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. A first proposal for a Mutual Recognition Agreement (MRA) was made in 2018 by the Canadian Architectural Licensing Authorities (CALA) and the Architects' Council of Europe (ACE) aiming to facilitate recognition and licensing procedures of architects in the EU and in Canada, thus completing a first step of the mutual recognition framework outlined in CETA.

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.

8. STATISTICS

Merchandise trade EU28 2014-2018

	2014	**2015**	**2016**	**2017**	**2018**
EU28 trade with Canada (mio €)					
Imports	27.431	28.027	29.016	31.509	30.988
Exports	31.654	35.145	35.228	37.704	41.355
Balance	4.223	7.118	6.212	6.195	10.366
Share Canada in EU28 trade with Extra-EU28					
Imports	1,6%	1,6%	1,7%	1,7%	1,6%
Exports	1,9%	2,0%	2,0%	2,0%	2,1%
Total (I+E)	1,7%	1,8%	1,9%	1,9%	1,8%
Share EU28 in trade Canada with world					
Imports	11,3%	11,4%	11,4%	11,7%	12,3%
Exports	7,4%	7,2%	7,7%	7,3%	7,4%
Total (I+E)	9,4%	9,4%	9,6%	9,6%	10,0%

Source Trade G2 Statistics/ISDB 25-mars-

Trade EU28: Eurostat COMEXT; Trade Canada: IMF Dots

Total merchandise trade EU28 with Canada (mio €)

Canada	2017	2018	Growth mio €	annual %
Imports	31.509	30.988	-521	-1,7%
Exports	37.704	41.355	3.651	9,7%
Balance	6.195	10.366	4.172	
Total trade	69.213	72.343	3.130	4,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Canada (mio €)

Canada	2017	2018	Growth mio €	annual %
Imports	2.251	1.988	-263	-11,7%
Exports	3.560	3.707	147	4,1%
Balance	1.309	1.720	411	
Total trade	5.810	5.695	-116	-2,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Canada (mio €)

Canada	2017	2018	Growth mio €	annual %
EU28 imports	29.258	29.001	-258	-0,9%
EU28 exports	34.144	37.647	3.503	10,3%
Balance	4.886	8.647	3.761	
Total trade	63.403	66.648	3.245	5,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Canada (mio €)

Canada	2016	2017	Growth mio €	annual %
Imports	12.067	13.228	1.160	9,6%
Exports	20.221	21.681	1.460	7,2%
Balance	8.154	8.454	300	
Total trade	32.288	34.909	2.620	8,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Canada (mio €)

	2013	2014	2015	2016	2017
Imports	11.684	11.036	12.640	12.067	13.228
Exports	17.976	16.558	19.376	20.221	21.681
Balance	6.292	5.522	6.736	8.154	8.454
Total trade	29.661	27.594	32.017	32.288	34.909

Source Trade G2 Statistics/ISDB
from Eurostat BOP statistics

FDI EU28 with Canada (mio €)

	2013	2014	2015	2016	2017

	FDI Stocks				
Inward	165.239	211.486	245.556	299.979	292.998
Outward	256.748	286.867	283.214	315.153	304.782
	FDI Flows				
Inward	20.367	17.856	30.507	40.437	29.400
Outward	22.243	9.291	-10.475	21.918	4.058

Source Trade G2 Statistics/ISDB
from Eurostat BOP statistics

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

1. INTRODUCTION

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

The EU-South Korea FTA is the first of a new generation of comprehensive FTAs meaning that apart from providing market opening commitments as well as a basis for regulatory co-operation in key sectors, it includes a substantial chapter on sustainable development that upholds and promotes social and environmental standards.

This is the 7th Annual Report on the implementation of the EU-South Korea FTA, which presents the recent evolution of EU-South Korea bilateral trade and investment and against 2010, which is the last year before the Agreement went into force. An overview of activities of the FTA Working Groups and Committees is also included in the report. Special attention is given to the Trade and Sustainable Development chapter.

According to the ex-post evaluation of the EU-South Korea FTA conducted by an independent contractor, published in March 2019[8], the EU economy gained additional €4.4 billion and the South Korean economy €4.9 billion through the FTA. This happened despite the fact that the external environment, notably the post financial crisis period was not particularly supportive, weighing on demand and international trade.

2. EVOLUTION OF BILATERAL TRADE

2.1 Trade in Goods

In 2018, South Korea accounted for 2.5% of the EU's total trade in goods and was the EU's eighth largest trading partner. The liberalisation of trade in goods has been beneficial for EU exports as the introduction of the EU-South Korea FTA saw EU exports in goods rise from €27.9 billion in 2010 to €49.2 billion in 2018, a 76% increase. EU imports of South Korean products also grew significantly over the same period, albeit at a slower pace, as values increased from €39.5 billion in 2010 to €51 billion in 2018.

While historically, the EU has had a trade deficit with South Korea, the sharp rise in exports since the introduction of the FTA led to an EU trade surplus from 2013 to 2016. Data for 2018 shows that the EU has a slight trade deficit of -€1.9 billion, however it is clear that there is now a more balanced level of trade in goods between the two partners.

8 http://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157716.pdf

The increase in EU exports over the 2010-2018 period was driven by a surge in trade in some key product categories. Machinery and appliances accounted for almost 30% (€14.2 billion) of EU exports to South Korea. Exports in this category have increased by 31% since 2010. The largest gains over the 2010-2018 period have been in transport equipment (+187%) which accounts for just under one fifth (€9.6 billion) of total EU exports. This was driven by a +226% increase in motor vehicles (including parts) which were valued at €8.6 billion (17% of total EU exports) in 2018.

At the same time, EU imports of machinery and appliances made up over one third of total EU imports (€18.4 billion) in 2018. There was a sharp decline in the import of these products in the first years after the FTA's entry into force (falling as low as €13 billion in 2013), however since 2015 there has been a resurgence and imports of machinery and appliances are now at a very similar level as they were in 2010 (i.e. €18 billion). Imports of transport equipment grew by 16% and made up a quarter (€12.7 billion) of EU imports in 2018. Again, this increase was triggered by a substantial rise in imports of motor vehicles (including parts) (+165%) over the 2010-2018 period. Motor vehicles (including parts) accounted for 20% (€10.2 billion) of total EU goods imported from South Korea in 2018.

Annual comparisons show that both the EU total exports and imports from South Korea slithly decreased in 2018, compared to 2017, in line with the overall slowdown of international trade dynamics.

2.2 Trade in agricultural goods

With respect to trade in **agriculture goods**, EU exports to South Korea continued to grow in 2018 at 4.8%, albeit at a slower pace than in previous years and stood at €3 billion in 2018. Imports from South Korea **in the agri-food sector** stagnated at the record high of €201 million reached in 2017, resulting in a surplus of € 2.8 billion in 2018. Overall, EU exports have increased by 37.8% and imports have increased by 62% since 2014, the strongest growth rate in the agri-food sector among FTA partners. Main products exported by the EU are pork (24.6% of EU agricultural exports to South Korea), followed by beer, cheese, chocolate, confectionery and ice cream, spirits and liqueurs and wine.

The **main impediments** to expanding trade were again the following: first, approvals of EU beef (due to a Bovine Spongiform Encephalopathy (BSE)-related import ban) remained pending and have been for some Member States since 2004, and also for poultry there was no progress in revising the Korean policy of country-wide import bans in the event of an outbreak of avian influenza. Similarly, the country-wide bans of pork imposed on Belgium, Hungary and Poland due to African Swine Fever (ASF) were not lifted by South Korea. South Korea recently filed applications for beef exports to the EU, which might indicate a stronger trade orientation in the South Korean administration.

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

EU-South Korea FTA TRQ Fill Rates

	Utilisation Rate	
	7/2016 to 6/2017	7/2017 to 6/2018
Milk Powder, Condensed milk (cream)	99.9 %	100.0 %
Butter	100.0 %	99.9 %
Food Whey	98.3 %	99.0 %
Cheeses	99.9 %	99.1 %
Prepared dry milk	99.8 %	60.5 %
Natural honey	98.9 %	49.1 %
Oranges	0.0 %	0.0 %
Marling barley, malt	99.0 %	80.8 %
Supplementary feed	99.0 %	99.2 %
Dextrin	78.7 %	70.6 %

Source: South Korean authorities

2.3 Trade in Services and Foreign Direct Investment (FDI)

EU exports of services to South Korea increased from €7.4 billion in 2010 to €13.5 billion in 2017 while EU imports rose by 66% (€3.1 billion) over the same period to €7.9 billion in 2017. Although trade in services have grown in both directions, the EU has consistently held a trade surplus with South Korea that peaked at €6.3 billion in 2015. This fell to €5.6 billion of a surplus in 2017, which is greater than the 2010 balance (€2.6 billion).

Transport services account for the highest share of both EU imports (€2.4 billion) and exports (€2.9 billion) of services to South Korea. EU imports of construction services have increased significantly since the introduction of the EU-South Korea FTA, rising from €87 million in 2010 to €818 million in 2017 while other business services increased by 161% over the same period to €2.8 billion in 2017.

The largest gains in EU exports to South Korea include travel (+120%), telecommunications (+125%) and intellectual property (+189%) which account for over 40% (€5.3 billion) of total EU exports to South Korea in 2017.

As is the case with goods and services, the EU-South Korea FTA has also stimulated growth in FDI between the two partners. Latest available data shows that the stock of EU FDI in South Korea rose from €37.5 billion in 2010 to €51.3 billion in 2017, a 37% increase. The stock of South Korean FDI in the EU more than doubled, rising from €13.1 billion in 2010 to €28.3 billion in 2017.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

The institutional provisions of the EU-South Korea FTA (Article 15) established seven Specialised Committees, seven Working Groups and an Intellectual Property (IP) and Electronics Dialogue. The annual meeting of the Trade Committee at ministerial level plays a supervisory role and ensures that the FTA operates properly. The summary below presents activities of Working Groups and Committees that took place between June 2018 and May 2019. [9]

The **Trade Committee** met for the 8th time on 9 April 2019 in Seoul. Both sides agreed that the FTA is a success that has significantly increased bilateral trade and investment even though some concerns on implementation persist, including the long delayed market access for EU beef and the non-ratification of four fundamental ILO Conventions. Furthermore, the deteriorating business climate in South Korea remains a challenge for businesses to fully benefit from the FTA.

While recognising some positive developments related to the beef issue, the EU highlighted that the market remained closed and South Korea agreed to rapidly complete the technical steps for the most advanced applicants. On TSD, the EU recognized that some efforts have been made by the South Korean government but progress has been insufficient for South Korea to comply with its commitments. With regard to the car sector, both sides endorsed the finalisation of the administrative amendment of the car annexes under the written procedure. The Commissioner also raised the concerns that the car sector has highlighted regarding the difficult business climate. The EU also raised the well-known Intelletual Property Rights related issues (i.e. public performance rights and geographical indications) while South Korea repeated its request for market access for Samgyetang (chicken ginseng soup) and asked for a solution for the long-standing surimi issue. South Korea was also concerned about the adverse effect of the EU steel safeguards measures.

The 6th meeting of the **Working Group on Geographical Indications** was held in Brussels, on 30 May 2018. The extension of the initial list of EU Geographical indications remains a significant irritant with respect to the implementation of the FTA provisions on protection of intellectual property. With the recent adoption of the rules of procedures of the said Working Group, the EU now expects Korea to examine the 2014 EU request to add 46 GIs to the list of EU GIs protected under the FTA.

On 22 November 2018, the **Customs Committee** met in Brussels. It mostly addressed issues related to rules of origin, in particular origin verification procedures and issues related to the approved exporter system. The EU also raised duty relief on goods re-entered after repair and both sides discussed mutual administrative assistance, including the exchange of information points and cooperation on specific cases in which the level of co-operation from South Korea was considered by the EU side as unsatisfactory.

[9] The 2018 edition of the Implementation report covered activities over 2017-mid 2018.

On 7 November 2018, the **4th EU-South Korea Dialogue on Electronics** took place in Brussels. A wide range of issues was discussed, including the following: the implementation and enlargement of the scope of Annex 2-B of the agreement to include radio equipment testing; the review of Appendix 2-B-3 of the agreement to simplify conformity assessment procedures; a future cooperation on the development of new standards; modifications on the EU Eco-design Regulation for Electronic Display asked by South Korea. Discussions were also held on EU energy labelling requirements for electronic displays, light source and household refrigerating appliances.

The **Working Group on Motor Vehicles and Parts** met in Brussels on 4 December 2018 and addressed environmental issues, technical standards, harmonization, convergence and market access issues. Compared to previous years, the Working Group also discussed different issues related to broader cooperation on trade policy, including international developments, the state of play of bilateral trade flows and investments and the business climate in the sector. During the April 2019 Trade Committee the EU and South Korea concluded to endorse the administrative amendment of Annex 2-C in order to be implemented by September 2019. On the regulatory side, the parties agreed to share information on CO2 emission regulations for passenger cars, heavy-duty vehicles and "Emission Related Components" certification procedures. The EU agreed to provide additional information on the entry into force of the EU "Whole Type Approval". Market access issues discussed included, *inter alia*, truck-tractors, self-certification and marking of car parts, vehicle width limit, homologation certificates and producers responsibility for end of life vehicles.

The 7th meeting of the **Working Group on Pharmaceuticals and Medical Devices** took place on 5 December 2018. In the area of medical devices, the parties exchanged information on i.a. the current draft of the Unique Device Identifier (UDI) rules in South Korea and on the objective and future implementation of the Integrated Medical Device Information System (IMDIS) in South Korea. Concerning pharmaceuticals, both sides discussed i.a. the draft amended premium pricing policy published on 7 November 2018 by South Korea that amends the conditions for rewarding innovations in new pharmaceutical products in South Korea.

The **Working Group on Chemicals** organised a videoconference on 5 March 2019 and engaged in useful exchanges on regulatory developments of interest to both sides. The EU notably requested additional information and clarifications on i.a. the amendments to the South Korean REACH legislation implemented in January 2019 and on the requirements for treated articles placed on the South Korean market under the South Korean Biocidal Product Regulation.

The **Committee on SPS Measures** met in Brussels on 19 September 2018. The Parties discussed pending applications for import of EU and South Korean beef, the recognition of regionalisation measures for avian influenza and African swine fever, and policies related to certification. South Korea also requested to discuss the pending application for export of chicken-ginseng soup and dairy products to the EU. The meeting was followed by a one-day seminar to discuss regionalisation policies in the EU and South Korea to control outbreaks of highly pathogenic avian influenza.

The 7th EU-South Korea **Trade in Goods Committee** was held on 6th December 2018 in Brussels. A number of sectoral issues wre discussed including the preparation of the next Trade Committee foreseen for April 2019. The meeting brought many clarifications on the cosmetics sector legislation in South Korea and the F-gas quota system in the EU. While no breakthrough was registered at the meeting, enhanced cooperation on electronics with the view to enlarge the annex to radio equipment was agreed. EU concerns were raised with regard to an increased support to shipbuilding by the South Korean government and the EU requested more transparency and a dedicated dialogue. The implementation of the competition chapter was also raised. Finally, both sides discussed the preparation of the Trade Committee.

The 5th and the 6th meetings of the **Trade Remedy Cooperation Working Group** were held on 7 December 2018 in Brussels and 20 May 2019 in Seoul, respectively. The latter meeting took place back-to-back with the International KTC Seoul Forum on Trade Remedies in which the EU side participated. During the 5th and the 6th meetings of the Trade Remedy Cooperation Working Group, the two sides updated each other on latest developments in domestic trade remedy laws, policies and practice. The EU side notably debriefed South Korea on the entry into force and implementation of the two latest amendments to the EU Trade Remedy basic legislation, namely the 'new anti-dumping methodology' and the 'modernisation of trade defence instruments', which had entered into force in December 2017 and June 2018 respectively[10]. South Korea expressed concerns with respect to the EU steel safeguard measures[11] and the EU briefed South Korea on the upcoming review investigation of the steel safeguard measures. The EU expressed concerns with the respect of general fairness and transparency principles in a recent investigation conducted by South Korea against Italian exports of stainless steel bars. The EU invited South Korea to revise its policy and methodology accordingly. The two sides also shared statistics on Trade Defence cases and exchanged views on global trends in trade remedy investigations, and related WTO litigation.

The meeting of the **Working Group on Government Procurement** took place in Brussels on 26 November 2018. The Parties provided information on recent legislative developments, discussed market access issues and potential irregularities raised by European and South Korean industries. Both sides are committed to ensure that the FTA is implemented and any irregularity in the effective public procurement market access is corrected. Among other issues the Parties exchanged views on cooperation on SME policy (that may require a follow up with a recently established Ministry for SMEs in South Korea) and the EU inquired about a possible interest from the South Korean side to integrate a machine translation tool for tender notices in its e-procurement portal.

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

4. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The Commission continued to express its serious concerns and stepped-up its messages vis-à-vis the South Korean government regarding FTA commitments related to international (ILO) standards and agreements. These concerns have been raised in the framework of regular FTA

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

[11] OJ L31 of 1.2.2019

committees including at the 6th meeting of the TSD committee of 13 July 2018[12]. Also, civil society has again raised these concerns in the context of regular work of the Domestic Advisory Groups and the Civil Society Forum under the FTA.

Due to insufficient progress on the envisaged steps presented by Korea at the 6th Committee on Trade and Sustainable Development, and in line with the more assertive approach to enforcement of commitments as outlined in the TSD 15-point action plan of February 2018, on 17 December 2018 the Commission formally requested the government request consultations under Article 13.14 of the FTA to seek a mutually satisfactory solution[13].

In that context, the EU raised concerns with regard to Korea's issues with respecting in law and practice of the core International Labour Organisation (ILO) principles of the freedom of association and right to collective bargaining, and with regard to the insufficient efforts by Korea towards the ratification of four outstanding fundamental ILO Conventions.

Government consultations are a first step of dispute settlement proceedings. This is the first dispute settlement initiated by the EU under bilateral trade agreement. The EU held government consultations with Korea on 21 January 2019. Korean government has engaged cooperatively however the consultations however these did not lead to any satisfactory solution and the progress made until now by Korea has been insufficient. In the follow-up to the government consultations, the Commission raised the insufficient progress on labour commitments at meetings with Korean trade and labour ministers at the occasion of 8th Trade Committee on 9 April 2019 in Seoul.

Since the outcome of the efforts by the Korean government remain uncertain, on 4 July 2019, the EU requested the establishment of a panel[14] (the 2nd stage of the arbitration procedure under the FTA) to examine the matters that have not been satisfactory addressed through government consultations. During the panel proceedings, the Commission will remain open to continue looking for a mutually agreed solution to the dispute. If Korea does not comply with its commitments in a timely manner, the panel of experts will deliver a public report with recommendations on achieving compliance. The implementation of the recommendations of the panel report will then be monitored by the Trade and Sustainable Development Committee created under the terms of the EU-Korea trade agreement.

5. SPECIFIC AREAS SUBJECT TO MONITORING

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

[12] http://trade.ec.europa.eu/doclib/docs/2018/july/tradoc_157105.PDF
[13] http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157586.pdf
[14] http://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_157992.pdf

		2018 total import	2018 main import sourcing (outside the EU) and evolution of imports					
			1st	2017	2018	2nd	2017	2018
ctronic sector								
HS 8522	Parts and accessories for pictures and sound reproducing and recording apparatus	$28.097	China	$20.894	$18.232	Thailand	$12.690	$3.827
HS 8527	Reception apparatus	$169.174	China	$89.383	$73.744	Malaysia	$10.326	$50.898
HS 8529	Parts for reception apparatus	$2.244.550	China	$699.436	$1.023.065	Vietnam	$381.769	$757.471
Core car parts								
HS 8407	Spark-ignition reciprocating or rotary internal combustion piston engine	$463.651	Japan	$65.950	$226.852	USA	$70.722	$147.791
HS 8408	Diesel or semi-diesel engines	$882.462	Japan	$367.842	$181.951	China	$53.887	$50.773
HS 8409	Parts for engines of 8407 or 8408	$1.132.947	China	$190.986	$220.214	Japan	$244.395	$179.184
HS 8708	Parts and accessories for motor vehicles of headings 8701 to 8705	$3.877.938	China	$1.108.612	$1.136.596	Japan	$788.173	$736.982

Source: KITA

In conclusion, the import pattern has not fundamentally changed since the EU-South Korea FTA was signed and there was no significant increase in imports of car components and key electronics from the largest suppliers to South Korea in 2018 compared to 2017. Based on these trade statistics, it is not possible to establish a link between the allowance of duty drawback and the increase in EU imports of cars from South Korea.

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

Progress on the implementation of the Trade and Sustainable Development chapter of the FTA by South Korea has not been sufficient with regard to the ratification of the four pending ILO conventions and protection of **labour rights**. Therefore, the Commission stepped up the engagement with South Korea and launched dispute settlement proceedings under the FTA in order to address these issues.

Access of EU **beef** to the South Korean market, which has been closed to all EU imports since January 2001, remains another EU key concern. By mid-2019, South Korea carried out audits in two Member States (Denmark and The Netherlands) which depending on the conclusions of the auditors, open the door to beef from these two Member States on the South Korean market. However, the acceptance of the principle of regionalisation for animal diseases by South Korea remains an important topic in the sanitary and phyto-sanitary area in particular for the exports of pig meat and poultry products.

In the area of **Intellectual Property**, South Korea still needs to establish an effective remuneration system for public performance rights. Lack of progress in this area remains a concern to the EU. The revised Presidential Decree, which entered into force in August 2018 did not sufficiently address the core issues of exempting the majority of retail venues from paying remunerations and the low level of fees. These issues will be discussed again at the next EU-South Korea Intellectual Property Dialogue under the FTA in autumn 2019. The extension of the geographical indications' (GI) list protected by the FTA is also still pending. Recent adoption of the Rules of Procedure of the EU-South Korea GIs Working Group should ease the way towards adding further EU and South Korean geographical indications to the Annex of the FTA.

Improvements in the area of **customs procedures** could contribute to increase the preference utilisation rates, and further facilitate the participation of small and medium sized enterprises (SMEs).

7. CONCLUSIONS AND OUTLOOK

The EU-South Korea FTA offers a sound institutional framework for bilateral trade between the EU and South Korea despite the fact that some difficulties persist as outlined in section 6. The ex post evaluation study of the FTA published by the EU Commission in March 2019 concluded that in the vast majority of areas the implementation works well, supporting economic development on both sides.

Both parties continue working on the implementation of the EU-South Korea FTA in order to bring further benefits to their businesses and consumers. In this respect, the specialised committees and working groups established under the EU-South Korea FTA serve as a forum to discuss and seek solutions to the implementation and market access issues, including regulatory developments on both sides.

8. STATISTICS

Total merchandise trade EU28 with South Korea (mio €)

South Korea	2017	2018	Growth mio €	Growth annual %
Imports	51.734	51.089	-645	-1,2%
Exports	50.132	49.250	-882	-1,8%
Balance	-1.601	-1.839	-238	
Total trade	101.866	100.339	-1.527	-1,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with South Korea (mio €)

South Korea	2017	2018	Growth mio €	Growth annual %
Imports	203	201	-2	-0,9%
Exports	2.889	3.028	139	4,8%
Balance	2.686	2.827	141	
Total trade	3.092	3.229	137	4,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with South Korea (mio €)

South Korea	2017	2018	Growth mio €	Growth annual %
EU28 imports	51.531	50.888	-643	-1,2%
EU28 exports	47.244	46.222	-1.021	-2,2%
Balance	-4.287	-4.666	-378	
Total trade	98.774	97.110	-1.664	-1,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with South Korea (mio €)

South Korea	2016	2017	Growth mio €	Growth annual %
Imports	7.215	7.939	724	10,0%
Exports	12.608	13.520	912	7,2%
Balance	5.393	5.581	188	

Total trade	19.823	21.459	1.637	8,3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with South Korea (mio €)

	2013	2014	2015	2016	2017
Imports	5.653	6.310	6.917	7.215	7.939
Exports	10.662	11.761	13.247	12.608	13.520
Balance	5.010	5.451	6.330	5.393	5.581
Total trade	16.315	18.071	20.164	19.823	21.459

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with South Korea (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	15.517	17.922	18.571	24.308	28.288
Outward	32.105	42.976	42.520	47.013	51.286
	FDI Flows				
Inward	1.868	4.286	2.068	1.809	2.245
Outward	868	7.731	-5.195	3.244	4.978

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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

1. INTRODUCTION

2018 marked the **fifth full 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[15], 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[16].

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 six years of provisional application** in the case of Peru and Colombia, and almost three years in the case of Ecuador, remain **positive,** although bilateral trade with Colombia and Peru in 2018 underwent a slight decrease after the rebound of 2017. The Agreement offers tariff-free access for virtually all industrial and fishery products from the three Andean 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 countries' exports of agri-food products. 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 2013. Ecuador joined the institutions in 2017. The institutional structure of the Agreement is common and the Trade Committee and the Sub-committees take place in the presence of all Parties, i.e. between the EU and the three Andean partner countries.

In December 2018, the annual meetings of the Trade Committee and eight Sub-committees met in Quito (Ecuador) (see below).

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[17]

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

[16] 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).

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

(‘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.

2.1.1 Overall evolution

Colombia

In 2018, the EU has gone from Colombia´s second to third trading partner (14%), after the US (26%) and China (16%). In fact, bilateral trade between the EU and Colombia decreased by 4%. Colombian exports to the EU saw a 9% decline amidst falling global prices of coffee, a key export product. Compared to 2012 (year before the application of the Agreement), bilateral trade decreased by 22%, in line with the 22% decrease of Colombia’s total trade with the rest of the world over the same period.

In 2018, **bilateral trade amounted to €11 billion**, compared to €11.5 billion in 2017. While historically, Colombia ran a trade surplus with the EU, this trend reversed since 2017 and the EU now posts a trade surplus of €925 million.

EU exports to Colombia increased by 1% in 2018 to €6 billion. The headings that recorded the largest increases were pharmaceutical products, vehicles, electrical machinery and base metals while exports of machinery products and aircrafts suffered the greatest declines.

EU imports from Colombia amounted to €5.1 billion in 2018, down from €5.6 billion in 2017, representing a 9% decrease. It is noteworthy that for the first time agricultural products represented the same share (43%) of total exports from Colombia as minerals. Overall, the export basket of Colombia to the EU is more diversified than Colombia's trade with China and the US, more dominated by coal and petroleum products.

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

EU exports to Colombia of NAMA products amounted to €5.6 billion in 2018, increasing by 1%. The most important categories in 2018 were:

- Machinery and mechanical appliances (HS 84) represented the largest share of EU exports at 16%, amounting to €978 million despite suffering the largest drop in absolute terms, with a decrease of 17% compared to 2017.

- Pharmaceutical products (HS 30), totalling €813 million, or 14% of EU exports, increased by 12%;

- Motor vehicles (HS87), registered a 17% increase up to €556 million, now representing 9% of total EU exports.

EU imports from Colombia of NAMA products amounted to €2.9 billion in 2018, decreasing by 9% compared to the previous year. The main categories in 2018 were:

- Minerals (HS 27), €2.1 billion, representing 43% of total EU imports from Colombia, versus 46% in 2017;

- Precious stones and minerals (mainly emeralds and gold) (HS 71); increased by 171% compared to 2017, now representing €156 million, or 5% of total imports,

- Base metals (HS 72 to 83) (of which mainly iron and steel) amounted to €99 million, representing 2% of EU imports, an increase of 3% compared to 2017.

Peru

The EU is Peru's third largest trading partner (14% of total Peruvian trade), after China (24%) and the US (19%). In 2018, **bilateral trade with the EU amounted €9.9 billion**, decreasing by 3% compared to 2017, while Peru's overall trade with the rest of the world increased by 17% over the same period. The EU's trade deficit increased from €2.1 billion to €2.4 billion.

EU exports to Peru amounted to €3.7 billion, an 8% decrease when compared to 2017. 93% of EU exports are industrial products, mostly machinery and appliances, chemical products and transport equipment.

EU imports from Peru remained stable when compared to 2017 (€6.2 billion), Peru increased its exports to the rest of the world by 23%. Key export items are ores, slag and ashes, minerals, fruits, coffee and fishery products. The share of agricultural products in imports from Peru into the EU continued to increase.

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

EU exports to Peru of non-agricultural products amounted to €3.47 billion in 2018, a 9% decrease (from €3.8 billion in 2017). The most important categories in 2018 were:

- Machinery, mechanical appliances (HS 84), amounting to €898 million representing 24% of total EU exports to Peru, with a 7% decrease compared to 2017;

- Electrical machinery and equipment (HS 85), or €327 million, accounting for 9% of total EU exports to Peru, and with a 18% contraction compared to 2017;

- Vehicles and parts (HS 80), worth €300 million or 8% of EU exports, decreasing by 1% compared to 2017;

- Pharmaceutical products (HS30), amounting to €198 million, or 5% of EU exports, decreasing by -3% compared to 2017.

EU imports from Peru of non-agricultural products also decreased by 4% amounting to €3.87 billion in 2018 (from €4.02 billion the previous year). The main categories in 2018 were:

- Ores (HS 26), amounting to €1.7 billion representing 27% of total EU imports from Peru, versus 30% in 2017, with a 10% decrease compared to 2017;

- Mineral fuels (HS27) mainly natural gas, worth €496 million, representing 8% of EU imports, a 26% decrease of 26% compared to 2017;

- Fish and crustaceans (HS 03), amounting to €308 million or 5% of EU imports, with a strong 18% increase compared to 2017.

Ecuador

In 2018, the EU remained Ecuador´s second largest trading partner (14% of total Ecuador trade) after the US (27%) and ahead of China (12%). In 2018, **bilateral trade amounted to €5.4 billion**, a 3% increase compared to €5.2 billion in 2017, a much slower rate compared to the remarkable 20% growth registered in 2017, the first year of application of the Agreement. Ecuador's trade with the rest of the world increased by 12% in 2018, compared to 16% in 2017. Several factors may explain these figures: i) a strong dollar reducing the competitiveness of Ecuadorian products in international markets; ii) a slowdown in Ecuador´s domestic consumption; and iii) a trade diversion towards Central American countries and China. While the EU has historically maintained a trade deficit with Ecuador, this deficit is getting progressively reduced.

EU exports to Ecuador increased by 6% year-on-year (2017: €2.2 billion; 2018: €2.3 billion) and concentrated on agricultural products and fishery products.

EU imports from Ecuador grew by 1% year-on-year (2017: €3 billion; 2018: €3 billion). Key categories were machinery and appliances, chemical products and mineral products.

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

EU exports to Ecuador of NAMA products increased by 5% amounting €2.2 billion in 2018. The most important categories in 2018 were:

- Machinery and mechanical appliances (HS84), worth €425 million and accounting for 18% of total EU exports to Ecuador, shrunk by 3% compared to 2017;

- Mineral fuels (HS 27), amounting to €350 million, or 15% of total EU exports, contracted by 11%;

- Vehicles and parts (HS87), of a value of €171 million, or 7% of EU exports, grew by 70%; Railways and trams (HS86), of €15 million, registering a 730% increase, as a consequence of works on the public transportation system (the metro of Quito, the tramway of Cuenca, and the cableway in Guayaquil).

- Pharmaceutical products (HS 30), €166 million, or 7% of EU exports, grew by 6%;

- Fishery products (HS03), worth €98 million accounting for 4% of EU total exports to Ecuador.

EU imports of NAMA products from Ecuador decreased by 2% amounting to €1.42 billion in 2018. The main categories in 2018 were:

- Fish and crustaceans (HS 03), amounted to €657 million, and accounted for 22% of total EU imports from Ecuador, shrunk by 3%;

- Preparation of fish (tuna) (HS 16) worth €656 million, or 22% of total EU imports, shrunk by 2%;

2.1.2 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 7% in 2018, and were dominated by:

- Beverages and spirits (HS22) at €91.4 million, or 21% of EU exports of agricultural products to Colombia;

- Preparations of cereals, flour, starch (HS19) and preparation of vegetables, fruits, nuts or plants (HS20) account for 1% of agricultural exports each.

- Animal and vegetable fats and oils (HS15) increased by 5%, representing 1% of EU agricultural exports.

EU imports of agricultural products from Colombia amounted to €2.2 billion, decreasing by 9% from 2017 to 2018. The most important categories in 2018 were:

- Fruits (HS08), worth €1 billion, accounting for 20% of total EU imports from Ecuador, down by 5% when compared to 2017. Bananas represented 83% of all fruits exported, followed by avocados with 6%. From 2017 to 2018, there was a strong increase in exports of limes (78%), guavas, mangoes and mangosteens (31%) and oranges (19%);

- Coffee (HS09), €491 million, decreased by 20%, represents 10% of EU imports;

- Crude palm oil (HS151110) and crude palm kernel oil decreased by 15% and 5% respectively but still accounted for 5% and 1% of imports.

Total EU imports of agricultural products from Colombia have increased by 45% since 2012, and now account for **43% of Colombian exports to the EU, versus 18% in 2012.**

Use of Tariff-rate quotas (TRQs)

The Agreement provides for Tariff Rate Quotas (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's use of the TRQ for cane sugar and chemically pure sucrose decreased to 64.8%. The TRQ for Rum was used for the first time in 2018. Other TRQs are hardly utilised or not utilised at all.

Rate of utilisation of EU TRQs by Colombia

	2013	2014	2015	2016	2017	2018
Cane sugar and chemically pure sucrose	88.4%	85.7%	93.8%	96.2%	94.8%	64.8%
Sugar confectionery	1.4%	1.3%	1.2%	1.5%	1.5%	1.3%
Rum in containers holding > 2 litres	0%	0%	0%	0%	0%	58.8%

Source: TAXUD, Surveillance Database

The EU is fully using the TRQs established for mushrooms, milk and cream in powder and sweetcorn, to a somewhat lesser extent the TRQs on preparations for infant use (almost fully used) and ice cream, which experienced a substantial increase through a better implementation of the Agreement. The TRQ for yogurt has experienced a sharp decrease after two years being almost fully used, while the one for cheese has increased although it remains low (13.4%). The EU barely uses its TRQ on sugar confectionery (less than 5% in 2018).

Rate of utilisation of Colombia TRQs by the EU

	2013	2014	2015	2016	2017	2018
Mushrooms	1.6%	5%	100%	100%	100%	100%
Milk and cream in powder	0%	34.9%	100%	100%	82.5%	100%
Whey	57.6%	50%	92.9%	No more TRQ		
Preparations for infant use	40.4%	67.5%	99.1%	100%	100%	99%
Yogurt	0%	0.5%	0.8%	100%	99%	17.4%
Sweetcorn	0.4%	54.2%	100%	100%	100%	100%
Ice cream	5.3%	13.4%	7.4%	25.9%	45.7%	87%
Cheese	9%	8%	8.2%	7.9%	3.1%	13.4%
Sugar confectionary	1.8%	3.4%	3.1%	3.8%	3.9%	4.7%

Source: DIAN (Dirección de Impuestos y Aduanas nacionales)

Peru

EU exports to Peru of agricultural products in 2018 increased by 1% compared to 2017. The most important categories in 2018 were:

- Beverages and spirits (HS22), accounting for 23% of total EU exports of agricultural products to Peru have decreased by -6% compared to 2017;
- Preparations of vegetables (HS20), representing 11% of total EU exports of agricultural products to Peru decreased by -8% compared to 2017;
- Dairy products (HS04), posting a strong 26% increase compared to 2017 thanks to the introduction of a harmonized import certificate in 2017. Dairy exports represent 11% of total EU exports of agricultural products to Peru.

EU imports of agricultural products from Peru increased by 6% from 2017 to 2018. The most important categories in 2018 were:

- Fruits (HS08), accounted for 52% of total EU imports of Peruvian agricultural products , up 17% compared to 2017; avocados accounted for 32% of all fruits exported, a remained equal compared to 2017, followed by fresh grapes representing 20% (+68%), mangos 14% (+10%), fresh blackberries 12% (+59%) and fresh bananas 8% (+10%);

- Coffee (HS09) represents 16% of total EU imports of agriculture products from Peru decreasing by 9.6% from 2017.

- Edible vegetables which account for 9% of total of agriculture products from Peru raised by 6% between 2017 and 2018

Total EU imports of agricultural products from Peru increased by 49% since 2012, and now account for **37% of Peruvian exports to the EU, versus 24% in 2012**.

Use of Tariff-rate quotas

Sweetcorn is the only product under TRQ where Peru has reached almost 100% utilisation rate in 2018, maintaining a positive trend since the date of application of the Agreement. Quota utilisation of both cane sugar and garlic has steeply dropped in 2018. Peru is starting to take advantage of the TRQ on maize (corn). Other TRQs have very low utilisation rate. The quotas for the other 11 products have not been utilised at all since the date of application of the Agreement.

Rate of utilisation of EU TRQs by Peru

	2013	2014	2015	2016	2017	2018
Cane sugar	100%	100%	3,5%	99,9%	100%	9,2%
Sweetcorn	21%	76%	83,2%	87,3%	95,7%	97,7%
Garlic	0%	0%	2,4%	53,8%	54,2%	0%
Rum	0%	0%	0,0%	7%	0%	5,7%
Maize (Corn)	0,7%	2,9%	1,8%	6,1%	13,1%	15,5%
Sugar confectionery	0,02%	0,01%	0,2%	0,1%	0,3%	0,02%
Rice	0%	0%	0%	0%	0%	0,04%

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. Good progress for rum. Other TRQs are barely used.

Rate of utilisation of Peru TRQs by the EU

	2013	2014	2015	2016	2017	2018
Butter	0%	0%	96%	100%	82%	100%
Cheese	0%	0%	0%	4,3%	5,4%	5%
Ice cream	59%	89,6%	98,5%	95,6%	94,2%	100%
Milk powder	0%	4,1%	99,7%	100%	100%	100%
Milk for babies	0%	0%	0%	29,9%	0,0%	0%
Sugar confectionery	0%	0%	0,1%	2,2%	3,4%	2%
Sugar	0%	0%	0%	0%	0%	0%
Rum	4%	0%	3,5%	5,8%	4,2%	27%

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

Ecuador

EU exports of agricultural products to Ecuador amounted to €157 million in 2018, a 29% increase compared to 2017, although the SPS chapter has not been fully implemented and some obstacles still persist. Agricultural products represented 7% of total EU exports to Ecuador. The most important categories in 2018 were:

- Beverages and spirits (HS22) amounting €36 million, growing by 102%, representing 23% of total EU agricultural exports, but 2% of total EU exports;
- Miscellaneous edible preparations (HS21), worth €25 million, a 29% increase compared to 2017, and 16% of EU agricultural exports;
- Residues and waste from food industry (HS23) increased by 23%, representing 11% of EU agricultural exports.

EU imports of agricultural products from Ecuador increased by 2% in 2018, reaching a total of €1.61 billion. EU continues to be Ecuador´s prime market for non-oil exports. Agricultural products represented 53% of total EU imports from Ecuador. The most important categories in 2018 were:

- Fruits (HS08), accounting for €1 billion or 64% of total EU imports of AMA (a 9% increase compared to 2017) and 34% of total EU imports from Ecuador. Bananas accounted for 94% of fruit imports (+10% in 2018 compared to 2017). Fresh tamarinds grew by 19%, fresh plantains and dried bananas by 10% and 15% respectively, while fresh pineapples and frozen fruit both decreased by 17%.
- Live trees and other plants, mainly fresh cut flowers (HS06) accounting for 13% of total AMA imports, increased by 11% compared to 2017.
- Cocoa and cocoa preparations (HS18), accounting for 10% of EU agricultural imports (and 5% of total Ecuador's exports to the EU), shrunk by 13% compared to 2017.

Use of Tariff Rate Quotas (TRQs)

Ecuador´s use of the TRQs is progressively increasing in some categories of products.

Rate of utilization of EU TRQs by Ecuador

	2017	2018
Sweet corn, uncooked, or cooked	3.3%	9.5%
Sweet corn provisionally preserved	-	0.7%
Rice	0.01%	0.3%
Raw cane sugar not containing added flavouring or colouring	4.3%	8.3%
Sugar and sugar products	1.6%	0.6%

Source: TAXUD, Surveillance Database

In 2018, the EU use of TRQs established for dairy products (powder milk, butter milk serum, whey) has almost tripled compared to the first year of FTA implementation. Other products where significant increases were registered are processed sweet corn and pork products (10 and 14% increase respectively).

A complex TRQ management system set out by the Ecuadorian authorities together with a slow process of registration of sanitary and phytosanitary conditions of Member States and EU establishments may explain the low TRQ use by the EU.

Rate of utilization of Ecuador TRQs by the EU

	2017	**2018**
Preparations for animal feeding	6.1%	8.1%
Preparations for animal feeding	0%	2.7%
Bovine guts	0%	0%
Dairy products: Powder milk, butter milk serum, whey	12.5%	35.7%
Dairy products: Evaporated milk, condensed milk	1.0%	3.0%
Diary products: Yoghourt, cheeses: grated or powdered, melted, others	2.7%	19.0%
Dairy products: Blue-veined cheese, mature cheese	3.9%	7.0%
Fresh sweet corn: Sweet corn, fresh, refrigerated		
Processed sweet corn: Sweet corn: frozen, canned	21.9%	32.8%
Swine products: cured ham, bellies (streaky) sausages and similar meat products	5.7%	18.9%
Frozen potatoes	0%	1.9%
Confectionary product (high sugar content): Juices, chocolate, coffee, tea and others	0.9%	0%

Source: Ministry of Agriculture and Livestock

Preference Utilization Rate (PUR)

In the context of the Sub-committee on Market Access, the Parties agreed in 2015 to exchange data on PUR on an annual basis. During the annual meeting that took place in December 2018 in Quito, the EU stressed the need to have reliable data to get a better overview of the effects of the Agreement and to explore means to assist economic operators, in particular SMEs, to make better use of the opportunities.

2.2 Trade in Services and development of investment

2.2.1 Trade in Services

Colombia

Bilateral trade in services between the EU and Colombia increased by 22% in 2017 compared to 2016, totalling €5.4 billion. Both EU exports and Colombian exports increased during this period of time by 26% and 13% respectively.

According to Colombian statistics (DANE), the EU's share in Colombia's total trade in services represented 16% in 2018. Key EU exports of services are travel, IT and passenger air transport.

Peru

In 2017, EU-Peru bilateral trade in services amounted to €3 billion. Both EU exports (€1.9 billion) and Peruvian exports (€1.1 billion) increased year-on-year by 21% and 13% respectively. Balance remains positive for the EU.

Ecuador

In 2017, bilateral trade in services between the EU and Ecuador increased by 11% year-on-year to amount to €1.6 billion. EU exports amounted to €1 billion, increasing by 4% year-on-year. Ecuadorian exports of services (€582 million) experienced a 27% growth. The EU maintains a surplus in trade in services in 2017 although this surplus has shrunk by 15%. According to Ecuador's Central Bank data, the EU share in Ecuador´s total trade in services represented 35%.

2.2.2 Foreign Direct investment (FDIs)

Colombia

For the fourth year in a row, the EU was the **first foreign investor in Colombia**, totalling €15 billion of Foreign Direct Investment (FDI) stocks in 2017. According to Colombian statistics, EU FDI accounted for 39% of the total FDI inflows to Colombia in 2018. Colombian FDI stocks in the EU increased by 33% since 2016, totalling €4.6 billion in 2017, and according to Colombian statistics, 31% of its outward flows went to the EU in 2018.

Peru

The EU is according to Peruvian statistics the **first foreign investor in Peru**. EU FDI stocks in Peru slightly decreased (-1%) between 2016 and 2017, totalling €16.6 billion in 2017. Between 2013 and 2014 total EU FDI stocks in Peru increased by 74%.

Peru's FDI stocks in the EU increased by 21% compared to 2016 totalling €3.4 billion in 2017.

Ecuador

In 2017, EU FDI stocks have remained constant at €5.12 billion compared to 2016. According to Ecuador´s Central Bank statistics, in 2017, the EU was the first foreign investor, accounting for 32% of total FDI inflows into Ecuador.

3 ACTIVITIES OF THE IMPLEMENTATION BODIES

The fifth meeting of the **Trade Committee** took place on 13 and 14 December 2018 in Quito (Ecuador). It was preceded between 29 November and 12 December 2018 by meetings of all **8 Sub-committees** under the Agreement.

Trade Committee

The EU and Colombia signed a Decision to include nine new Colombian geographic indications (GIs) to the [Annex of the Trade Agreement](). This is the first time since the provisional application of the Agreement.

The Trade Committee was able to take stock of progress achieved in the eight Sub-committees. The EU reiterated some of its main concerns, notably: with **Colombia**, the imposition of anti-dumping duties against frozen potatoes from Belgium, Germany and the Netherlands, the *de facto* lack of access to sub-central entities despite the signature of the Decision of the Trade Committee in 2017, the backtracking on truck scrappage policy with the six-month extension of its elimination, and discriminatory measures on alcoholic beverages (beers and spirits); with **Peru**, the continued discrimination of imported spirits in Peru, the lack of enforcement for EU GIs and cumbersome procedures to facilitate imports of medical devices and medicines from the EU; with **Ecuador**, the discriminatory treatment for imported alcoholic beverages, and trade-restrictive management of tariff-rate quotas (TRQs).

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

The EU called for more constructive engagement from the three Andean countries to change their provisions defining **direct transport** to allow for the splitting of consignments for products transiting a third country.

Colombia, Peru and Ecuador raised concerns about the potential impact of some EU **SPS measures** on their exports of agricultural products. They also showed interest to examine in 2019 the improvement of tariff liberalisation for bananas pursuant to the clause in the agreement. They expressed concerns about the recent increase of the autonomous TRQs for tuna and shrimps, which they consider to erode their preferences. Colombia and Ecuador conveyed their preoccupations about EU legislative activities that they consider may affect their exports of palm oil to the EU.

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

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

The two main issues discussed were the following:

The EU raised the update of the rule on Direct Transport with a view to allowing the splitting of consignments for originating goods transiting regional transport hubs in third countries. Unfortunately, no agreement could be reached on moving forward on this point.

For regional cumulation between the Andean countries and Central America, the parties discussed the requirement for adequate customs cooperation agreements. The two regions are in the process of finalising a region to region agreement to re-establish the agreement that existed under the Generalised System of Preference (GSP).

Sub-Committee on Government Procurement

The EU raised concerns on the interpretation by **Colombia** of the Decision 1/2017 of the Trade Committee adopted in November 2017 on the coverage by Colombia of some government procurement contracts at municipal level. As a result of Colombia's interpretation of the exemption related to sub-central contracting entities with industrial and commercial character, EU companies are not granted national treatment in public procurement procedures in those contracts. This impacted the EU participation in major infrastructure projects in Colombia such as metros and hospitals and pressed Colombia to find a solution to remedy the situation and meet the legitimate EU expectations. Colombia and the EU agreed to work towards a mutually agreeable solution on this issue.

The Andean countries expressed their interest in exchanging information on the functioning of the EU public procurement platform SIMAP-TED, in order to facilitate the identification of business opportunities for Andean economic operators in the EU public procurement market.

Sub-Committee on Technical Barriers to Trade (TBT)

With regard to **Peru**, the EU reiterated its concerns about the lack of recognition by Peru of all Member States as having 'strong health monitoring' ("Alta Vigilancia Sanitaria"), as it facilitates the recognition of their certification for pharmaceutical and medical devices products to be exported to Peru.

Colombia, Ecuador and Peru expressed their concerns as regards EU legislation on endocrine disruptors. Colombia and Ecuador raised concerns about EU legislation on renewable energy that, in their view, may have a negative impact on their exports of palm oil to the EU.

Sub-Committee on Sanitary and Phytosanitary matters (SPS)

For the EU, the main offensive points were to make progress on the approval of harmonised certificates, to obtain the lifting or progress concerning trade restrictions imposed by Colombia on Belgium over outbreaks of African Swine Fever in wild boars, and ensuring that the Agreement's provisions on communication, emergency measures and regionalization for animal diseases are respected.

The EU also pushed for progress on several market access applications, for which Colombia, Ecuador and Peru refer to SPS legislation (or procedures) at Community of Andean Nations (CAN) level to justify long delays or deviations from international standards. While respecting the role of CAN, the EU insisted that the provisions of the Agreement and international standards must be complied with.

Peru, Colombia and Ecuador reiterated their concerns on issues already raised bilaterally or multilaterally in other fora (for example, Codex, WTO SPS Committee, etc.), in particular the EU measures for maximum levels of cadmium in some cocoa-based products (e.g. chocolates), the ongoing revision of the maximum residue limits (MRLs) for some pesticides, the legislative framework on endocrine disruptors and the approval procedure for novel food.

Both sides agreed on an agenda and actions plans for the main points. Finally, the Andean countries presented several requests for technical assistance.

Agricultural Sub-Committee

The Parties exchanged information on the trade flows in agri-food trade (including the use of preferences and of tariff-rate quotas) and on the implementation of the Banana Stabilisation Mechanism.

Concerning **Colombia**, the EU expressed concerns on the methodology for the calculation of retail prices on alcoholic beverages, as well as about a new certification of Good Manufacturing Practices, which - if adopted - could impose additional requirements affecting EU exports. With **Ecuador**, the EU raised concerns about the system in place for granting import licences and the administration of tariff-rate quotas. With **Peru**, the EU raised concerns on the longstanding tax discrimination against spirits aggravated and invited Peru to take appropriate action.

Colombia and Ecuador expressed concerns on legislative developments in the EU that may affect their exports of palm oil as well as concerning production of cacao and coffee. They also reiterated their interest to negotiate with the EU bilateral agreements on organic production.

Sub-Committee on Intellectual Property Rights

Regarding Geographical Indications (GIs), the Parties addressed specific issues regarding on-going investigations launched by Colombia on the usurpation of certain EU cheese GIs, as well as effective action needed on Peru's side to protect a number of EU GIs suffering from usurpation. The request for corrections to the names of certain EU GIs already recognised in Peru was also discussed, as well as a case of alleged usurpation of an EU GI in Ecuador. Peru referred to the protection of "Pisco" in the EU in relation to registration of trademarks.

The EU informed of work concluded for the protection of nine additional Colombian GIs, and on-going work concerning the recognition of additional GIs from Colombia, Ecuador and Peru. The Parties also exchanged information concerning non-agricultural GIs in their respective markets.

Other issues discussed included the overall enforcement of intellectual property rights (IPR), including on-line and at the border, patentability issues in Colombia and Ecuador, as well as the protection of regulatory data submitted for marketing authorisations of pharmaceuticals and agro-chemicals. Copyright and related rights in the framework of revised legislation (Colombia) or implementing regulations (Ecuador) were also addressed, as well as the importance of effective protection of plant variety rights in Ecuador.

Cooperation projects were discussed in the context of activities already implemented by the IP Key Latin America Programme, and future possible activities aimed at supporting the implementation of IPR commitments in the Trade Agreement.

Market Access Sub-Committee

The Parties exchanged statistics on trade flows, including the use of preferences and tariff rates quotas.

With **Colombia**, the EU raised its concerns regarding the decision in November 2018 to impose anti-dumping duties against EU frozen potatoes, the extension by six months of the elimination of the truck scrappage policy, discrimination against imported beers in some departments, the implementation of the spirits law. On anti-dumping, Colombia mentioned the possibility for the EU to request an administrative review of the decision. With **Ecuador**, discussions focused on discriminatory treatment against imported spirits, where Ecuador indicated that it would need an additional 6 to 12-month period to remove the discrimination.

Colombia, Ecuador and Peru referred to the clause in the Agreement to examine in 2019 a possible improvement of tariff liberalisation for bananas. They also expressed concerns about the recent increase of the EU autonomous TRQs for tuna and shrimps, which they consider may erode their preferences.

4. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The fifth meeting of the Sub-committee on Trade and Sustainable Development (TSD) reviewed the progress made during a year of stepped-up engagement on TSD issues, which was accompanied by regular exchanges between the Parties.

The intense **engagement with Peru** reflects the more assertive EU stance on enforcing TSD commitments, in line with the European Commission's 15-point action plan to improve implementation of TSD chapters. In her letter of July 2018 to Peru's Trade Minister Rogers Valencia Commissioner Malmström expressed EU's concerns regarding the implementation by Peru of some of the commitments undertaken in the TSD chapter. These concerns related to the right on freedom of association and collective bargaining (notably for workers in particular sectors including textiles and agriculture), the high levels of child labour and informality as well as weak capacity of labour inspection. The letter also signaled the need to sustain environmental protection levels and highlighted the insufficient civil society consultation on labour and environmental issues related to the implementation of the TSD chapter. The submission filed with the European Commission by a group of civil society organisations in October 2017 also raised some of these issues.

Following this letter, the EU and Peru engaged in more sustained contacts aiming to renew the impetus on the implementation of the TSD chapter, which included a technical mission of the Commission's services to Lima in October 2018. Throughout the process, the Commission maintained a regular dialogue with civil society organisations, including the social partners.

The result of this engagement is reflected in the minutes of the TSD Sub-committee meeting that are available on the Commission's website. Peru reiterated its commitment to the full implementation of the TSD chapter and listed the main policy initiatives already in place (or in preparation) to address the substantive challenges identified, while acknowledging that efforts needed to continue to ensure the commitments are met. Peru also agreed to be proactive in using the domestic mechanisms it chose to rely on to engage civil society on TSD-related issues.

Furthermore, the TSD Sub-committee meeting reviewed progress made by Colombia and Ecuador in the implementation of the TSD chapter. On **labour**, **Colombia** made advances notably through the implementation of initiatives to reduce labour informality and child labour. These included the national network of labour formalisation and the revision of the list of hazardous occupations. However, the persistence of cases of violence against trade union leaders remains concerning. In **Ecuador**, the right to freedom of association also continues to be a concern as well as labour informality. Both countries need to intensify efforts to strengthen labour inspection. The EU also encouraged all parties to ratify the 2014 Protocol to the ILO Forced Labour Convention.

On **environment**, **Colombia and Ecuador** continued to put in place initiatives to address deforestation and implement the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Colombia also adopted a national strategy for circular economy and a programme to support green business. The fight against the use of mercury in mining and industrial activities remains a main challenge for the country. **Ecuador** also made noteworthy advances by ratifying the Nagoya Protocol of the Convention of Biological Diversity in December 2017. In April 2018, the country adopted the Organic Environmental Code. The fight against illegal mining remains a concern as well as Ecuador's compliance with its commitments on illegal, unreported and unregulated fishing.

There was good progress in the **involvement of civil society** in accompanying the implementation of the TSD chapter. The EU domestic advisory group (DAG) met regularly throughout 2018 to discuss issues of relevance to the TSD chapter. In Colombia, the dedicated consultative group continued to be consolidated. In Ecuador, the government organised a consultation process with civil society that led to the setting up of a dedicated consultative group for TSD issues in December 2018. Peru committed to make a more proactive use of its domestic consultative mechanisms. In line with Article 282 of the Agreement, the Sub-committee on TSD organised an open session on 12 December 2018 in Quito.

The Parties made progress with **cooperation activities**. In Colombia, two workshops were organised in March 2018: one on the use of mercury for gold extraction and one on responsible mining. The implementation of a new EU-financed project led by the ILO to strengthen labour inspection in agricultural areas started in January 2019. With Ecuador cooperation initiatives mostly focused on assisting the early phase of TSD implementation. These included the drafting of a TSD implementation handbook in partnership with Sweden. With Peru, a regional workshop on circular economy was organised in Lima in September 2018.

The positive momentum achieved with all three partner countries will allow further engagement to continue. It also reflects the more assertive and focused efforts by the EU, grounded on a closer partnership with EU Member States and the ILO and on the greater involvement of civil society, in accordance with the 15-point action plan.

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 provisional application of the Agreement until the year 2020 (following a schedule indicated in a tariff reduction table). This special treatment is linked to a 'stabilisation clause' that sets out an annual trigger volume for imports from each Andean country during the transition period.

Article 15 of Regulation (EU) No 19/2013[18] provides for the stabilisation mechanism. When the annual trigger volume of imports per country as set in the Agreement is met, the Commission examines the impact of these imports on the situation of the Union market for bananas and take a decision to either temporarily suspend the preferential customs duty or determine that such suspension is not appropriate. The stabilisation mechanism shall apply until 31 December 2019.

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

2018 imports of fresh bananas from Colombia, Ecuador and Peru

Country	**Used volume (tonnes)**	**Trigger level (tonnes)**	**%**
Colombia	1.286.314	1.890.000	68%
Ecuador	1.514.549	1.880.127	81%
Peru	127.168	97.500	130%
Total	2.928.031	3.867.627	76%

Source Eurostat

In 2018, EU imports of fresh bananas from Colombia amounted to 1 286 313 metric tons. Colombia remained 32% below the trigger volume of 1 890 000 metric tonnes established by the Agreement.

Ecuador exported 1 514 548 metric tons of fresh bananas to the EU, with imports remaining 19% below the trigger level of 1 880 127 metric tonnes, established for Ecuador in the Agreement.

Peru exceeded its trigger volume established in the Agreement (97 500 metric tonnes) on 15 October 2018. In line with Article 15(3) of the above-mentioned Regulation(EU) No 19/2013, the Commission examined the impact on the EU market taking into account, inter alia, the effects on the price level, developments of imports from other sources and the overall stability of the EU market.

As a result of the examination, the Commission concluded that the suspension of the preferential duty on fresh bananas originating in Peru was not appropriate for the following reasons[19]:

1. the share of imports from Peru (2.2%) in the *overall* imports of bananas over the period 1 January 2018 - 15 October 2018 was very small and the price development of imports from Peru remained in line with other import prices;

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

[19] Commission Implementing Decision (EU) 2018/1888 of 3 December 2018 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 and pursuant to Article 15 of Regulation (EU) No 20/2013 of the European Parliament and of the Council is not appropriate for imports of bananas originating in Guatemala and Peru (OJ L 308, 04.12.2018, p.49).

2. the other exporting countries remained - at that moment of the year - far below the thresholds defined for them (annual exports from the three Andean countries reached 76% of the cumulated trigger level);
3. Peruvian imports did not show any negative effect on the EU wholesale price for bananas, which has remained fairly stable during the period.

Therefore, there was no indication that the stability of the EU market or the situation of the EU producers was affected by the level of Peruvian exports. Nevertheless, the Commission will continue its reinforced monitoring of banana imports and evaluate the market situation.

6. CONCLUSIONS AND OUTLOOK

After almost six years of provisional application with Colombia and Peru and the three years with Ecuador, the Agreement continues to function well and has created important business opportunities, which are being increasingly seized by businesses and exporters from both sides. Despite a slight decrease in bilateral trade with Colombia and Peru in 2018, the Agreement continues to contribute to an important diversification of Colombia and Peru's exports, away from mineral products or ores, notably in favour of the agricultural sector, thus creating new opportunities, notably for SMEs. With Ecuador, results after two years of implementation are positive and there is still potential for growth and diversification on both sides.

Full implementation of the Agreement remains a priority for the EU. The institutional framework under the Agreement has been working well and allows for discussions to seek solutions to the implementation and market access issues on both sides. Nevertheless, some difficulties persist and all Parties should continue working on the implementation of the Trade Agreement in order to bring further benefits to their businesses and consumers.

In 2018, the Commission will launch an external ex post evaluation on the five years of implementation of the Agreement, which will undertake an in-depth analysis of the trade and economic impacts, social impacts, impact on labour and human rights, and environmental impacts of the Agreement. Stakeholders and the civil society will be widely consulted, including through dedicated meetings.

7. STATISTICS

Colombia

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Colombia (mio €)					
Imports	8.178	6.724	5.443	5.590	5.085
Exports	6.352	6.523	5.403	5.973	6.010
Balance	-1.826	-202	-40	383	925
Share Colombia in EU28 trade with Extra-EU28					
Imports	0,5%	0,4%	0,3%	0,3%	0,3%
Exports	0,4%	0,4%	0,3%	0,3%	0,3%
Total (I+E)	0,4%	0,4%	0,3%	0,3%	0,3%
Share EU28 in trade Colombia with world					
Imports	13,7%	15,3%	13,5%	14,7%	15,1%
Exports	17,1%	16,6%	12,8%	13,4%	12,5%

Total (I+E)	15,3%	15,8%	13,2%	14,1%	13,9%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Colombia: IMF Dots

Total merchandise trade EU28 with Colombia (mio €)

Colombia	2017	2018	Growth mio €	annual %
Imports	5.590	5.085	-505	-9,0%
Exports	5.973	6.010	37	0,6%
Balance	383	925	542	
Total trade	11.564	11.095	-468	-4,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Colombia (mio €)

Colombia	2017	2018	Growth mio €	annual %
Imports	2.407	2.187	-220	-9,1%
Exports	400	428	27	6,8%
Balance	-2.007	-1.760	247	
Total trade	2.808	2.615	-193	-6,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Colombia (mio €)

Colombia	2017	2018	Growth mio €	annual %
EU28 imports	3.183	2.898	-285	-9,0%
EU28 exports	5.573	5.582	9	0,2%
Balance	2.390	2.684	295	
Total trade	8.756	8.480	-276	-3,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Colombia (mio €)

Colombia	2016	2017	Growth mio €	annual %
Imports	1.381	1.554	173	12,5%
Exports	3.063	3.846	783	25,6%
Balance	1.682	2.292	610	
Total trade	4.444	5.400	956	21,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Colombia (mio €)

	2013	2014	2015	2016	2017
Imports	1.453	1.538	1.466	1.381	1.554
Exports	2.563	2.398	2.966	3.063	3.846
Balance	1.111	860	1.500	1.682	2.292
Total trade	4.016	3.935	4.431	4.444	5.400

Source Trade G2 Statistics/ISDB
from Eurostat BOP statistics

FDI EU28 with Colombia (mio €)					
	2013	2014	2015	2016	2017
FDI Stocks					
Inward	4.789	3.828	8.214	3.457	4.589
Outward	17.848	16.223	21.738	15.382	15.051
FDI Flows					
Inward	1.365	-214	2.348	-584	650
Outward	-261	71	1.579	-2.010	1.313

Source Trade G2 Statistics/ISDB
from Eurostat BOP statistics

Ecuador

Merchandise trade EU28 2014-2018					
	2014	2015	2016	2017	2018
EU28 trade with Ecuador (mio €)					
Imports	2.621	2.595	2.724	3.018	3.032
Exports	2.199	2.010	1.638	2.214	2.353
Balance	-422	-586	-1.086	-804	-679
Share Ecuador in EU28 trade with Extra-EU28					
Imports	0,2%	0,2%	0,2%	0,2%	0,2%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Ecuador with world					
Imports	11,0%	11,6%	11,5%	13,0%	12,9%
Exports	11,6%	15,1%	16,9%	16,6%	15,1%
Total (I+E)	11,3%	13,2%	14,2%	14,7%	14,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Ecuador: IMF Dots

Total merchandise trade EU28 with Ecuador (mio €)				
Ecuador	2017	2018	Growth mio €	annual %
Imports	3.018	3.032	15	0,5%
Exports	2.214	2.353	140	6,3%
Balance	-804	-679	125	
Total trade	5.232	5.386	154	2,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Ecuador (mio €)				
Ecuador	2017	2018	Growth mio €	annual %
Imports	1.567	1.606	39	2,5%
Exports	122	157	35	28,6%
Balance	-1.445	-1.449	-4	
Total trade	1.689	1.763	74	4,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Ecuador (mio €)

Ecuador	2017	2018	Growth mio €	annual %
EU28 imports	1.451	1.427	-24	-1,7%
EU28 exports	2.092	2.197	105	5,0%
Balance	641	770	129	
Total trade	3.543	3.623	80	2,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Ecuador (mio €)

Ecuador	2016	2017	Growth mio €	annual %
Imports	458	582	124	27,2%
Exports	1.016	1.055	40	3,9%
Balance	558	473	-85	
Total trade	1.474	1.638	164	11,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Ecuador (mio €)

	2013	2014	2015	2016	2017
Imports	378	408	374	458	582
Exports	1.141	1.309	1.094	1.016	1.055
Balance	764	901	720	558	473
Total trade	1.519	1.716	1.468	1.474	1.638

Source Trade G2 Statistics/ISDB
from Eurostat BOP statistics

FDI EU28 with Ecuador (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	399	536	230	176	178
Outward	4.052	5.157	8.254	5.152	5.123
FDI Flows					
Inward	-56	-233	-177	-115	-13
Outward	-119	2	1.087	80	349

Source Trade G2 Statistics/ISDB
from Eurostat BOP statistics

Peru

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Peru (mio €)					
Imports	4.978	5.033	5.183	6.175	6.157
Exports	3.236	3.732	3.614	4.053	3.731
Balance	-1.742	-1.301	-1.569	-2.122	-2.426
Share Peru in EU28 trade with Extra-EU28					
Imports	0,3%	0,3%	0,3%	0,3%	0,3%
Exports	0,2%	0,2%	0,2%	0,2%	0,2%
Total (I+E)	0,2%	0,2%	0,3%	0,3%	0,3%

Share EU28 in trade Peru with world

Imports	11,8%	11,7%	12,0%	12,3%	12,1%
Exports	16,6%	16,1%	15,1%	14,7%	15,1%
Total (I+E)	14,0%	13,7%	13,5%	13,5%	13,7%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Peru: IMF Dots

Total merchandise trade EU28 with Peru (mio €)

Peru	2017	2018	Growth mio €	annual %
Imports	6.175	6.157	-18	-0,3%
Exports	4.053	3.731	-322	-7,9%
Balance	-2.122	-2.426	-303	
Total trade	10.228	9.888	-340	-3,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Peru (mio €)

Peru	2017	2018	Growth mio €	annual %
Imports	2.158	2.280	122	5,6%
Exports	251	255	4	1,4%
Balance	-1.907	-2.026	-118	
Total trade	2.410	2.535	125	5,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Peru (mio €)

Peru	2017	2018	Growth mio €	annual %
EU28 imports	4.017	3.876	-140	-3,5%
EU28 exports	3.802	3.476	-325	-8,6%
Balance	-215	-400	-185	
Total trade	7.818	7.353	-466	-6,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Peru (mio €)

Peru	2016	2017	Growth mio €	annual %
Imports	978	1.108	130	13,3%
Exports	1.621	1.955	335	20,6%
Balance	643	848	205	
Total trade	2.599	3.063	464	17,9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Peru (mio €)

	2013	2014	2015	2016	2017
Imports	840	910	899	978	1.108
Exports	1.699	2.109	1.710	1.621	1.955
Balance	859	1.199	812	643	848

Total trade	2.538	3.020	2.609	2.599	3.063

Source Trade G2
Statistics/ISDB from Eurostat
BOP statistics

FDI EU28 with Peru (mio €)

	2013	2014	2015	2016	2017
		FDI Stocks			
Inward	244	158	2.293	2.812	3.416
Outward	9.567	9.702	13.244	16.754	16.630
		FDI Flows			
Inward	129	-363	836	769	60
Outward	519	-1.440	2.613	3.862	752

Source Trade G2
Statistics/ISDB from Eurostat
BOP statistics

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

1. INTRODUCTION

The trade pillar (Part IV) of the European Union - Central America Association Agreement ("the Agreement")[20] has been in application for five years.

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[21], 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 also responds to this requirement.

2. OVERALL ASSESSMENT: EVOLUTION OF BILATERAL TRADE

2.1 Trade in Goods overall

The EU trade with Central America in 2018 was overall quite balanced, with only a slight overall deficit of around €0.1 billion in favour of Central America. The EU enjoyed a considerable surplus of around €1.8 million with Panama and a €0.5 billion surplus with El Salvador. This surplus, however, is netted out by the deficit recorded with Costa Rica (€1.6 billion) and Honduras (€0.6 billion). Trade flows with Guatemala were quite balanced whereas with Nicaragua the EU recorded a deficit of about €0.2 billion.

EU imports amounted to around €6.2 billion and remained roughly at the same level as in 2017. They were however still around 5.5% higher than the average value for the period 2014-2018. The EU maintained a stable level of imports from its largest supplier in the region, Costa Rica. A significant increase in relative terms (almost 40%) was recorded in imports from Panama, but that growth translated to a still relatively low level in absolute terms (€0.7 billion). On the whole, Central America accounts for around 0.3% of total EU trade with the world.

In constrast to previous years, in 2018 **EU exports to Central America registered an annual double-digit growth of 11%.** This growth fits into the general trend of increasing EU global exports (4% over 2017). The increase in exports was mainly due to increased exports to Panama (up 15%) and El Salvador (up 68%). As regards other countries in the region, no significant change in trade flows was observed. Panama imported almost 2.5 times more

[20] 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/.

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

transport equipment from the EU than in 2017 (ships and aircraft). El Salvador made similar purchases to the value of €0.3 billion, unobserved in previous years (aircraft).

Sectoral structure of trade

EU imports

Agricultural foodstuffs make up 2/3 of EU imports from Central America, totalling €4.1 billion. Fruits constitute the largest chunk of those agricultural imports (close to €2 billion), including mainly bananas (€1.2 billion), pineapples, melons and papayas. Costa Rica is responsible for exports of a vast majority of these fruit to the EU. 2018 was another record setting year in the sale of fruits to the EU, in particular in the case of bananas. Other significant items include coffee (€0.9 billion), and animal and vegetable oils (€0.5 billion). Coffee comes mainly from Honduras, and to a smaller extent from Guatemala, Costa Rica and El Salvador. In 2018 Honduras was the third EU's supplier of coffee (unroasted) (after Brazil and Vietnam). Vegetable oils include primarily palm oil (85% of the category) and coconut oil. Honduras and Guatemala and the biggest exporters of palm oil from the region, together accounting for around 11% of EU imports of palm oil. Little changes in trade in these main agricultural items were observed over the year, with a slight fall in the value of coffee (down 6%) and a slight increase in fruits (up 4%). Yet, on a national level, Honduras suffered a strongest decline (down 11%) which was compensated to some extent by others (e.g. Guatemala, Nicaragua).

Another major category of imports are medical instruments and devices that the EU sources from Costa Rica. These supplies are on the upward path, up 10% from the previous year. They accounted for around 12% of imports from Central America last year.

EU exports

EU exports to Central America are more diversified than imports. Around 60% of EU exports are concentrated in three major product categories: chemical industry products, machinery and appliances, and transport equipment. The chemical industry products are mainly pharmaceuticals and cosmetics, going primarily to Panama. Exports of transport equipment included ships and aircraft. EU exports of chemical products remained at a similar level as in 2017; a slight drop (8%) was observed in the case of machinery and appliances, whereas in the case of transport equipment, the EU recorded a spectacular growth of 144%. As explained above this was mainly due to increased purchases of Panama and El Salvador.

Country-by-Country analysis

On a national basis, the Costa Rica accounts for 44% of all EU imports from the six Central American countries. By contrast, Panama is the greatest recipient of EU exports, with a 42% share in the EU's total exports to these countries.

The top three recipients of EU exports are Panama, Costa Rica and Guatemala, together accounting for around 75% of EU sales to the region in 2018. By contrast, the top three sources of imports were Costa Rica, Honduras and Guatemala with a combined 79% share in EU total imports from the six Central American countries.

Country	EU exports (mio €)	% share	EU imports (mio €)	% share	Trade balance
Costa Rica	1.046	17%	2.689	44%	-1643
El Salvador	807	13%	221	4%	586
Guatemala	986	16%	981	16%	5
Honduras	480	8%	1.148	19%	-668
Nicaragua	190	3%	390	6%	-200
Panama	2 527	42%	729	12%	1798
TOTAL	***6.036***	***100%***	***6.158***	***100%***	***-122***

Source: Eurostat

Costa Rica

EU trade with Costa Rica in 2018 remained at the level of 2017. No particular change occurred in the structure of trade in comparison with 2017. Costa Rica is the EU's largest supplier of bananas and pineapples to the EU in the region. The EU exports mainly machinery, transport equipment and chemical products to Costa Rica. Some drop in exports of these categories was observed in 2018: transport equipment down by 16%; chemical products down by 9% but a slight increase (5%) was observed in the case of machinery. Overall, EU exports slightly declined (down by 5%).

El Salvador

The trade flows between the EU and El Salvador were at the level of €1 billion in 2018, with EU exports shooting up by 68% i.e. by €0.3 million. The surge in exports was due to increased purchases of transport equipment from the EU (aircraft). Another item that El Salvador typically buys from the EU is machinery and appliances – no particular change was observed here in the value of annual purchases.

Imports from El Salvador went down by around 12%, to the level of €0.2 million. This was due to a drop in sales of frozen fish, apparel and clothing as well as sugar. The main categories of products imported by the EU are electrical capacitors (up 20%), frozen fish (down 26%) and fish products (no change), coffee (up 26%).

Guatemala

Trade with Guatemala remained very balanced. Both imports and exports amounted to around €1 billion in each direction. Only a slight drop was observed in the overall imports value (down 5%). Around half of EU exports to Guatemala are machinery and appliances (down 16%), products of the chemical industry (up 5%), which include also pharmaceutical products. Other exported items were vehicles, including cars (down 8%), as well as aluminium (up 9%).

Guatemala's top export items were palm oil (up 3%) with around 22% share in total Guatemala's exports, coffee (up 9%) bananas (up 49%) altogether accounting for close to a half the country's exports. Other items exported by Guatemala include iron and steel, spirit drinks as well as sugar.

Honduras

In 2018, the EU recorded a deficit of about €0.7 billion, with imports amounting to €1.1 billion. The top item imported from Honduras that accounted for around 50% of EU imports was coffee (down by 11%). Other products included palm oil (down 7%) with a 20% share and fruit (melons and papayas, bananas) (up 8%), with a 6% share in 2018.

EU's exports (€0.5 billion) are more diverse, with machinery and mechanical appliances (up 39%), electrical and electrical appliances (down 24%) accounting for about 45% of EU exports to Honduras. Other export items include products such as pharmaceutical products, paper and plastics, amongst others.

Nicaragua

Nicaragua is the smallest trading partner of all the six countries of the region. Similarly to the case above, the EU typically records a trade deficit in trade with Nicaragua, which in 2018 increased further to €200 million. EU's exports dropped by 22% over the year, down to 190 million. The EU mainly imports coffee (up 10%) with a 28% share in total imports from Nicaragua, fish and crustaceans (up 3%) with a 23% share, as well as peanuts (no change) with a 13% share in total imports. Other import items are mainly agricultural foodstuffs.

EU exports are more diverse and cover various, mainly industrial, product categories. The top three export items to Honduras include machinery and mechanical appliances (down 34%), electrical machinery (down 30%) as well as pharmaceutical products (down 26%). All these categories accounted together for over 40% of EU exports.

Panama

Panama remained the EU's top export market in the region, receiving around €2.5 billion worth of EU goods. Over 40% of EU exports to the region are destined for Panama. Note however that these data does not capture goods that may be later re-exported via Panama, which can amount to quite a considerable amount. Pharmaceutical products and cosmetics made up about 21% of EU exports in 2018, with a slight drop (down by 5% for cosmetics and down by 2% for pharma). Machinery and mechanical appliances accounted for about 10% of EU exports (down by 20%). 2018 saw a significant change in the purchases of aircraft (increasing from €8 million to €243 million). Other significant surges in sales concerned railway or tramway locomotives (up 320%) as well as vehicles (cars) (up 39%).

In 2018 imports from Panama largely consisted of fruit (mainly bananas which represent 35% of imports and were up by 2%) and ships and boats (33% share, up by 287%). Other important import items included gold, rubber, as well as fish and crustaceans.

2.2 Trade in agricultural goods

The Agreement defines a number of tariff rate quotas (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.

Under the Agreement, the EU grants eight TRQs in favour of Central America on products that did not enjoy preferential access to the EU market prior to the date of application of the Agreement. In 2018, as in previous years, the cane sugar and rum quotas were fully utilised. Guatemala supplied most of the rum imported under the quota and even increased its share to 86%, up from 82% the previous year. Guatemala also increased its market share in the sugar quota up to 48% (vs 43% in 2017). While five quotas remained unused in 2018, the manioc starch quota was filled by 13%.

TRQs granted by the EU to Central America – Utilisation in 2018

Origin	Product	Unit	TRQ volume	EU imports	Utilisation rate
Central America	Garlic	Tonnes	550	0	0%
	Rice		25 000	0	0%
	Bovine meat		11 875	0	0%
	Mushroom		275	0	0%
	Manioc starch		5 000	646	13%
	Sweetcorn		2 040	0	0%
Central America except Panama	Sugar		172 500	165 388	96%
	Rum in container > 2 l	hl pure alcohol	8 500	8 500	100%

Source: European Commission.

The Central American countries grant TRQs for four EU products. In 2018, EU exporters continued to make use of some of the opportunities offered by these TRQs. Notably, the milk powder quota was fully utilised in Honduras, as was the cheese quota in Costa Rica. The quota fill rate was also high for those two products in Panama. However, a margin of growth remains as the overall fill rate was below 50% for those dairy quotas across the region. An even larger margin of growth remains for preferential exports of pork.

TRQs granted by Central American countries to the EU – Utilisation in 2018

Products	Quota (tonnes)	Annual increase (tonnes)	Importing country	Volume (tonnes)	Utilisation rate
Cured hams (joint quota)	1 125	45	Costa Rica	55	35%
			El Salvador	21	
			Guatemala	43	
			Honduras	0	
			Nicaragua	0	
			Panama	274	
Prepared swine meat (joint quota)	1 125	45	Costa Rica	13	10%
			El Salvador	0	
			Guatemala	27	
			Honduras	0	
			Nicaragua	0	
			Panama	75	
Powdered milk (6 country-specific quotas)	2 375	95	Costa Rica	0	0%
			El Salvador	105	42%
			Guatemala	25	5%
			Honduras	500	100%
			Nicaragua	0	0%
			Panama	545	87%
Cheese (6 country-specific quotas)	3 750	150	Costa Rica	396	100%
			El Salvador	165	23%
			Guatemala	332	44%
			Honduras	312	50%

Products	Quota (tonnes)	Annual increase (tonnes)	Importing country	Volume (tonnes)	Utilisation rate
			Nicaragua	0	0%
			Panama	594	79%

Source: Data collected at national level in the Central American countries.

2.3 Trade in Services and Foreign Direct investment (FDIs)

Trade in Services

As in previous years, trade in services between the two regions accounted for around 40% of total trade in goods and services. In 2017, total trade in services amounted to €7.8 billion, out of which Panama made up over 60%. Costa Rica was next in line with a share of almost 20% in total trade in services.

Similarly to the trade in goods, three countries stand out as the top recipients of EU exports of services (85% in total): Panama (58%), Costa Rica (18%) and Guatemala (8%). The same countries are the three top destinations for EU exports of goods.

Country	2016				2017			
	EU Exports	EU Imports	Total	%	EU Exports	EU Imports	Total	%
Costa Rica	786	555	1341	18%	770	749	1519	19%
El Salvador	258	94	352	5%	229	91	320	4%
Guatemala	298	249	547	7%	316	306	622	8%
Honduras	171	94	265	4%	205	124	329	4%
Nicaragua	176	69	245	3%	178	96	274	4%
Panama	2 330	2 403	4 733	63%	2 306	2 435	4 741	61%
Total	**4 019**	**3 464**	**7 483**	**100%**	**4 004**	**3 801**	**7 805**	**100%**

Source: Eurostat

Development of Foreign Direct investment (FDI)

As in previous years, in 2018 EU's FDI concentrated in three countries: Panama, Costa Rica and Guatemala, with Panama alone benefiting from around 75% of investment in the region. The overall outward investment of EU's investors in the economies of the six countries slightly decreased (by 6%), still representing a figure that is comparable to the investment made in Colombia and Peru all together. Except for Guatemala and Nicaragua, Central American countries saw some decline in the value of stocks of EU's direct investment in the region.

In 2017, a noticeable downturn in inward investment occurred, with Panamanian investors cutting their stocks in the EU by around half. As a result, the total value of stocks held by Central American investors in the EU was over 40% lower in 2017 compared to 2016.

Country	2016				2017			
	Inward	**Outward**	**Total**	**%**	**Inward**	**Outward**	**Total**	**%**
Costa Rica	1 157	3 499	4 656	8%	1 272	3 113	4 385	10%
El Salvador	29	984	1 013	2%	147	854	1 001	2%
Guatemala	1 374	2 387	3 761	6%	2 729	2 615	5 344	12%
Honduras	15	480	495	1%	32	384	416	1%
Nicaragua	57	345	402	1%	95	428	523	1%
Panama	25 593	23 688	49 281	83%	11 551	21 987	33 538	74%
Total	**28 225**	**31 383**	**59 608**	100%	**15 826**	**29 381**	**45 207**	100%

3 ACTIVITIES OF THE IMPLEMENTATION BODIES

The body implementing the agreement is the **Association Committee**. It met in June 2018. The meeting of Association Committee and the meeting of its sub-committees (Market access, Customs and rules of origin, Technical Barriers to Trade (TBT), SPS, Intellectual Property Rights (Geographical Indications), Board on Trade and Sustainable Development, Government Procurement) were reported on in the 2018 Staff Working Document on FTA Implementation (2018) 454 final/2. During the Association Committee of June 2018, the Parties reached an agreement on the incorporation of Croatia to the Association Agreement, including the offer on compensation for bananas as submitted earlier by the EU. In order to start the final administrative procedures to adopt the relevant protocol, after the Committee meeting in 2018, the EU submitted a final revised text of the Croatia Protocol to Central America for confirmation so that the procedure for incorporation of Croatia into the agreement could eventually be completed.

The Parties continued to work on the collection of **reliable data on the use of tariff preferences by EU exporters** as deficiencies in this regard had been identified in previous years. Both parties had technical exchanges which aimed at finding a solution to the issue.

In the course of 2018, the Parties also worked on the preparation of several procedural decisions that were pending in the area of customs and rules of origin.

During the 2018 Committee, Central America insisted on the need to establish clear and workable procedures for cumulation of origin with other countries of Latin America. In this regard, the EU clarified that it is awaiting the confirmation of existence of administrative cooperation arrangements between the countries of Andean Community and Central America.

The fourth meeting of the **sub-committee on Sanitary and Phytosanitary Measures (SPS)**, held on 4-5 June 2018, delivered positive outcomes and consolidated progress was made to date. The EU highlighted the following issues:

- The importance for Central America 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.

4 IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

Representatives of the EU and of the six Central American countries met in the Trade and Sustainable Development (TSD) Board established under the EU Central America Association Agreement on 11-12 June 2018 in Brussels. A report on the meeting is available. A Civil Society Forum took place on 13 June 2018.

Implementation activities were framed by the 15-point action plan published by the Commission in February 2018. The EU continued to provide support to the ILO Regional Office for Central America to assist its efforts to support implementation of the fundamental ILO Conventions in Guatemala and El Salvador. Commission's services (DG TRADE and DG EMPL) also held several videoconferences with Guatemala regarding its implementation of a country-specific ILO Roadmap. Some progress was made in Guatemala, notably the establishment of a tripartite Labour Council. Nonetheless, significant challenges remain with regards to ensuring labour rights and the implementation of the fundamental ILO Conventions, particularly in Guatemala, El Salvador and Honduras.

A seminar and workshop on "Decent Work, Corporate Responsibility and the EU-Central America Association Agreement" was held in Guatemala City on 15-16 May 2018 with the participation of representatives of OECD and the ILO and support of the regional project ATEPECA and Guatemala government. The event drew considerable interest with over 200 participants, including from other Central American countries. The EU Delegation in Costa Rica also provided support to the Costa Rican government for the development and implementation of a new national policy on Corporate Social Responsibility, which takes into account Costa Rica's international commitments and the Sustainable Development Goals (SDGs).

In addition, the EU, through in-country meetings and other contacts, encouraged Central American domestic advisory groups (DAGs) established under the Association Agreement to take an active role in implementation of the Trade and Sustainable Development Chapter.

5 SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

Political situation

In the course of last year, the EU monitored closely the situation of the civil society in Nicaragua in the context of human rights' violation. The EU condemned the repression of peaceful demonstrations, independent media and civil society. It is to be noted that the respect of the rule of law and human rights constitute an essential element of the EU-Central America Association Agreement.

The EU continues to monitor an alarming situation in Guatemala with respect to the rule of law and respect of human rights, while it continues to make diplomatic efforts to encourage a peaceful solution of the crisis.

Special clauses: banana mechanism

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

Implementation of Regulation (No) 20/2013

Article 15 of Regulation (EU) No 20/2013[22] provides for the stabilisation mechanism for fresh bananas (HS code 08 03 90 10). When the annual trigger volume of imports per country as set in the agreement is met, the Commission examines the impact of these imports on the situation of the Union market for bananas and takes a decision to either temporarily suspend the preferential customs duty or determines that such suspension is not appropriate. The stabilisation mechanism shall apply until 31 December 2019.

In this context and in accordance with Articles 3 and 13 of Regulation 20/2013, the Commission has been monitoring the evolution of imports of fresh bananas from the Central American countries party to the free trade agreement (*Guatemala, Honduras, Nicaragua, Panama, Costa Rica and El Salvador*).

2018 EU imports of fresh bananas from Central America

Country	**Used volume**	**Trigger level**	**%**
Guatemala	149.509.230	70.000.000	214%
Honduras	20.759.675	70.000.000	30%
Nicaragua	80.097.320	14.000.000	572%
Panama	253.458.920	525.000.000	48%
Costa Rica	1.188.350.193	1.435.000.000	83%
El Salvador	0	2.800.000	0
Total	**1.692.175.338**	**2.116.800.000**	**80%**

Source: Eurostat

Imports of fresh bananas from Central America as a whole did not reach their trigger level under the stabilisation mechanism. At the end of 2018, the overall total import volume that had benefitted from preferential treatment in Central America was 80%. These import volumes were higher, but still close to the 74.4% reached in the previous year, and did not threaten the EU banana sector.

Nevertheless, banana imports from both Guatemala and Nicaragua exceeded their individual trigger level for 2018, as they did in previous years, by 114% and 472% respectively. 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 the price level, developments of imports from other sources and the overall stability of the EU market.

Notwithstanding these individual countries' level of exports, the Commission concluded that the suspension of the preferential duty on imports of fresh bananas originating in Guatemala

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

and Nicaragua was not appropriate as[23] the share of imports from these two countries (1.2% for Nicaragua and 2.95% for Guatemala) in the *overall* imports of bananas was very small at the moment the respective thresholds were exceeded; imports from the other countries remained far below the thresholds defined for them at the moment the respective thresholds were exceeded; and these imports did not show any negative effect on the EU wholesale price for bananas, which remained fairly stable in 2018.

6 CONCLUSIONS AND OUTLOOK

Five years after the application of the agreement, EU exports picked up to bring to a balance the trade flows between Central America and the EU. EU exports to the region were up by 11%, reaching a record high of €6 billion in 2018. Similarly to previous years, Panama was the main destination of EU exports to the region and, together with El Salvador, accounted for most of the growth of EU's annual exports.

The correct functioning of the institutions created by the Agreement is necessary for its proper implementation.

Building upon the positive cooperation now established with Central America 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.

In 2018, the Commission will launch an ex-post evaluation study into the Agreement. The study will assess the impact of the trade pillar of the Association Agreement (economic, social and environmental impact and impact on human rights). The findings are meant to offer lessons for the further improvement of the implementation of the Agreement.

7 STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Central America 6 (mio €)					
Imports	6.228	5.215	5.488	6.097	6.158
Exports	5.254	5.719	5.294	5.446	6.037
Balance	-974	504	-193	-651	-121
Share Central America 6 in EU28 trade with Extra-EU28					
Imports	0,4%	0,3%	0,3%	0,3%	0,3%
Exports	0,3%	0,3%	0,3%	0,3%	0,3%
Total (I+E)	0,3%	0,3%	0,3%	0,3%	0,3%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Central America 6: IMF Dots

Total merchandise trade EU28 with Central America 6 (mio €)

Central America 6	2017	2018	Growth

[23] Commission Implementing Decision (EU) 2018/874 of 14 June 2018 determining that a temporary suspension of the preferential customs duty pursuant to Article 15 of Regulation (EU) No 20/2013 of the European Parliament and of the Council is not appropriate for imports of bananas originating in Nicaragua (OJ L 152, 15.06.2018, p.58) and Commission Implementing Decision (EU) 2018/1888 of 3 December 2018 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 and pursuant to Article 15 of Regulation (EU) No 20/2013 of the European Parliament and of the Council is not appropriate for imports of bananas originating in Guatemala and Peru (OJ L 308, 04.12.2018, p.49).

			mio €	annual %
Imports	6.097	6.158	60	1,0%
Exports	5.446	6.037	591	10,8%
Balance	-651	-121	530	
Total trade	11.543	12.194	651	5,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Central America 6 (mio €)

Central America 6	2017	2018	Growth	
			mio €	annual %
Imports	4.209	4.121	-88	-2,1%
Exports	637	679	42	6,6%
Balance	-3.571	-3.442	130	
Total trade	4.846	4.800	-46	-0,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Central America 6 (mio €)

Central America 6	2017	2018	Growth	
			mio €	annual %
EU28 imports	1.889	2.037	148	7,8%
EU28 exports	4.809	5.358	549	11,4%
Balance	2.920	3.321	401	
Total trade	6.697	7.394	697	10,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Costa Rica

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Costa Rica (mio €)					
Imports	3.771	2.250	2.404	2.648	2.689
Exports	829	976	1.052	1.095	1.046
Balance	-2.942	-1.275	-1.352	-1.552	-1.643
Share Costa Rica in EU28 trade with Extra-EU28					
Imports	0,2%	0,1%	0,1%	0,1%	0,1%
Exports	0,0%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Costa Rica with world					
Imports	8,3%	9,2%	9,6%	10,0%	9,6%
Exports	17,6%	18,8%	21,0%	20,9%	20,9%
Total (I+E)	12,0%	12,9%	14,1%	14,4%	14,2%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Costa Rica: IMF Dots

Total merchandise trade EU28 with Costa Rica (mio €)

Costa Rica	2017	2018	Growth	
			mio €	annual %
Imports	2.648	2.689	41	1,6%
Exports	1.095	1.046	-49	-4,5%
Balance	-1.552	-1.643	-91	
Total trade	3.743	3.735	-8	-0,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Costa Rica (mio €)

Costa Rica	2017	2018	Growth	
			mio €	annual %
Imports	1.830	1.781	-48	-2,6%
Exports	120	116	-4	-3,3%
Balance	-1.709	-1.665	45	
Total trade	1.950	1.897	-52	-2,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Costa Rica (mio €)

Costa Rica	2017	2018	Growth mio €	Growth annual %
EU28 imports	818	908	90	11,0%
EU28 exports	975	930	-45	-4,7%
Balance	157	22	-135	
Total trade	1.793	1.838	44	2,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Costa Rica (mio €)

Costa Rica	2016	2017	Growth mio €	Growth annual %
Imports	555	749	193	34,8%
Exports	786	770	-16	-2,0%
Balance	231	22	-209	
Total trade	1.341	1.519	178	13,2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Costa Rica (mio €)

	2013	2014	2015	2016	2017
Imports	497	493	530	555	749
Exports	600	621	617	786	770
Balance	104	128	86	231	22
Total trade	1.097	1.115	1.147	1.341	1.519

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Costa Rica (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	406	879	880	1.157	1.272
Outward	1.648	2.339	2.708	3.499	3.113
FDI Flows					
Inward	51	21	60	369	52
Outward	200	140	400	210	308

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

El Salvador

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with El Salvador (mio €)					
Imports	184	195	217	249	221
Exports	530	546	472	481	807
Balance	346	351	255	232	587
Share El Salvador in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade El Salvador with world					
Imports	5,9%	6,4%	4,7%	6,3%	7,7%
Exports	3,5%	2,9%	3,1%	3,1%	2,8%
Total (I+E)	5,1%	5,2%	4,1%	5,2%	6,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade El Salvador: IMF Dots

Total merchandise trade EU28 with El Salvador (mio €)

El Salvador	2017	2018	Growth mio €	Growth annual %
Imports	249	221	-29	-11,5%
Exports	481	807	326	67,8%
Balance	232	587	355	
Total trade	730	1.028	298	40,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with El Salvador (mio €)

El Salvador	2017	2018	Growth mio €	Growth annual %
Imports	69	54	-14	-21,0%
Exports	48	52	5	9,8%
Balance	-21	-2	19	
Total trade	116	107	-10	-8,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with El Salvador (mio €)

El Salvador	2017	2018	Growth mio €	Growth annual %
EU28 imports	181	166	-14	-7,8%
EU28 exports	434	755	322	74,2%
Balance	253	589	336	
Total trade	614	922	308	50,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with El Salvador (mio €)

El Salvador	2016	2017	Growth mio €	Growth annual %
Imports	94	91	-3	-3,3%
Exports	258	229	-29	-11,4%
Balance	164	138	-26	
Total trade	352	319	-33	-9,2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with El Salvador (mio €)

	2013	2014	2015	2016	2017
Imports	94	84	106	94	91
Exports	224	242	276	258	229
Balance	130	158	170	164	138
Total trade	318	327	382	352	319

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with El Salvador (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	47	48	21	29	147
Outward	710	933	1.101	984	854
FDI Flows					
Inward	-18	7	-13	-2	140
Outward	-408	326	213	-109	-266

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Guatemala

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Guatemala (mio €)					
Imports	691	864	920	1.035	981
Exports	894	956	906	994	986
Balance	203	91	-14	-40	5
Share Guatemala in EU28 trade with Extra-EU28					
Imports	0,0%	0,1%	0,1%	0,1%	0,0%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,0%	0,1%	0,1%	0,1%	0,0%
Share EU28 in trade Guatemala with world					
Imports	7,1%	7,5%	7,2%	7,4%	7,3%
Exports	7,5%	7,8%	9,0%	9,1%	9,4%
Total (I+E)	7,3%	7,6%	7,9%	8,0%	8,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Guatemala: IMF Dots

Total merchandise trade EU28 with Guatemala (mio €)

Guatemala	2017	2018	Growth mio €	Growth annual %
Imports	1.035	981	-54	-5,2%
Exports	994	986	-9	-0,9%
Balance	-40	5	45	
Total trade	2.029	1.967	-63	-3,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Guatemala (mio €)

Guatemala	2017	2018	Growth mio €	Growth annual %
Imports	718	787	68	9,5%
Exports	125	132	8	6,0%
Balance	-594	-654	-61	
Total trade	843	919	76	9,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Guatemala (mio €)

Guatemala	2017	2018	Growth mio €	Growth annual %
EU28 imports	316	194	-122	-38,5%
EU28 exports	870	853	-16	-1,9%
Balance	553	659	106	
Total trade	1.186	1.048	-138	-11,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Guatemala (mio €)

Guatemala	2016	2017	Growth mio €	Growth annual %
Imports	249	306	57	23,0%
Exports	298	316	19	6,2%
Balance	49	10	-39	
Total trade	547	623	76	13,9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Guatemala (mio €)

	2013	2014	2015	2016	2017
Imports	205	214	297	249	306
Exports	875	541	343	298	316
Balance	671	327	46	49	10
Total trade	1.080	755	640	547	623

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Guatemala (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	153	4.041	2.628	1.374	2.729
Outward	1.527	1.870	3.075	2.387	2.615
FDI Flows					
Inward	-34	421	245	11	266
Outward	127	140	618	234	22

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Honduras

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Honduras (mio €)					
Imports	841	1.015	1.048	1.263	1.148
Exports	450	496	452	437	480
Balance	-391	-519	-596	-826	-668
Share Honduras in EU28 trade with Extra-EU28					

	2013	2014	2015	2016	2017
Imports	0,0%	0,1%	0,1%	0,1%	0,1%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Honduras with world					
Imports	6,7%	7,1%	6,9%	5,9%	6,2%
Exports	21,8%	23,8%	25,0%	33,5%	29,0%
Total (I+E)	11,3%	12,0%	12,4%	14,7%	12,9%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Honduras: IMF Dots

Total merchandise trade EU28 with Honduras (mio €)

Honduras	2017	2018	Growth mio €	Growth annual %
Imports	1.263	1.148	-115	-9,1%
Exports	437	480	43	9,8%
Balance	-826	-668	158	
Total trade	1.701	1.629	-72	-4,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Honduras (mio €)

Honduras	2017	2018	Growth mio €	Growth annual %
Imports	1.049	947	-102	-9,7%
Exports	49	54	5	10,3%
Balance	-1.000	-893	107	
Total trade	1.098	1.001	-97	-8,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Honduras (mio €)

Honduras	2017	2018	Growth mio €	Growth annual %
EU28 imports	214	201	-13	-6,1%
EU28 exports	388	426	38	9,8%
Balance	174	225	51	
Total trade	603	627	25	4,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Honduras (mio €)

Honduras	2016	2017	Growth mio €	Growth annual %
Imports	94	124	30	32,3%
Exports	171	205	34	19,9%
Balance	77	81	4	
Total trade	265	329	64	24,3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Honduras (mio €)

	2013	2014	2015	2016	2017
Imports	187	81	107	94	124
Exports	196	163	182	171	205
Balance	9	83	75	77	81
Total trade	383	244	289	265	329

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Honduras (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	-5	93	27	15	32
Outward	372	473	532	480	384
FDI Flows					
Inward	51	-8	-90	-0	2
Outward	145	41	12	-36	-91

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Nicaragua

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Nicaragua (mio €)					
Imports	285	327	309	375	390
Exports	223	225	236	244	190
Balance	-62	-101	-73	-130	-200
Share Nicaragua in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Nicaragua with world					
Imports	6,1%	7,6%	5,3%	5,4%	4,6%
Exports	6,5%	6,5%	9,1%	11,6%	11,7%
Total (I+E)	6,3%	7,1%	6,4%	7,2%	7,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Nicaragua: IMF Dots

Total merchandise trade EU28 with Nicaragua (mio €)

Nicaragua	2017	2018	Growth mio €	Growth annual %
Imports	375	390	15	4,0%
Exports	244	190	-54	-22,1%
Balance	-130	-200	-69	
Total trade	619	580	-39	-6,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Nicaragua (mio €)

Nicaragua	2017	2018	Growth mio €	Growth annual %
Imports	250	260	10	4,2%
Exports	24	24	0	1,2%
Balance	-226	-236	-10	
Total trade	274	285	11	3,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Nicaragua (mio €)

Nicaragua	2017	2018	Growth mio €	Growth annual %
EU28 imports	125	129	5	3,7%
EU28 exports	220	166	-54	-24,7%
Balance	95	36	-59	
Total trade	345	295	-50	-14,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Nicaragua (mio €)

Nicaragua	2016	2017	Growth mio €	Growth annual %
Imports	69	96	26	38,2%
Exports	176	178	2	1,1%
Balance	107	83	-24	
Total trade	245	274	28	11,6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Nicaragua (mio €)

	2013	2014	2015	2016	2017
Imports	47	90	89	69	96
Exports	206	126	164	176	178
Balance	159	36	75	107	83
Total trade	253	217	252	245	274

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Nicaragua (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	57	19	62	57	95
Outward	874	296	419	345	428
FDI Flows					
Inward	27	-15	120	-6	41
Outward	656	-572	48	35	145

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Panama

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Panama (mio €)					
Imports	455	564	590	528	729
Exports	2.327	2.521	2.176	2.194	2.527
Balance	1.872	1.956	1.586	1.666	1.799
Share Panama in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Panama with world					
Imports	11,4%	11,7%	11,0%	10,6%	10,0%
Exports	26,1%	27,5%	29,5%	27,7%	29,4%
Total (I+E)	12,3%	12,6%	12,0%	11,4%	11,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Panama: IMF Dots

Total merchandise trade EU28 with Panama (mio €)

Panama	2017	2018	Growth mio €	Growth annual %
Imports	528	729	201	38,1%
Exports	2.194	2.527	334	15,2%
Balance	1.666	1.799	133	
Total trade	2.721	3.256	535	19,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Panama (mio €)

Panama	2017	2018	Growth mio €	Growth annual %
Imports	293	292	-2	-0,6%
Exports	271	300	28	10,4%
Balance	-22	8	30	
Total trade	565	591	26	4,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Panama (mio €)

Panama	2017	2018	Growth mio €	Growth annual %
EU28 imports	234	437	203	86,5%
EU28 exports	1.922	2.228	305	15,9%
Balance	1.688	1.791	103	
Total trade	2.157	2.665	508	23,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Panama (mio €)

Panama	2016	2017	Growth mio €	Growth annual %
Imports	2.403	2.435	32	1,3%
Exports	2.330	2.306	-24	-1,0%
Balance	-73	-129	-56	

Total trade	4.732	4.741	9	0,2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Panama (mio €)

	2013	2014	2015	2016	2017
Imports	1.590	1.689	2.495	2.403	2.435
Exports	1.533	1.503	2.055	2.330	2.306
Balance	-58	-186	-440	-73	-129
Total trade	3.123	3.192	4.550	4.732	4.741

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Panama (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	2.766	3.815	4.634	25.593	11.551
Outward	14.240	18.632	38.265	23.688	21.987
FDI Flows					
Inward	336	-0	1.956	4.765	-1.263
Outward	-13	901	1.037	-2.432	-2.541

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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

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

The Deep and Comprehensive Free Trade Area part of the Association Agreement (DCFTA) with Ukraine has been in force provisionally since 1 January 2016 and formally since 1 September 2017, following ratification by all EU Member States. Ukraine's commitments under the DCFTA are considerable in areas spanning from competition and state aid to public procurement and sanitary and phytosanitary measures.

1. EVOLUTION OF TRADE

Bilateral trade in goods continued to increase in 2018 and EU imports from the Ukraine reached record levels in 2018 of around €18 billion. This is an increase by 8% from 2017, which was another record year of imports into the EU from Ukraine.

EU exports continued to increase, too, and reached around €22 billion in 2018, up by 10% from 2017. For more than 5 years, the EU has had a positive trade in goods balance of €4 billion with Ukraine.

The EU remained Ukraine's main trading partner, representing 42% of Ukraine's total trade, with a similar split between imports and exports. Total trade between the EU and Ukraine reached €40 billion in 2018, an increase of close to 9% when compared to 2017. Russia and China are the 2nd and 3rd largest trading partners of Ukraine, respectively, followed by Belarus, Turkey and the US. Ukraine is EU's 21st largest trading partner.

1.1 Trade in goods overall

Scope of trade liberalisation

The elimination and reduction of customs duties is taking place over a transitional period, which in the case of Ukraine runs until 2026 and will ultimately result in market opening for 96% of tariff lines for products imported from the EU (98% in terms of import value). The EU will open its market earlier than Ukraine, implementing its liberalisation commitments by 2023 for 96% of tariff lines (97.8% 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 Tariff Rate Quotas (TRQ) applied indefinitely by both sides, which foresee annual increases for some products over a five year transition period.

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 between themselves. The EU granted unilateral trade concessions for a three years' period in 2017. See more details in section 1.4.

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 characterised by a growing share of goods with higher value added. The main product categories, exported by the EU to Ukraine in 2018 were machinery and appliances, chemical products, transport equipment, mineral products, plastics, rubber and articles thereof, textiles and textile articles.

In 2018, Ukraine mainly exported base metals, mineral products, vegetable products, machinery and appliances and wood and charcoal. Ukraine's export profile is now more diversified than a decade ago when 70% of exports consisted on vegetable products, base metals and mineral products. Today, other categories such as animal products, foodstuff and machinery products, feature much more prominently on the export list. Footwear and articles of stone, although still relatively low have seen exports increasing by more than 50% over the last 10 years.

1.2 Trade in agricultural goods

In 2018, Ukraine continued to be the EU's 4th biggest supplier of agricultural products and the first origin of agri-food imports among preferential trade partners. However, EU imports of agricultural products from Ukraine increased at a slower pace than in previous years (i.e. a 4% increase between 2017 and 2018, compared to a 32% increase between 2016 and 2017) and reached €5.6 billion. EU agricultural exports to Ukraine increased by 14% to €2.1 billion.

While traditional export products continue to dominate Ukrainian imports into the EU (cereals, oil seeds, animal and vegetable fats and oils represented 73% of Ukrainian agricultural exports to the EU), vegetables and meat products showed considerable increases (278%, 184%, respectively) in 2018. Increase in imports of meat products were due to poultry meat, especially to new chicken cuts which can be marketed, after a minimum transformation, as chicken breast (see further information under section "Progress made, main open issues and follow-up actions"). Imports of these cuts represented 45% of poultry imports from Ukraine in 2018.

EU agricultural exports to Ukraine continued to be more diversified, with significant growth rates especially for beverages, food preparations, dairy products, meats and tobacco products.

Use of Tariff Rate Quotas

For products, which have not been completely liberalised under the DCFTA, tariff rate quotas are in place: 36 tariff rate quotas are granted by the EU, and five tariff rate quotas are granted by Ukraine.

Ukraine was able to fully or nearly fully use the DCFTA tariff rate quotas for wheat, maize, butter, honey, garlic, barley groats and meal, malt, starch, prepared or preserved tomatoes, grape and apple juice, dextrins and glues, finishing agents and one of two TRQs for poultry meat. Other tariff rate quotas remained either not used or used only partially (see table below).

DCFTA TRQs usage for exports by Ukraine to the EU in 2018

Description	Volume of TRQ in 2018 (t)	Imports in 2018 (t)	2018 quota fill
Sheep meat	1.800	0	0
Honey	5.400	5.400	100%
Garlic	500	490	98%
Oats	4.000	1.459	36,5%
Sugar	20.070	17.062	85%
Glucose and fructose	14.000	2.228	15,9%
Flavoured sugar syrup	2.000	0	0
Groats, pellets, grains..	6.900	6.891	99,9%
Malt and gluten	7.000	7.000	100%
Starches	10.000	9.988	99,9%
Dextrins and glues	1.400	1.400	100%
Residues	19.000	8.217	43%
Mushrooms	500	0	0
Mushrooms	500	0	0
Preserved tomatoes	10.000	10.000	100%
Grape and apple juice	14.000	14.000	100%
Buttermilk, cream, yogurt	2.000	443	22%
Dairy spreads	250	0	0
Sweetcorn	1.500	14	0,9%
Fructose, preparations, odoriferous substances	2.400	335	14%
Tapioca, bulgur wheat	2.000	802	40%
Chocolate milk crumb and others	380	16	4,2%
Food preparations	2.000	17	0,9%
Ethyl alcohol	56.200	5.867	10,4%
Cigars, cigarettes	2.500	0	0
Mannitol, sorbitol	100	0	0
Finishing agents	2.000	2.000	100%
Beef Meat	12.000	0	0
Pork Meat (TRQ 1)	20.000	0	0
Pork Meat (TRQ 2)	20.000	0	0
Poultry meat (TRQ 1)	17.600	16.492	93,7%
Poultry meat (TRQ 2)	20.000	9947,708	49,7%
Milk, cream, condensed milk and yogurts	8.800	1279,04	14,5%
Milk powder	2.900	700	24,1%
Butter and diary spreads	2.100	2061,813	98,2%
Eggs and albumins (TRQ 1)	2.100	756,049	36%
Eggs and albumins (TRQ 2)	3.000	997,007	33,2%
Common wheat, flour and pellets	970.000	956.031,084	98,6%
Barley, flour and pellets	290.000	47.531,469	16,4%
Maize, flour and pellets	500.000	538.738,921	100,00%

Source: DG AGRI, DG TAXUD

The EU has (nearly) fully used the five TRQs granted by Ukraine to the EU for pork meat and poultry meat. However, the usage of the additional quota for poultry meat and the quota for sugar remain negligible.

DCFTA TRQs usage for exports by EU to Ukraine in 2018

Product	Volume of TRQ (t)	Used quantity (t)	Utilisation rate
Pork	10 000	10 000	100%
Pork additional for: 02031110, 02031219, 02031911, 02031915, 02031959, 02032110, 02032219, 02032911, 02032915, 02032959	10 000	9 995	100%
Poultry meat	8 800	8 800	100%
Poultry meat additional for: 020712	10 000	29	0,3%
Sugar	34 000	677	2%

Source Ukraine authorities

1.3 Autonomous trade measures

In view of the difficult economic and political situation in Ukraine the EU granted it temporary autonomous trade measures (ATMs) for certain agricultural and industrial products for a period of three years, starting on 1 October 2017. These additional trade concessions mean that tariff elimination for 22 industrial products (ammonium sulphate and nitrate, fertilisers, footwear, aluminium and certain electrical machinery) is accelerated and additional Tariff Rate Quotas are granted for 8 agricultural products (common wheat, maize, barley, barley groats and pellets, oats, natural honey, processed tomatoes and grape juice). In 2018, most ATM tariff rate quotas were fully used: wheat, maize, natural honey, barley groats and pellets, prepared or preserved tomatoes.

1.4 Establishment, trade in services and investments

Market access related to establishment and trade in services

The agreement contains the necessary arrangements for the progressive reciprocal liberalisation 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 liberalisation 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) internal market treatment may be envisaged once Ukraine effectively implements the EU *acquis* and ensures adequate administrative capacity to implement and enforce it.[24]

Trade in services

Total trade in services has increased considerably from around €8 billion in 2013 to more than €9 billion in 2017. In 2017, EU exports of services accounted for 70% of total trade in services. EU exports in services increased by more than 20% while Ukraine experienced an increase of 9% in 2017.

Foreign Direct investment (FDI)

The inflows of FDI into Ukraine, particularly from the EU, were relatively low. According to Eurostat, FDI outward flows from the EU to Ukraine amounted to €245 million in 2017, while FDI inflows from Ukraine to the EU were €152 million in the same year. The EU outward FDI stock in Ukraine, which represents the value of EU investors' equity in and net loans to enterprises in Ukraine, declined from almost €14 billion in 2016 to around €12 billion in 2017, largely due to valuation effects. According to the Ukrainian central bank, total inflows of FDI to Ukraine (from all countries) amounted to €2.3 billion (2.2% of Ukraine's GDP) in 2017 and €2 billion (1.8% of GDP) in 2018, while the outflows of FDI were minimal.

More FDI is needed to diversify the economy and generate more value added production so Ukraine can advance its integration into global value chains, and hence stimulate growth and diversify exports. One of the most important factors in attracting FDI is the rule of law and an effective anti-corruption system. Ukraine has made progress in this field in recent years but a lot still needs to be done.

Another key issue for FDI is macroeconomic stability. Ukraine's economic recovery continues: after the deep recession in 2014-15, real GDP growth reached 2.5% in 2017 and accelerated to 3.3% in 2018, driven by strong investment activity and private consumption. The unemployment rate has decreased in the wake of the recovery as well as significant labour emigration. Annual inflation has slowed down to below 10% year on year, albeit at the cost of high domestic interest rates (policy rate: 17%). Budget deficits have been reduced since 2014 and the 2018 budget deficit was 2% of GDP. Improving business expectations and a further improvement in financial performance of Ukrainian enterprises should further stimulate foreign investment

1.5 EU support to the implementation of the DCFTA

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 Association Agreement/DCFTA implementation. This includes a substantive package on good governance with Public Administration Reform, decentralization reform and the rule of law including the fight against corruption in the focus sectors, private sector development, fostering of energy efficiency and energy market reforms, support to the conflict-affected areas in Eastern Ukraine, skills development and people-to-people contacts. With an annual

[24] The Commission in 2018 notified Ukraine of the amendment to the *acquis* listed in Annex XVII, which in some cases also envisage revised dates for approximation. Exchanges continue with Ukraine and a formal decision to update the annex is envisaged for 2019.

budget of up to €200 million, €965 million have been allocated bilaterally under the European Neighbourhood Instrument so far.

In addition to regular cooperation assistance, DCFTA implementation is also supported by policy conditionality of the EU's macro-financial assistance (MFA) to Ukraine. Conditions of the current MFA operation approved in 2018 include anti-money laundering and customs facilitation measures (the adoption of an anti-money laundering law and a law establishing an Authorised Economic Operator programme).

In the area of economic reform, including the implementation of the DCFTA and the related approximation of Ukrainian legislation to the 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 phytosanitary measures, and others. Most significant EU support operations to DCFTA-related reforms currently take place in the areas of customs, food safety and financial services. Ukraine benefits from EU support projects provided through a whole set of assistance modalities, including technical assistance, twinning and TAIEX projects[25].

Legal approximation of Ukraine's customs legislation with the EU acquis is about to be supported under the Public Finance Management Support Program for Ukraine (EU4PFM). This technical assistance programme aims to support the legal approximation of customs law with the EU acquis and implement customs reforms in order to facilitate mutual trade.

The EU assists Ukraine with food safety and sanitary and phytosanitary measures in order to align Ukrainian standards to those of the EU. The EU continues to support the 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.

In financial services, a technical project by the EU focuses on financial transparency, stability and better supervision. Another technical assistance project intends to strengthen the regulation and supervision of the non-bank financial market.

The EU supports the 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 furthering regulatory harmonisation between the EU and Ukraine in the area of technical barriers to trade, including through a twinning project with the Ukrainian standardisation body.

Alignment of Ukraine's national competition legislation with EU standards is being supported by a twinning project. In the perspective of the introduction of domestic rules on state aid control in the Ukraine, a further technical assistance project is aiming to build institutional capacities and effective state aid control bodies.

1.5 EU support for Small and Medium sized Enterprises (SMEs)

SMEs in Ukraine are benefitting from EU support under the DCFTA Facility for SMEs, which aims at increasing SMEs competitiveness, easing their access to finance, helping them

[25] https://ec.europa.eu/neighbourhood-enlargement/tenders/taiex_en

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 programs implemented principally by European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).

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 significant technical assistance to authorities on SME policy, better regulation and the improvement of inspection services: FORBIZ including the Better Regulation Delivery Office (BRDO) and the Small-and Medium Enterprise Development Office (SMEDO), and EU4Business: From Policies to Action (OECD).

2 ACTIVITIES OF THE IMPLEMENTATION BODIES

2.1 Joint decisions of the Association Bodies

Decision 1/2018[26] of the EU-Ukraine Customs Sub-Committee was adopted on 21 November 2018, replacing Protocol I to the EU-Ukraine Association Agreement, concerning the definition of the concept of "originating products" and methods of administrative cooperation with the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention).

2.2 Meetings of the Association Bodies

The third Association Committee in Trade configuration (ACTC) was held 22-23 November 2018 in Kyiv. The meeting allowed for a useful exchange of views and information on the state of play of implementation under the different chapters of the agreement as well as on the evolution of bilateral trade over the past year. The ACTC also adopted its operational conclusion for 2019.

In relation to customs and trade facilitation, Decision 1/2018 of the Customs Sub-committee, referred to in section 2.1 above is an important achievement to further facilitate trade and it will allow diagonal cumulation with other partners to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM) with whom Ukraine has a free trade agreement, Norway for example. Ukraine's accession to the Conventions on a Common Transit Procedure[27] and the Convention on Simplification of Formalities in trade in goods, as well as the setting up an Authorised Economic Operator (AEO) Programme are still ongoing and foreseen under the Association Agreement. The EU provides significant support, assistance and expertise to help Ukraine in its efforts to accede to the conventions and setting

[26] OJ L 20, 23.1.2019, p. 40.

[27] The Convention of 20 May 1987 on a common transit procedure forms the basis for the movement of goods between the EU Member States, the four EFTA countries (Iceland, Norway, Liechtenstein and Switzerland), Turkey, North Macedonia and Serbia.

up the AEO, which will simplify, ease and facilitate the movement of goods between countries.

The EU expressed its concern about the lack of progress on intellectual property rights and encouraged laws to be adopted to properly implement the intellectual property rights Chapter of the DCFTA and strengthen enforcement to reduce counterfeiting and piracy. On geographical indications (GIs), the two Ukrainian GIs protected under the DCFTA have been included in the E-Bacchus[28] database. Ukraine agreed to undertake during 2019 the necessary work with the Ukrainian industry in order to develop a new name for "Cognac of Ukraine" and to modify the recently adopted 'rules of production of Cognac of Ukraine', clearly stating that these rules shall be applied no later than the expiry of the 10-year transition period provided by the Association Agreement, i.e. no later than 2026.

EU provided an overview of the state of play of notifications on amendments to EU legislation on the four services sectors; postal and courier services, telecommunication, financial services and international maritime transport services. Ukraine will submit its comments during the first half of 2019 following which, a consolidated list of legislation will be drawn and a formal decision to amend Annex XVII will be adopted.

EU welcomed the updated roadmap on postal and courier services from March 2018, which would serve as a good guideline for approximation and alignment to EU legislation. Ukraine indicated that draft legislation with a view to aligning with Directive 97/96 was underway and would be submitted to the EU.

EU reiterated its concerns about the wood export ban which was still in place as well as the value added tax law 2440 that restricted the exports for rapeseed and soybeans. Several other topics on RAPEX[29], road transport, the list of arbitrators for the bilateral dispute settlement mechanism, competition and state aid, poultry imports and certificates and documentation for metal scrap exports were also discussed. The details of the discussions on SPS and TSD are reported below.

The Sanitary and Phytosanitary Management Sub-Committee held its third meeting on 16 November 2018 via video conference, however both parties have regular meetings on SPS issues to keep track of the developments and interfere where issues arise. During the meeting, the Ukrainian authorities presented progress on the implementation of the operational conclusions from the previous Sub-Committee meeting of October 2017 and updates as regards the implementation of the DCFTA SPS Chapter as well as on institutional reforms. The EU informed about the marketing standards it has in place for the import of shell eggs.

Parties discussed the final steps to be made in order to adopt Annex V of the Association Agreements that lists the EU SPS legislation and the deadlines as to when Ukraine should have concluded the approximation per act. Parties reached a technical agreement on this annex and discussed their internal procedures that have to be followed in order for the SPS Sub-Committee to finally adopt this important document.

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[28] E-Bacchus is a database that, among other things, lists non-EU countries' geographical indications and names of origin protected in the EU in accordance with bilateral agreements on trade in wine concluded between the EU and the non-EU countries' concerned.

[29] EU Rapid Alert System for non-food and feed products.

Due to the importance of SPS in general and the Ukrainian commitment in the Association Agreement in particular, the SPS sector will remain a core sector in its bilateral cooperation with Ukraine for the years to come. Two projects of a combined value of around €5 million are foreseen in 2019.

The Commission carried out an audit on the control system for poultry meat and informed that a follow-up audit would be carried out in 2019 to verify whether the shortcoming that had been identified had been rectified accordingly. The next meeting is planned for the first half of 2019.

3 IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The second Trade and Sustainable Development (TSD) Sub-Committee between the EU and Ukraine was held on 13 November 2018 in Kyiv, followed by an open Civil Society Forum on 14 November 2018 during which members of the EU Advisory Group were able to meet the newly established Ukraine Advisory Group for the first time. The meeting of the Sub-Committee enabled a first substantial exchange on TSD labour provisions. It notably discussed labour inspections as a cross-cutting issue for all labour standards, revision of the labour legislation to address compliance gaps with several ILO fundamental conventions as well as recent issues around trade-unions' rights. The EU notably called for action to bring the current labour inspection system fully in line with the relevant ILO conventions. An EU-funded ILO project is making a positive contribution to strengthening the Ukrainian labour inspection system and the EU encouraged Ukraine to take full advantage of this support. The operational conclusions of the TSD Sub-Committee and its joint statement to civil society are available online[30][31] and contains additional valuable information. They highlight the key areas of EU-Ukraine TSD implementation work, including on trade and labour issues (labour inspection, modernisation of labour relations, social dialogue) as well as trade and environmental issues (sustainable forest management and related wood production, sales, processing and trade).

In line with the TSD 15-point action plan of February 2018, in particular its theme of "working together", EU Member States were regularly updated both in Brussels through TSD expert group meetings and on the ground in Kyiv via the EU Delegation on TSD matters and were asked for inputs and feedback, for example regarding ongoing projects benefiting TSD implementation in Ukraine.

In 2019, Ukraine is expected to select its experts for the TSD list of experts. A panel composed of experts from that list would be sought for advice in cases of disputes over TSD matters between the EU and Ukraine.

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

4.1 Wood export ban

Ukraine has not made any efforts in removing the wood export ban despite repeated requests by the EU at all levels and instances, and repeated promises by Ukraine to solve the problem.

[30] http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157498.11.2018%20final.pdf
[31] http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157499.11.2018%20final.pdf

The EU consequently submitted on 15 January 2019 a formal request for dispute settlement consultations with regard to certain Ukrainian export restrictions on wood pursuant to Article 305 of the Association Agreement. This request is publicly available and can be found on DG TRADE's web site. During the ensuing bilateral consultations held on 7 February 2019 in Kyiv, Ukraine provided useful information and replies to the questions prepared by the EU but the consultations essentially confirmed the Commission's legal assessment of the measures at stake as well as their economic and political background. The EU will carefully consider the next steps. The EU explained to Ukraine that the wood export ban could not be considered as an appropriate forest preservation measure and does not appropriately address the challenges of the forestry sector in Ukraine as regards corruption and illegal business activities. The EU has always been a staunch supporter of efforts to develop a sustainable forest management in Ukraine and have provided support and assistance and continues to do so.

4.2 Value added tax law 2440

In 2018, Ukraine adopted a law 2440 on the cancellation of value added tax. The law denies, for certain exporters, the refund of the value added tax upon export of rapeseed and soybeans. The law sets out that exporters, when exporting soybeans from 1.9.2018 to 31.12 2021 and rapeseed from 1.1.2020 to 31.12.2021 will not be reimbursed for the value added tax. This has a negative impact on most stakeholders, in particular processing plants in the EU (for whom the cost of Ukrainian grains increases), EU and Ukrainian traders without Ukrainian production but also Ukrainian farmers who face lower domestic prices. This is a measure that appears incompatible with the provisions of the Association Agreement and Ukraine's Protocol of Accession to the WTO. The EU has on several occasions, at both technical and Ministerial level, raised concerns about this measure and encouraged Ukraine to take the necessary steps to end it.

4.3 Poultry meat imports

The imports of a new type of poultry cut continued its increase in 2018. This novel cut consists of a traditional breast cap with the humerus bones and, after a minimal transformation, this cut can be marketed in the EU as poultry breast. The rapid increase in duty free imports of this particular poultry cut, which was neither existent nor foreseeable during the negotiations of the agreement, risk undermining the protection provided for poultry breast. The EU held working consultations with Ukraine during the summer 2018 and on 20 December 2018, the Council authorised the Commission to open negotiations with Ukraine with a view to find a solution by amending the trade preferences for poultry meat and poultry meat preparations. The negotiations held in January, February and March 2019 resulted in an agreement to include the poultry cuts in question into the existing quota, reintroducing the most favoured nations duty of €100.8 /100kg net and finally to increase the existing poultry quota for Ukraine. Actual imports from Ukraine of these particular poultry cuts reached 55,000 tonnes in 2018.

4.4 Technical barriers to trade

The dialogue on technical barriers to trade that took place in March 2019 allowed the exchange of detailed information allowing for the assessment of the Ukrainian legislation, the quality infrastructure institutions, their effectiveness and their preparedness to implement EU legislation in the field of technical regulations. Ukraine is making substantive progress to align its regulatory framework and standards with the EU, however work still needs to be completed on standardisation. Legislative work is still pending in Verkhovna Rada in respect to the amendments of two laws (on Technical Regulations and on Market Surveillance). Furthermore, implementation and enforcement of Ukrainian legislation transposing the EU *acquis* by relevant institutions must be strengthened, in particular in the area of market surveillance where significant further efforts are needed to meet EU requirements. Work will continue bilaterally to review progress achieved before the next plenary session of the High Level Industrial and Regulatory Dialogue.

4.5 SPS aspects

Ukraine has committed to approximate its SPS and animal welfare legislation to that of the EU – in an ongoing process already undertaken by Ukraine with assistance and support from the EU. The specific details concerning the timeline of approximation with regard to individual EU legal acts was not included in the DCFTA and was to be agreed by the sides in the comprehensive SPS strategy. Both sides expect to be able to formally adopt the SPS strategy in 2019. The SPS Strategy contains more than 240 acts of EU legislation for approximation by Ukraine and according to a recent examination 170 acts have already been approximated or are in the process of approximation.

The EU informed Ukraine about the marketing standards it has in place for the import of shell eggs, which require imported eggs to be labelled as 'non-EU compliant' until equivalence has been recognised, which includes compliance with the EU animal welfare requirements. Further audits with favourable results have been conducted by the Commission on the official oversight by Ukraine of the poultry industries regarding animal health and food safety aspects.

The parties also made progress on the establishment of harmonised certificates that will apply to all EU Member States for their exports of animal products to Ukraine. Talks on the certificates for gelatine/collagen have been finalised and certificates for poultry products are in the final stages of negotiation. Ukraine is about to publish 'Order 71' that lists Ukraine's import requirements on animal products and allows for favourable treatments of EU products."

The parties discussed the implementation of the article in the Association Agreement on diseases and pest regionalisation and the EU requested that Ukraine expand this to diseases other than highly Pathogenic Avian Influenza (HPAI) and New Castle Disease (NCD), for which Ukraine conducted an audit of the performance of EU-control measures (e.g. concerning African swine fever carried out by Lithuania).

Ukraine requested the EU to finalise procedures leading to the recognition of equivalence of Ukrainian seed production and control systems for which all technical preparations have been concluded.

Ukraine informed the EU about its interest to start exporting ware potatoes whereas the EU inquired about imports of Ash wood from Ukraine and requested information about monitoring systems Ukraine should have put in place to timely detect outbreaks of the emerald ash borer (*Agrilus planipennis*) and methods to prevent its spread to the EU.

4.6 Customs and Trade facilitation

Ukraine is working on topics to further facilitate trade and cross border cooperation with the EU through the possibilities already foreseen under the agreement. Ukraine has taken steps to introduce the Authorised Economic Operator (AEO) programme, which helps improve customs clearance and facilitate external trade and the draft law to that effect is currently in the Parliament pending for the second reading. Ukraine has also drafted a law on implementing the provisions to accede to the Convention on a Common Transit Procedure, which pending its consideration in the Parliament. Similar progress is made for accession to Convention on the Simplification of Formalities in Trade. In relation to Ukraine's approximation to the Union Customs Code as foreseen under Annex XV and chapter 5 on Customs and Trade Facilitation, the first exchanges are foreseen in 2019 and, once finalised, the annex will be formally updated. Ukraine is a member of the PEM Convention on preferential rules of origin and once the relevant legislation in the EU is updated the PEM Convention will apply. These are important initiatives foreseen under the agreement which will help trade flow faster, easier and safer.

4.7 Intellectual property rights (IPR)

Throughout 2018, implementation results of the ambitious commitments in the DCFTA on alignment of Ukraine's system of protection and enforcement of intellectual property rights (IPRs) were limited. The law on collective rights management in force since July 2018 was reviewed by the Commission, which identified several serious shortfalls that need to be addressed. The Ministry of Economic Development and Trade established an expert group for the preparation of a new draft Law on Copyright and Related Rights, which will also address the CMO law shortfalls. The European Commission follows closely and supports the endeavours of this expert group. Another bill aimed to improve the distribution of copyrighted material was adopted by the Parliament of Ukraine in September 2018. Regrettably, many bills presented by the government as the IPR reform package contain problematic provisions and need to be carefully revisited to solve existing problems in the area of IPR and to become in full compliance with the DCFTA requirements. In particular, the draft patent bill needs to make sure that no limitations to the patentable subject matter that are contrary to the DCFTA and TRIPS are introduced. Throughout 2018 the EU provided inputs and comments to several draft laws, including on IPR Border Measures which has still not been adopted by the deadline established by the Association Agreement, Article 250 (by 1 January 2019). Furthermore, the Ukrainian legislation does not include adequate provisions ensuring effective enforcement of IPR rights; they are particularly unfit for enforcement in the digital environment. 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 is in a constructive dialogue with the Ukrainian authorities.

4.8 Geographical indications (GIs)

In 2018, the draft Law "On amendments to a number of legislative acts of Ukraine to improve legal protection of geographical indications" passed its first reading on 13 March 2018 and was approved for the second on 4 July 2018. Despite having been on the agenda of the parliament since September 2018 the draft law has not been adopted yet. Furthermore, three additional draft laws were prepared and harmonised with EU legislation, respectively "on GIs for Agricultural Products and Foodstuffs", "on GIs for Spirit Drinks" and "on GIs for Wine and Aromatized Wine Products". The structure for the Law "on Viticulture and Production of Wine Products" has also been finalised in line with new EU regulations and should now be discussed with the Ministry of Agrarian Policy and Food (MAPF) of Ukraine.

Eight hackathons were organized throughout the country in order to determine a new name that could replace “Cognac of Ukraine”. After a series of additional consultations, a list of 10 most popular brands were proposed to the MAPF for further consideration, in collaboration with the Industry.

A first cheese GI Association called “Association of producers of traditional Carpathian highland bryndzya” was established and officially registered on 31 August 2018. The specifications of “Hutsul sheep bryndzya” was developed and approved by the members of the producers association and the full dossier for application for registration of the PDO was sent to the Ministry of Economic Development and Trade on 19 December 2018.

4.9 Competition and State aid

In 2018 the Antimonopoly Committee of Ukraine (AMCU) continued drafting substantive and procedural rules in the field of antitrust and merger control. Several of these key drafts – such as guidelines on market definition and the concept of dominance - cannot however be adopted without amending the Ukrainian law on competition. Regarding the latter, AMCU continues working on draft amendments but it remains unclear if they will be submitted and adopted before the next Parliamentary elections in autumn 2019. In addition, AMCU and the EU national competition authorities have worked on a comparative analysis of EU and Ukrainian competition law. The EU expects that the findings will lead to a structured and holistic approach to continue legal approximation. Finally, there is a need to increase the rigour of the enforcement of competition rules in individual cases.

The State Aid rules in place have partially allowed controlling state aid by the Ukraine. This period has been useful for gaining experience on case enforcement. There is however a need to smarten up rules in view of addressing the main misalignments in the Law on State Aid, improving and simplifying the compatibility guidelines and shifting efforts from small to big cases. The quality of the State Aid decisions also needs to improve, notably as regards structure and substantiation. The government should also introduce mechanisms to ensure that large grantors notify state aid provided.

4.10 Public procurement

The Commission has continued its assistance and its active involvement with the Ukrainian authorities to progress towards building a transparent, non-discriminatory, competitive and open public procurement system. Discussion on public procurement between the EU and Ukraine also takes place in the Public Procurement Working Group of the High Level Industrial Dialogue that takes place annually. Intense cooperation between the EU and Ukrainian authorities, and through broad support and assistance by the EU throughout 2018, has helped Ukraine in drafting a new law on public procurement that intends to meet the requirements for legislation approximation under phase two of Annex XXI of Chapter 8 of the Association Agreement. This approximation process in different phases foresees gradual mutual market opening to each other’s public procurement market when conditions of the given phase have been met. The draft law is intended to be submitted to the Ukrainian Parliament in 2019.

5 CONCLUSIONS AND OUTLOOK

In terms of trade, the DCFTA delivers. Trade in both directions continued to increase in 2018 and Ukrainian exports to the EU have reached their highest level ever. The EU has consolidated its position as Ukraine's main trading partner representing around 42% of its trade.

On legal approximation, there is in general good progress in many areas, including a commitment by Ukraine to approximate legislation, harmonise standards and carry out reforms. At the same time, serious concerns remain about old and new trade irritants such as the wood export ban, the value added tax law 2440 and laws on intellectual property rights. Ukraine needs to step up efforts against counterfeiting and piracy and to align its enforcement laws on intellectual property rights and do more to remove existing trade irritants, including ensuring that no new irritants emerge. Implementation of DCFTA commitments, reforms and approximation are advancing steadily and are closely monitored and supported by the Commission. Ukraine should be encouraged to continue its reform process, which is the best way to fully benefit from the agreement.

6 STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Ukraine (mio €)					
Imports	13.734	12.844	13.182	16.683	18.002
Exports	16.995	14.033	16.568	20.196	22.128
Balance	3.262	1.190	3.386	3.513	4.127
Share Ukraine in EU28 trade with Extra-EU28					
Imports	0,8%	0,7%	0,8%	0,9%	0,9%
Exports	1,0%	0,8%	0,9%	1,1%	1,1%
Total (I+E)	0,9%	0,8%	0,9%	1,0%	1,0%
Share EU28 in trade Ukraine with world					
Imports	38,7%	40,9%	43,7%	42,2%	41,0%
Exports	31,6%	34,1%	37,2%	40,7%	42,3%
Total (I+E)	35,2%	37,5%	40,6%	41,5%	41,6%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Ukraine: IMF Dots

Total merchandise trade EU28 with Ukraine (mio €)

Ukraine	2017	2018	Growth mio €	Growth annual %
Imports	16.683	18.002	1.318	7,9%
Exports	20.196	22.128	1.932	9,6%
Balance	3.513	4.127	613	
Total trade	36.880	40.130	3.250	8,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Ukraine (mio €)

Ukraine	2017	2018	Growth mio €	Growth annual %
Imports	5.415	5.617	202	3,7%
Exports	1.813	2.064	251	13,8%
Balance	-3.602	-3.553	49	
Total trade	7.229	7.681	452	6,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Ukraine (mio €)

Ukraine	2017	2018	Growth

			mio €	annual %
EU28 imports	11.268	12.385	1.117	9,9%
EU28 exports	18.383	20.064	1.681	9,1%
Balance	7.115	7.680	564	
Total trade	29.651	32.449	2.798	9,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Ukraine (mio €)

Ukraine	2016	2017	Growth mio €	annual %
Imports	2.628	2.864	236	9,0%
Exports	5.508	6.677	1.169	21,2%
Balance	2.880	3.814	934	
Total trade	8.136	9.541	1.405	17,3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Ukraine (mio €)

	2013	2014	2015	2016	2017
Imports	2.912	2.684	2.724	2.628	2.864
Exports	5.061	4.710	5.105	5.508	6.677
Balance	2.149	2.027	2.381	2.880	3.814
Total trade	7.973	7.394	7.829	8.136	9.541

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Ukraine (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	501	193	602	211	263
Outward	19.623	17.729	12.068	13.998	12.630
	FDI Flows				
Inward	135	129	208	79	152
Outward	169	-1.880	756	-252	245

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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

The Deep and Comprehensive Free Trade Area (DCFTA) of the EU-Georgia Association Agreement (AA)[32] entered into force on 1 July 2016 after being applied on provisional basis since 1 September 2014.[33] This is the third 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.[34]

The Government of Georgia adopted in November 2017 an **Action Plan for the implementation of the DCFTA 2018-2020**[35]. 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

The scope of trade liberalisation

At the start of provisional application of the DCFTA on 1 September 2014 **both partners eliminated import duties for all goods with a few exceptions on the European Union side,** related to sensitive agriculture products, for which market access has also improved. In this context, the EU granted duty-free Tariff Rate Quotas for garlic originating from Georgia and, for 28 agricultural products (including fruits and vegetables) that are subject to **entry prices,** the EU eliminated the *ad valorem* component of the import duty.

An **anti-circumvention mechanism** applies to several agricultural goods i.e. beef, pork, sheep and poultry meat, dairy products, eggs and albumins, mushrooms, cereals, malt, starches and sugars as well as to processed agricultural products such as: sweetcorn, processed sugars and cereals and cigarettes.

[32] 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

[33] 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.

[34] 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.

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

The 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 liberalisation of customs duties in bilateral trade.

Overall evolution of EU–Georgia trade in goods

In accordance with 2018 Eurostat data, the **EU is the most important trade partner of Georgia with 27% share** in its overall trade (22% in total export and 29% imports) and is followed by Turkey (14%), Russia (11%), Azerbaijan (9%), and China (8%). **Georgia is the EU's 77th trade partner** and accounts for only 0.1% of its total trade.

In 2018 the overall trade between the EU and Georgia increased on year-on-year-basis by 3% and amounted to €2.8 billion. **EU exports to Georgia increased** in that time by 4 % while **EU imports from Georgia noted a decrease of 1.6%** compared to 2017. The top 5 products (mineral products, foodstuffs, beverages, tobacco, base metals, products of chemical or allied industries, and textiles and textile articles) account for 85 % of total Georgian exports to the EU.

In the analysed period **the surplus in EU trade with Georgia** has increased from €1.35 billion to €1.46 billion.

Sectoral structure of EU-Georgia trade in goods

As concerns the **structure of EU exports to Georgia** in 2018, 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 2018 in comparison to 2017 were as follows:

Machinery and appliances amounted to 21 % of overall EU exports to Georgia and increased by 17%; mineral products – 18%, decrease by 7%; products of chemical or allied industries - 17%, decrease by 7% (pharmaceutical products represented the largest proportion of EU exports to Georgia in this category, accounting for 10%). Other products categories that showed an increase in EU exports are optical and photographic instruments and prepared foodstuffs.

In terms of **structure of EU imports from Georgia** in 2018, the most important product categories were: **mineral products, fruit and vegetables (notably nuts), base metals and chemical goods**.

The following shares and dynamics in 2018 comparing to 2017 were observed: Mineral products accounted for 51 % of the total EU imports from Georgia and decreased by 2%; foodstuffs, beverages, tobacco accounted for 12% and increased by 29% (this is mainly due to an increase in beverages, spirits and vinegar (+38%); base metals and articles thereof accounted for 8% and decreased by 9%; products of chemical or allied industries accounted for 8% and decreased by 4%; textiles and textile articles accounted for 6% and decreased by 13%; other categories of products that have shown an increase in EU imports from Georgia are plastics and rubber and machinery and appliances.

1.2 Trade in agricultural goods

In 2018, EU imports of agricultural products from Georgia remained stable. Beverages, spirits and vinegar accounted for 53% of the EU's agri-food imports from Georgia in 2018, followed by fruit and nuts with 27%. EU exports of agricultural products to Georgia also remained stable over the same period. The EU's key agri-food exports to Georgia consisted of beverages, spirits and vinegar (24%), sugars and sugar confectionary (10%) and food preparations, chocolate, confectionery & ice cream (9%).

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

1.3 Use of Tariff Rate Quotas (TRQ)

In 2018, the annual duty-free Tariff Rate Quotas of 220 tonnes the EU offers for Georgian garlic was used to a minimum extent (0,5%), mainly due to market forces.

1.4 Establishment, trade in services and investments

Market access related to establishment and trade in services

In the DCFTA the EU and Georgia laid down the necessary arrangements for the progressive reciprocal liberalisation of establishment and trade in services and for cooperation on electronic commerce. Both Partners committed to freedom of **establishment** as from the start of the DCFTA’s provisional application, by granting each other national treatment and most favoured-nation treatment (subject to several reservations specified by EU Member States and a few reservations by Georgia). **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 recognised the importance of gradual approximation (over a period of 4 to 8 years) 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 liberalising 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.

Trade in services

Trade in services between the EU and Georgia has more than doubled between 2006 and 2017, both in terms of imports and exports. As Georgian exports are growing faster than EU exports, EU positive trade balance has been gradually decreasing. Total trade in services between the Partners increased by 22% from €704 to €857 million.

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.

Foreign Direct investment

In 2017 Foreign Direct investment (FDIs) stocks in Georgia originating from the EU accounted for €1.6 billion (no change compared to 2016). The top three EU Member States investing in Georgia include the United Kingdom, the Netherlands and the Czech Republic. Inward FDIs flows in that year amounted to €150 million, which is a considerable increase from the €37 million registered in 2016.

According to the data provided both by the EU and Georgia, the main sectors chosen by EU investors are: telecommunications, transport, infrastructure and manufacturing.

The above statistics show that positive impact of the DCFTA on attracting more investments from the EU is still ahead for Georgia. Georgia performs very well in international rankings in terms of business climate. According to the 2019 World Bank Doing Business Index Georgia is on 6th position amongst 190 countries. In the 2018 Transparency International – Corruption Perception Index Georgia appeared on 41st position among 180 countries.

2. ACTIVITIES OF THE IMPLEMENTATION BODIES

2.1 Joint decisions of the Association Bodies

In 2018, the following **amendments/updates** were made to 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);[36]
- ✓ **Standardisation**: Annex III (rules applicable to standardisation, accreditation, conformity assessment, technical regulation and metrology); pending signature of the Joint Decision
- ✓ **Public Procurement**: Annex XVI (public procurement); pending signature of the Joint Decision

[36] OJ L 100, 19.4.2018.

2.2 Meetings of the Association Bodies

The 5th meeting of the EU-Georgia **Association Committee in Trade configuration** was held on 17-18 December 2018 in Brussels. The meeting provided an opportunity to review all issues related to the comprehensive, timely and inclusive implementation of the EU-Georgia DCFTA. The 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 four years of implementation of the DCFTA. The Georgian side requested EU assistance in drafting a roadmap on identifying products and services with export potential to the EU market.

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, Trade and Sustainable Development and instructed the specialised Sub-Committees to continue to seek solutions. Both sides underlined the importance of EU financial and technical assistance in the implementation of the DCFTA, notably projects aimed at supporting both the Georgian administration and the small and medium-sized enterprises (SMEs) to align with the *acquis* and reap the benefits from the Agreement.

The **4th Customs Sub-Committee** met in Brussels on 20 March 2018. The discussion focused on the following matters: developments in customs legislation and procedures, including the approximation process (Annex XIII of the Agreement), customs enforcement of intellectual property rights, Georgia's accession to the Convention on a Common Transit Procedure – preparatory phase to the Twinning Project, Mutual Administrative Assistance in Customs Matters, and World Customs Organisation matters, as well as rules of origin, linkage to the pan-Euro-Mediterranean Convention (PEM) on rules of origin. The Joint Decision on the linkage of the rules of origin in bilateral trade to the Protocol of PEM Convention was adopted during the meeting. This allowed for diagonal cumulation to come into force between the EU, Georgia and the Republic of Turkey as of June 2018. The parties confirmed the harmonisation of Georgian legislation with the EU Regulation 608/2013.

The 4th Sub-Committee on SPS measures (SPS Sub-Committee), met on 17 October 2018 in Tbilisi, Georgia. During the meeting, the Georgian authorities presented progress in the implementation of the operational conclusions from the previous Sub-Committee meeting of October 2017 and updates as regards the implementation of the DCFTA SPS Chapter and institutional reforms. The EU underlined the importance for Georgian authorities to meet the deadlines foreseen in Annex XI-B of the Association Agreement and to allocate human resources in order to meet this priority. Parties discussed the need to make some slight changes to the before mentioned Annex given amendments to the legal acts at the EU side. Georgia gave detailed insights on the approximation process and the progress made.

The EU stressed the importance of providing regularly Tables of Correspondence that indicate the transciption of EU rules and standards into Georgian legalisation at article level. Georgia hailed the assistance that has been provided by the EU over the last years under the *Comprehensive Institutional Building Program* (CIB) and asked this to be continued. Parties also had exchanges of thoughts about animal products from Georgia that would have potential for future exports to the EU. Sectors that were mentioned were dairy, poultry and more exotic food products such as snails. However parties recognised that possible authorisations would require significant preparations and hence serious commitments form the Georgian government and the private industries. Finally the EU gave a presentation on the concept of protected zones and plant passport and parties discussed the possible relevance for Georgia.

The 3rd **Geographical Indications Sub-Committee** meeting 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 updates on EU as well as Georgian Geographical Indications (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 Geographical Indications Annexes to the DCFTA.

3. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The **3rd TSD Sub-Committee** took place on 26 March 2019. During the meeting, the EU and Georgia reaffirmed their commitment to implement the TSD Work Plan 2018-20 agreed in June 2018, and reviewed the state of play of the areas covered. Accordingly, the Sub-Committee reviewed the implementation of the labour provisions of the TSD Chapter, including the ratification and effective implementation of the ILO conventions and Decent Work Agenda. The EU welcomed the adoption of the revised Georgian Occupational Safety and Health (OSH) law and on-going strengthening of the Labour Inspection Department's capacity as further steps towards aligning supervision and control in this area with international and EU standards. The EU also took note of the plans to further developing the Department to ensure supervision and control of labour legislation. The state of play relating to the implementation of the environmental provisions of the TSD Chapter, including the implementation of multilateral environmental agreements (MEAs) and their joint efforts and cooperation to support multilateral environmental governance. Regarding climate change, the Parties recalled that, collectively, Nationally Determined Contributions (NDC) submitted by the Parties under the Paris Agreement and current emission trajectories fall far short of what is required to achieve the long-term goals of the Paris Agreement and discussed their respective strategies on greenhouse gas emission. In addition, the EU emphasised the need for close cooperation with civil society and highlighted the project it has put in place to support the functioning of civil society consultation mechanisms established under TSD chapters of its trade agreements. First workshop to build the capacity of the Domestic Advisory Groups was also organised in the margins of the TSD subcommittee. An open Civil Society Forum was also organised during which the EU and Georgia presented the TSD Sub-Committee's Joint Statement and replied to the questions posed by the EU and Georgian Domestic Advisory Groups.

4. SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

Anti-circumvention mechanism

For none of the products under the anti-circumvention mechanism the respective trigger levels were exceeded in 2018, due to the low trade levels for those products. It is worth noting that in the analysed period there were no or very little import of products to be potentially affected by anti-circumvention mechanism.

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

The **approximation** commitments for 2015-2018 have not been entirely implemented to date. These concern inter alia 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 (adopted in 2017); the completion of the first phase of the Public Procurement Roadmap (pending); four EU directives under telecommunication; as well as the approximation of Georgian law to EU legal acts on anti-money laundering (the 3rd Directive on anti-money laundering was due in 2017. However, its approximation has been overtaken by events as the 4th and 5th Directives on anti-money laundering have been adopted. Georgia is working on the implementation of the 4th Directive. 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 intensified 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.

The European Commission and the Georgian government held a ministerial meeting in November 2018 where Georgia's trade potentials were discussed also with respect to agricultural and food products. The EU again expressed its willingness to support the country but also underlined that EU food and feed safety standards cannot be compromised. Ideas were raised to establish closer relations of Georgian authorities with the European Food Safety Authority that could help the country to align to the EU food safety systems.

In 2019, the Commission launched a process to verify Georgia's efforts on approximating to the EU legislation regarding sanitary and phytosanitary measures.

Technical Barriers to Trade

Georgia is on schedule with the approximation of legislation on market surveillance of industrial and consumer products. The legislation on industrial products has been adopted and the legislation on consumer products is being drafted. The twinning project launched in the beginning of 2018 helps the young Technical and Construction Supervision Agency (TCSA) to contribute to the approximation of legislation, apply relevant institutional changes and build capacity of the staff, especially in order to effectively implement the adopted legislation. In 2018, TCSA made progress in capacity building and training on surveillance and contributed to drafting regulations on risk assessment methodology for market surveillance activities and cooperation between market surveillance authorities.

Public Procurement

The institutional part in public procurement approximation has been partially accomplished[37]. The setting up of the impartial and independent review body is still pending. Discussions are ongoing for both Parties to formally adopt a roadmap developed by the Georgian side. The roadmap will be a point of reference and facilitate the implementation of the Public Procurement Chapter of the DCFTA, including on the step by step alignment of the Georgian legislation to the EU acquis in this area. The institutional capacity needs to be built within the GSPA and the contracting authorities.

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[37] 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 and 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.

Intellectual Property

The implementation of the IPR Chapter of the DCFTA has started and Georgia has brought the majority of its laws in compliance with the DCFTA. 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. As one of the deliverables of the meeting between the Government of Georgia and the Commission on 21 November 2018, the Commission decided to allocate resources to a cooperation programme between the Georgian Intellectual Property Centre (Sakpatenti) and the European Intellectual Property Office, aiming at e.g. aligning the Georgian laws and standards concerning registration and management of IP rights with EU norms and standards.

Rules of Origin

On 1 July 2017 Georgia joined the **Convention on pan-Euro-Mediterranean preferential rules of origin**[38]. The joint Decision on the linkage of the rules of origin in bilateral trade to the Protocol of PEM Convention[39] 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. (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 modernisation 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 Association Agreement/DCFTA to be able to be applied in those areas.

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[38] 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

[39] 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.

6. EU SUPPORT TO DCFTA IMPLEMENTATION

EU Support to DCFTA-related reforms

The EU supports 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 DCFTA (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 Twinning projects by Member States to share their experience in the transciption of EU law.

DCFTA implementation is also supported by policy conditionality of the EU's macro-financial assistance (MFA) to Georgia. Conditions of the current MFA operation approved in 2018 include public procurement and labour market measures (the establishment of an independent review body in the area of public procurement and the completion of the employment-related legal framework).

An EU Twinning Project "Supporting the Accession of Georgia to the Conventions on Transit Area and Launching New Computerized Transit System (NCTS)" launched by the consortium Finland-Poland-Latvia in March 2018 aims to support the Revenue Service, Ministry of Finance of Georgia.

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 European Bank for Reconstruction and Development and European Investment Bank. 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 four years of the DCFTA implementation external trade and FDIs remain key for the **overall economic growth of a small open economy like Georgia**. Economic uncertainty in some key trading partners in the region (Russia, Turkey and Azerbaijan) and the recovery from the recession in the EU created a relatively fragile but positive external environment for Georgia's trade in 2018.

The **EU is constantly encouraging and assisting Georgia** to accelerate the necessary reforms, notably in the SPS area, as these reforms would not only enhance food safety in the country but also 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 in the EU *acquis*) and institutional capacity building will require continuous efforts by Georgian authorities as well as on the EU side in terms of assisting Georgia in this process. 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. standardisation and metrology infrastructure; accreditation and surveillance system), SPS (notably in institutional capacity building in food safety control) as well as in promotion of producers organisations, value chain optimisation and the SMEs development. Improving the enforcement and governance of labour standards and working conditions is an important factor for Georgia to fully reap the benefits of the DCFTA and of the Assocation Agreement.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Georgia (mio €)					
Imports	659	735	521	663	653
Exports	1.909	1.846	1.969	2.018	2.114
Balance	1.250	1.111	1.448	1.355	1.460
Share Georgia in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Georgia with world					
Imports	27,6%	32,6%	30,4%	27,7%	28,8%
Exports	21,7%	29,3%	26,8%	24,0%	21,8%
Total (I+E)	26,1%	31,9%	29,6%	26,7%	26,9%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Georgia: IMF Dots

Total merchandise trade EU28 with Georgia (mio €)

Georgia	2017	2018	Growth mio €	Growth annual %
Imports	663	653	-10	-1,5%
Exports	2.018	2.114	95	4,7%

Balance	1.355	1.460	106	
Total trade	2.682	2.767	85	3,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Georgia (mio €)

Georgia	2017	2018	Growth mio €	annual %
Imports	118	116	-1	-1,1%
Exports	247	247	0	-0,2%
Balance	130	130	1	
Total trade	365	363	-2	-0,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Georgia (mio €)

Georgia	2017	2018	Growth mio €	annual %
EU28 imports	546	537	-9	-1,7%
EU28 exports	1.771	1.867	96	5,4%
Balance	1.225	1.330	105	
Total trade	2.317	2.403	87	3,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Georgia (mio €)

Georgia	2016	2017	Growth mio €	annual %
Imports	287	365	78	27,1%
Exports	417	492	75	17,9%
Balance	130	127	-3	
Total trade	704	857	153	21,7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Georgia (mio €)

	2013	2014	2015	2016	2017
Imports	292	272	292	287	365
Exports	494	597	567	417	492
Balance	202	325	275	130	127
Total trade	786	869	860	704	857

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Georgia (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	97	89	141	37	150
Outward	3.101	3.984	3.918	1.636	1.610
FDI Flows					
Inward	-5	5	-12	-76	117
Outward	154	218	209	-1.797	115

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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

The Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Moldova as the main economic pillar of the Association Agreement (AA)[40] has been provisionally applied since 1 September 2014 and fully entered into force on 1 July 2016. The DCFTA (Title V of the AA) also applies to Transnistria from 1 January 2016, as per Decision No 1/2015 of the EU-Republic of Moldova Association Council. The EU monitors the implementation of these arrangements and its adherence by the Republic of Moldova and Transnistria on a yearly basis, and progress is assessed in the framework of the annual Association Committee on Trade configuration.

This third 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.[41] 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

The scope of trade liberalisation

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 Tariff Rate Quotas (TRQs). Further to that, the EU has eliminated the *ad valorem* component of the import duty for twenty agricultural products (the entry prices for fruits and vegetables remain). Import of 14 groups of agricultural and processed agricultural products (pig meat, poultry, dairy products and processed dairy products, eggs and albumins, cereals and processed cereals, sugar and sugar processed goods, cigarettes and sweet corn) is duty-free but monitored under **anti-circumvention mechanism** (if the imports to the EU

[40] 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

[41] 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.

reaches certain agreed levels and Moldova fails to provide 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 (pork meat, poultry meat, dairy, prepared meat, sugar). 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 agri-food products). This schedule of tariff elimination reflects an asymmetric market opening for the benefit of Moldova.

Overall evolution of EU-Moldova trade in goods

The **EU in 2018 remained a key trade partner of Moldova, accounting for 56% of its total trade** (70% of total exports and 50% of Moldova's total imports), followed by Russia (8%) and Belarus (3%). **Moldova is EU's 61st trade partner**. In 2018, the **EU maintained a trade surplus with Moldova** which increased to €880 million.

In 2018, the **total trade** between the EU and Moldova grew by 14% compared to 2017 to slighlty over **€4.6 billion**. Over the reporting period, EU exports increased by 13% from €2.44 billion to €2.76 billion while EU imports from Moldova increased by 16% from €1.61 billion to €1.88 billion in that period. This has been driven by economic growth as well as a better export performance of Moldovan companies as concerns machinery and appliances, vegetable products, textile products and base metals.

The number of companies involved in trade with the EU has continued to increase, with approximately 1 748 Moldovan companies exporting to the EU in 2017 up from 1 360 firms engaged in exporting to the EU in 2016. This figure diminished slightly in 2018 to 1 734.

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 2018 were **machinery and appliances, mineral products, chemical products and transport equipment.** Machinery and appliances and mineral products rose by respectively 26% (the main increase) and 13%. Exports of chemical products increased by 7% to €296 million while transport equipment exports saw an increase of 11% to €261 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 and 2018. This is evidenced both by the general 13% increase in EU exports to Moldova in 2018 (following a 2% decrease in 2016) as well as by the increase of EU exports across most of the main HS product categories (notable exceptions are exports of wood, which decreased by 16%, and live animals and animal producs, which decreased by 2%).

The main product categories in **EU imports from Moldova in 2018 were machinery and appliances, vegetable products, textiles and textile articles and base metals.** 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 manufacturing of wiring harnesses. From the categories of products most widely imported from Moldova, the highest increase in imports was for transport equipment (+102%) although remaining at a low level of €11 million.

Bilateral trade in non-agricultural products has experienced an increase of 19% (to €3.76 billion) in 2018, with EU imports of non-agricultural goods growing by 31% (to €1.29 billion) and EU exports of such goods increasing by 14% (to €2.5 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.

1.2 Trade in agricultural goods

In 2018, agricultural goods accounted for 19% (€873 million) of total bilateral trade with Moldova while non-agricultural products represented 81% (€3.8 billion). In terms of EU imports from Moldova in 2018, the share of agricultural goods stood at 31% while non agricultural goods represented 69% of imports. Agricultural goods constituted 10% of EU exports to Moldova, with 90% of EU exports being non-agricultural.

While trade in **agri-food products** with Moldova had gradually increased up to 2017 (it increased by 25% in the period 2016-2017) to the benefit of both sides, it has slightly decreased in 2018 by 4% (€908 million to €873 million). EU imports of agricultural products from Moldova have decreased by 7% (€588 million) while EU exports have increased by 5% (€285 million).

The main EU agricultural exports to Moldova included oilseeds, spirits and liqueurs, pork, pet food and other food preparations. Key EU imports from Moldova included oilseeds, wheat and other cereals, tropical fruits and nuts and vegetable oils. Imports of most of these products decreased in 2018 compared to 2017 (e.g. a decrease of 30% for wheat and 16% for oilseeds), while imports of other cereals increased (85%).

Review clause for agricultural products

The EU and Moldova agreed on a **review clause** which stipulates that three years 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.

In this regard, Moldova made a request to increase the volumes for Tariff Rate Quotas (TRQs) and as a separate exercise, the anti-circumvention thresholds under the DCFTA for certain agricultural products at the meeting of the Association Committee in Trade configuration (ACTC) in October 2017, thus triggering the third year review clause mentioned above. The Commission has examined this proposal, which has been subject to talks with the Moldovan side (a first informal discussion took place in the margins of the ACTC, last October 2018). This review may result in the modification of Annex XV of the Agreement through a joint Decision of the ACTC.

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. This means that 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 2018, those levels were exceeded for wheat, maize and processed cereals (ethanol). The Moldovan authorities provided due explanation about this in the context of the above mentioned review.

Use of Tariff Rate Quotas (TRQs)

In accordance with Annex XV-B of the Association Agreement the EU applies annual duty-free TRQs for 6 agricultural products imported from Moldova: tomatoes, garlic, table grapes, apples, plums and grape juice. In 2018, only the TRQs for table grapes and plums were fully used (with a 100% utilisation for both products).

Utilisation of TRQs for imports from Moldova to the EU in 2018

Product	TRQ volume (t)	Imported volume (t)	TRQ use
Tomatoes, fresh or chilled	2.000	39,75	2,0%
Garlic, fresh or chilled	220	0	0,0%
Table grapes, fresh	10.000	10.000	100,0%
Apples, fresh	40.000	1.858,88	4,6%
Plums, fresh	10.000	9.899,39	99,0%
Grape juice	500	0	0,0%

Source: DG TAXUD

Moldova grants six duty-free TRQs for agricultural products exported by the EU (pork and poultry meat, dairy, processed meat, sugar and sweeteners). All EU exports were in excess of the quota amount in 2018 except for sweeteners.

Utilisation of TRQs for EU exports to Moldova in 2018

	TRQ volume (tons)	EU exports (tons)	TRQ use
Pork	4 000	4 907	100%
Poultry meat	4 000	8 280	100%
Dairy	1 000	16 529	100%
Processed meat	1 700	2 488	100%
Sugar	5 400	13 659	100%
Sweeteners	640	319	50%

Source: European Commission

1.3 Establishment, trade in services and investments

Market access related to establishment and trade in services

Approximation to the EU acquis is foreseen in four services sectors (postal and courier services, telecommunication services, financial services and international maritime transport services). Moldova recognised the importance of gradual (lasting between 3 and 8 years) approximation of its existing and future legislation to the list of the EU *acquis* (in case of financial services also to the international best practice and standards).

Trade in Services

In 2017, total trade in services between the EU and Moldova increased by 3.4% when compared to 2016 (i.e., up from €1.3 billion). Over the same period of time, **EU exports of services to Moldova** decreased by 1.3% (from €483 million to €477 million) while EU imports increased by 6.4% (rising from €747 million to €795 million).

While import and export values had been evolving mostly in tandem with a slight surplus for the EU, this was 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. This trade deficit in services slightly widened in 2017. The main sub-sectors of services exported by Moldova to the world remain transport, travel, ICT and other business services as well as manufacturing services on physical inputs owned by others. In terms of imports, the most important sub-sectors belong to transport and travel-related services.

Foreign Direct investment (FDIs)

In 2017, EU FDI stocks in Moldova remained at similar levels as in previous years and amounted to around € 1 billion, with the EU ranking as a major foreign investor representing over 60% of overall FDI stocks. EU companies are present in many sectors (including energy, financial sector, industry, retail trade, agriculture and services). According to data provided by Moldova, 5 712 active companies with foreign investments coming from the EU are registered in Moldova. These are mainly from Romania (1 765), Italy (1 399), Germany (427), Cyprus (306) and France (242).

As in 2016, direct investment flows from the EU also increased in 2017 (to €105 million), following a decrease in 2015 and 2014 as a result of the banking fraud scandal.

2. ACTIVITIES OF THE IMPLEMENTATION BODIES

2.1 Joint decisions of the Association Bodies

In 2018, the **following amendments/updates** have been adopted by the Association bodies in 2018 or are in the process of being adopted:

- ✓ **Customs:** Annex XXVI on approximation of customs legislation[42]
- ✓ **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)[43]
- ✓ **Public Procurement**: Decision giving a favorable opinion regarding Moldova's comprehensive roadmap on public procurement[44]

2.2 Meetings of the Association Bodies

The following section contains an overview of the **most important meetings** of the implementation bodies in 2018.

The **5th Association Committee in Trade Configuration** met on 19 October 2018. The 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 underlined their commitment to respect the rule of law to the benefit of its citizens and the business environment, and also in order to gain the confidence of the EU. Moldova presented its latest achievements as regards the evolution of trade with the EU and harmonisation with the acquis in intellectual property, public procurement, trade in services, quality infrastructure, energy, competition, etc.

The EU side welcomed the legislative efforts made by Moldova so far to implement the DCFTA across different areas and stressed the need for further reform efforts to be made in order to reap the full benefits of the Agreement. It also recalled the positive trade dynamics since the start of application of the DCFTA, confirmed in the previous year (2017) by a 20% increase in bilateral trade. The EU nevertheless expressed concern about the particular circumstances under which the ACTC was taking place this year, and which have a negative impact on the stability and certainty of the Moldovan legal framework, its business and investment climate and, ultimately, on the results of the DCFTA.

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42 Decision No 1/2018 of the EU-Republic of Moldova Association Council of 3 May 2018 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 [2018/984] , OJ L 176, 12.07.2018. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22018D0984

43 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 (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.

44 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. https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2018%3A168%3ATOC&uri=uriserv%3AOJ.L_.2018.168.01.0010.01.ENG

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 **4th Sub-Committee on SPS measures** (SPS Sub-Committee) met on 12 July 2018 in Brussels. The Moldovan authorities presented progress in the implementation of the operational conclusions from the previous Sub-Committee meeting of June 2017 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, the negotiation on veterinary-sanitary certificates for export from the EU to Moldova, Moldova's application for export of poultry meat and eggs as well as continuing the working closely together combatting African swine fever (ASF).

The **4th Sub-Committee on Customs and Trade Facilitation** took place on 21-22 November 2018. Both sides welcomed the amendment to Annex XXVI referring to the Union Customs Code for harmonisation and the EU informed about the implementation phases of the Union Customs Code and the related IT systems. Moldova informed that the national legislation on Authorised Economic Operator (AEO) in approximation to EU provisions applies since 2017, with currently 117 AEOs in the Republic of Moldova, and mentioned the successful pilot project at RO-MD crossing Leuseni-Albita with unilateral recognition of EU AEOs.

The **4th Geographical Indications (GIs) Sub-Committee** met on 18 October 2018 and discussed the changes in the GIs system in the Common Agricultural policy post 2020, the respective agreements on GIs with third partners, the enforcement of the protection of GIs by customs, the update of the GIs lists, as well as the promotional events organised by Moldova to raise awareness and encourage producers to engage in the GIs system. 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** established under the TSD Chapter of the Association Agreement did not meet in 2018. Nonetheless, exchanges on labour, environmental and climate matters took place in a more informal nature and both sides discussed further cooperation on priority areas such as 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.

The EU also stressed its expectation for civil society in Moldova to play an active role in overseeing the implementation of the TSD Chapter. The EU presented the new project it has put in place to support the functioning of civil society consultation mechanisms established under TSD chapters of its trade agreements that will benefit both EU and Moldova's Domestic Advisory Groups.

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

4.1 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 being implemented (implementation period is from 2017-2022).

Moldova informed the EU that it is working to approximate to the EU *acquis* and that Tables of Correspondence will be shared twice a year to follow the progress. In the last ACTC meeting in October 2018, Moldova informed that 60% of *acquis* have been approximated.

Moldova has shown interest to be authorised to export poultry meat and table egg eto the EU. Moldova presented a draft roadmap describing how it will meet EU import requirements and, as a first step, the EU provided a questionnaire on the authorisation to export these products. Moldova will secure effective implementation of the roadmap and the Commission will carry out an audit for verifying Moldova's readiness, when requested.

Moldova implemented articles 186 and 187 of the DCFTA (respectively related to SPS import conditions and certification) in autumn 2018, and consequently EU business operators reflected on the website of EU Member States are now eligible for exporting to Moldova without any further listing mechanisms being required.

Thirteen veterinary-sanitary certificates were agreed for export of animal products and live animals from the EU to Moldova.

4.2 Technical Barriers to Trade

Moldova informed that all acts were transposed according to Annex XVI. Moldova also indicated that it had decided to carry out a study in order to re-assess the priority sectors it had defined for the future negotiations of an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA).

4.3 Customs and Trade Facilitation

Moldova reported on its ongoing legislative efforts to align to the Union Customs Code and the EU's provisions on customs enforcement of IPR. The amendment to the Annex XXVI (approximation of customs legislation) of the Association Agreement was adopted (via a Decision of the Association Council on 3 May 2018) with a view to clarifying that Moldova needs to approximate to the Union Customs Code, not the repealed Community Customs Code. The EU side voiced its concerns with regard to the Law #172 that allows tax-free sales of fuel at land border crossing points, which will provide additional incentives for smuggling and is not in line with Directive 2008/118/EC.

4.4 Energy

With regards to **trade-related energy**, Moldova 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 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.

4.5 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.

4.6 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 Geographical Indication *'Prosecco'*. 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).

4.7 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. Moldova has developed an Action Plan to exit the 'black list'. Moldova informed of delays in the implementation of the newly created naval agency, which is expected to be fully operational in 2019. 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 and is pending approval.

4.8 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. This National Reform Plan received a favourable opinion via Decision No 1/2018 of the EU-Moldova ACTC of 16 April 2018.

5. EU SUPPORT TO DCFTA IMPLEMENTATION

5.1 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 supports 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 also provides assistance for the development of value chains (e.g. textile) and of economic clusters in Moldova.

In addition to regular cooperation assistance, DCFTA implementation is also supported by policy conditionality of the EU's MFA to Moldova. Reforms supported by the current MFA operation approved in 2017 include, among others, reduction of the administrative burden for starting and operating a business, facilitation of customs procedures (the adoption of a new Customs Service Law and a new Customs Code) as well as strengthening of the effectiveness and independence of the judiciary.

5.2 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 European Bank for Reconstruction and Development and European Investment Bank. 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. OUTLOOK AND CONCLUSION

Moldova **adopted ambitious legal approximation commitments** under the DCFTA with extensive work required in the first four years of implementation. After four years of implementation of the trade and trade-related part of the Association Agreement, good progress could be 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 programmes**, 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 the trade agreement 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 is 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 also provides 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 area in meeting EU import requirements. Besides food safety reform, in 2019 focus should remain on technical regulations and standards (TBT), implementation of the customs code and 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 modernise and diversify the economy.

Pursuing the fight against corruption[45], 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.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Moldova (mio €)					
Imports	1.160	1.223	1.320	1.615	1.877
Exports	2.352	2.066	2.053	2.447	2.757
Balance	1.192	842	733	832	880
Share Moldova in EU28 trade with Extra-EU28					
Imports	0,1%	0,1%	0,1%	0,1%	0,1%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Moldova with world					
Imports	48,6%	49,0%	49,1%	49,4%	50,1%
Exports	54,1%	61,4%	64,8%	65,7%	70,2%
Total (I+E)	50,3%	53,1%	54,4%	54,9%	56,7%

Source Trade G2 Statistics/ISDB
Trade EU28: Eurostat COMEXT; Trade Moldova: IMF Dots
25-mars-19

Total merchandise trade EU28 with Moldova (mio €)

Moldova	2017	2018	Growth mio €	Growth annual %
Imports	1.615	1.877	262	16,2%
Exports	2.447	2.757	310	12,7%
Balance	832	880	48	
Total trade	4.063	4.634	572	14,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Moldova (mio €)

Moldova	2017	2018	Growth mio €	Growth annual %
Imports	634	588	-46	-7,3%
Exports	271	285	13	4,9%
Balance	-363	-304	59	
Total trade	906	873	-33	-3,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Moldova (mio €)

Moldova	2017	2018	Growth mio €	Growth annual %
EU28 imports	981	1.289	308	31,4%
EU28 exports	2.176	2.473	297	13,6%
Balance	1.195	1.184	-12	
Total trade	3.157	3.762	605	19,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Moldova (mio €)

Moldova	2016	2017	Growth mio €	Growth annual %
Imports	747	795	48	6,4%

45 According to the 2019 World Bank Doing Business Index, Moldova ranks as 47th out of 190 countries (down from 44th in 2018). Corruption is widely spread which has been reflected by Transparency International in its 2017 Corruption Perceptions Index where Moldova has been ranked as 117th - out of 180 countries (+5 positions in comparison to the previous index) - with the score 33 (score 0 means highly corrupted and 100 very clean).

Exports	483	477	-6	-1,3%
Balance	-264	-318	-54	
Total trade	1.231	1.272	42	3,4%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Moldova (mio €)

	2013	2014	2015	2016	2017
Imports	475	547	569	747	795
Exports	524	582	588	483	477
Balance	49	35	19	-264	-318
Total trade	999	1.130	1.157	1.231	1.272

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Moldova (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	52	64	95	92	100
Outward	941	1.001	1.128	957	1.008
	FDI Flows				
Inward	28	9	12	-5	-14
Outward	263	37	24	80	105

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

PART III: FIRST GENERATION FREE TRADE AGREEMENTS

FIRST GENERATION FREE TRADE AGREEMENTS WITH MEDITERRANEAN PARTNERS

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

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, Tariff Rate Quotas (TRQ) or a reduction of Most Favoured Nation (MFN) rates respectively, for both Parties. 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 started negotiating its accession to the WTO in 1987. The negotiation process with the Accession Working Party has, however, stalled since 2014.

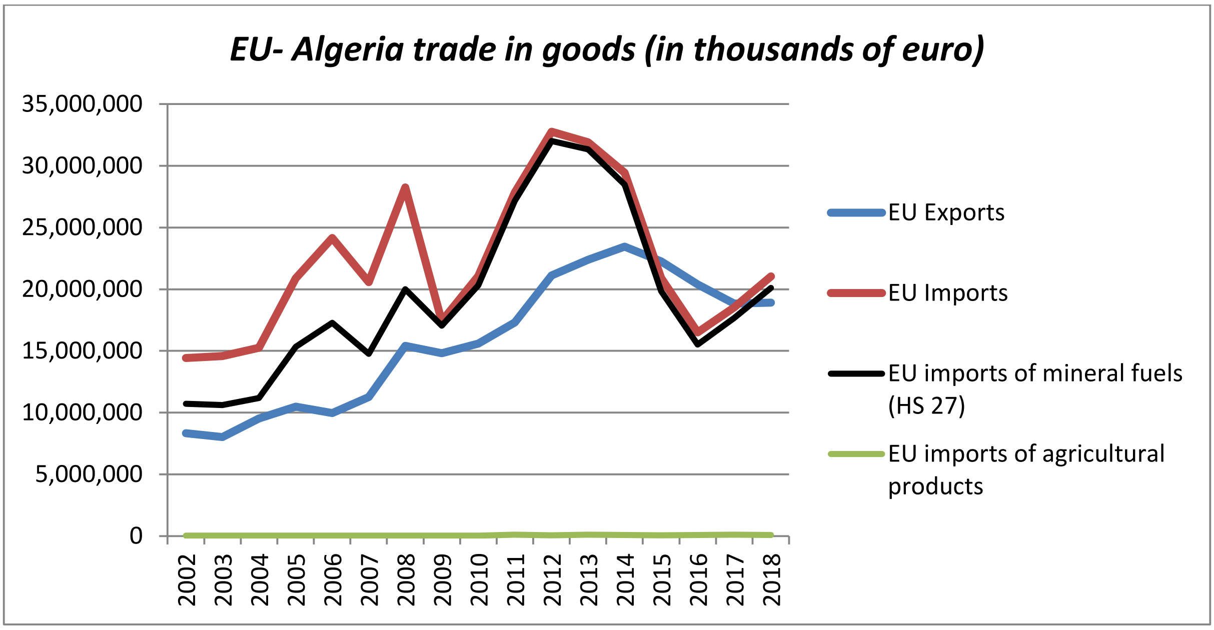
2. EVOLUTION OF TRADE

2.1 Trade in Goods

The EU was Algeria's first partner for merchandise trade in 2018, accounting for 59% of Algeria's total trade, before the United States and China (both 7%) and Brazil (4%). The EU is Algeria's first export market. The EU is also Algeria's first source of imports.

Algeria is the EU's first trading partner amongst all Euromed countries, ahead of Morocco and Israel: in 2018, taking into account the eight Euromed countries with which the EU has trade agreements, 30% of EU imports originated from Algeria and 18% of EU exports went to Algeria. This privileged position is mainly due to the 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 2018, the total two-way trade amounted to €40 billion, an increase of 61% from its 2004 value of €24.8 billion, the year preceding the entry into force of the Association Agreement. Two-way trade peaked in 2012 at €53.9 billion.



EU exports to Algeria grew by 99% between 2004 and 2018, from €9.5 billion to €18.9 billion; the 2018 data, compared to the data from 2017 (€18.8 billion), marked a very small increase after several year of declining exports, from the peak of 2014 (€23.4 billion). In 2018, EU exports to Algeria were mainly made in the sectors of machinery and transport equipment (37%), agricultural and food products (14%) and chemicals (12%). The four biggest EU exporters to Algeria were France, Spain, Italy and Germany.

EU imports from Algeria are dominated by trade in the sectors of oil and gas (mineral fuels amount to 96% of the total exports[46] to the EU) which has a significant impact on overall volumes. EU imports from Algeria rose 38% between 2004 and 2018, from €15.2 billion to €21 billion (with a peak of €32.7 billion in 2012, which represented a 115% increase compared to 2004). EU imports increased (14%) between 2017 and 2018, with imports reaching €21 billion compared to €18.5 billion in 2017. The three biggest EU importers for Algeria in 2018 were Italy, Spain, and France.

Because of the absolute preminence of oil and gas in Algeria's exports, their international price has a direct impact on the value of Algerian exports and on the merchandise trade balance with the EU. Historically, Algeria shows a trade suplus, but the decline in oil and gas prices led to the shrinking of that surplus from 2012 to 2014, while in 2015 and 2016, the EU recorded a trade surplus. In 2017, oil and gas prices began to rise, consequently Algeria's trade balance with the EU reached the equilibrium in 2017 and became positive again in 2018 (plus €2.1 billion). This result is also due to the effect of several trade restrictive measures that Algerian authorities have put in place since 2016 (see section 5).

2.2 Trade in agricultural goods

Total trade in agricultural products between the EU and Algeria increased by 170% between 2003 (€1.0 billion) and 2018 (€2.7 billion). Between 2017 and 2018, EU agricultural exports

[46] 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.

increased by 10%, going from €2.4 billion to €2.6 billion. EU imports, on the other hand, decreased by 28%, from €100 million to €74 million. In 2018, among our Euromed partners, Algeria was the EU's most important destination for exports of agri-food products (1.9% of total exports). The main product categories the EU exported to Algeria were wheat (39%), milk powders & whey (11%), vegetable oils other than palm and olive oils (7%), infant food and other cereals, flour, starch or milk preparations and live animals (6%). EU agricultural imports from Algeria were dominated by tropical fruit, fresh or dried, nuts and spices (51%) and beet and cane sugar (18%).

Regarding agricultural tariff ate quotas (TRQ), Algeria's 2018 fill rate was low for a limited rnumber of products such as couscous (33% - though an improvement if compared to the value of 7% which was recored in 2017), olive oil (7%), seed potatoes (5%) and pasta (3%). It remained nil or close to zero for the majority of products, such as tomato juice, fruit juices, apricots, strawberries or wine.

2.3 Trade in Services and Investment

The total **trade in services** between the EU and Algeria remained relatively stable from 2010 to 2017, going from €4.6 billion to almost €4.9 billion. In 2017, Algeria exported €1.6 billion in services to the EU and imported €3.3 billion from the EU.

FDI flows between the EU and Algeria remained volatile between 2013 and 2017, with most investments coming from the EU to Algeria (€1.3 billion in 2017, for the total stock of EU FDI of €14.9 billion). Algerian investments in the EU are extremely low: the stock in 2017 levelled at €1.8 billion, more or less the same level of 2016. The weakness of EU-Algeria FDI flows is mainly due to investors' concerns regarding the business climate in the Algeria. In 2016, Algeria introduced some changes in its Investment Code, in an attempt to attract more investments; according to the Wold Bank ranking on Ease of Doing Business, Algeria improved its performances, which nevertheless remain poor and below the regional standards; as a matter of fact, according to 2019 data, the country ranks 157th out of 190 (it was 166th in 2018), with a distance to frontier (DTF)[47] score of 49.6 out of 100 (up from 47.6 in 2018).

3. ISSUES ADDRESSED IN THE SUB-COMMITTEE MEETINGS

The last **Sub-Committee on Trade, Industry, and Services** was held in October 2018. Major trade irritants addressed included chiefly the newly introduced DAPS (*droit additionnel de prélevement spécial*), a tax having an effect equivalent to custom duties, as well as outstanding import suspension on certain other products (mainly vehicles) (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 the issue of ship-owners' disbursement accounts. Notwithstanding these issues, the EU recalled its commitment to support Algeria's accession to the WTO.

The **Sub-Committee on Agricultural and Fisheries Products** met in October 2018. Several technical assistance programmes were discussed, as well as potential ways to reinforce EU technical assistance to Algeria in the field of quality policy and understanding the reasons behind Algeria's poor utilisation rate of preferences.

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

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, the fight against counterfeiting and smuggling and modalities for setting in motion an ad-hoc working group on customs valuation.

A number of senior officials' meetings were held in 2018, in an effort to tackle several market access barriers that Algeria has been imposing on trade with the EU, especially from 2016. The **Association Council conclusions of May 2018**[48], provided that a negotiated solution should be found by the end of 2018, but this has not proven possible, due to a lack of real commitment on the side of the Algerian authorities.

4. SPECIFIC AREAS OF IMPORTANCE

The recent fall in oil prices significantly impacted Algeria's finances. Algerian authorities resorted to severe measures to restrict imports, with a view to reducing trade deficits and countering shrinking foreign currency reserves. The EU reacted to these trade-restrictive measures and repeatedly requested full compliance with the provisions of the Association Agreement. Algeria argued that the present economic conjuncture justifies such exceptional measures while recognising 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[49] mention cooperation for the socio-economic development of Algeria, including trade and access to the European single market. The EU and Algeria also conducted a **joint evaluation of the Association Agreement in 2016-17**. The evaluation concluded that, as regards cooperation in the trade, economic and investment areas, Algerian efforts and EU assistance should focus on the following areas: diversification and competitiveness of the Algerian economy, improvement of the business climate and facilitation of investments. A number of trade related reforms were discussed following the release of the study and Algeria was encouraged to commit to the improvement of business climate, new financing mechanisms for SMEs (e.g. the EU's External Investment Plan), 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)[50]. Such programmes aim to strengthen export competitiveness, to modernise the legal framework, to diversify the economy, and to improve the business climate in Algeria. This support will continue under the 2018-20 programming period. The EU also supports Algeria in preparation of negotiations on an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA), in sectors identified as key priorities by Algerian authorities such as construction materials, domestic appliances and low voltage electric goods. This work has been conducted since 2013 through TAIEX missions, resulting for instance in twinning programmes involving the Algerian authority for certification and accreditation (ALGERAC). Additional programmes, such as PASSEM (*Programme d'appui spécifique à la*

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

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

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

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 2018 was the introduction of a tax having an effect equivalent to a custom duty, ranging from 30% to 200% of the value of the goods, which was levied on 1 095 tariff lines, across all sectors of the economy. This measure replaces an import ban which, in 2017, affected 877 products. The suspension of import currently concerns only vehicles - which were, until 2017, subject to an import licence scheme which effectively resulted in a zero quota for three years. A custom duty hike imposed in 2017 on another goup of 129 products still applies.

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 is engaging 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. Compliance with obligations in the field of competition and public aid has also to be enhanced. **Numerous obstacles to foreign investment remain**, most notably the horizontal '49%/51%' foreign equity cap that applies across the board to all sectors. The Algerian government showed some willingness to consider changes in 2016, notably through the adoption of a **new Investment Code**, which no longer features the foreign equity cap. However, such a rule remains applicable as it is enshrined in the Budget Laws 2009 and 2012, and it will remain so until such a time these Budget Laws are repealed. Such a blanket foreign equity cap sends negative signals to potential investors and hampers Algeria's prospects of accession to the WTO. The EU has routinely raised the issue with Algerian authorities, suggesting a more limited scope of application of the rule.

6. CONCLUSIONS AND OUTLOOK

There has been a **positive overall trend in EU-Algeria trade** since the entry into force of the Association Agreement, although **Algeria's heavy dependency on hydro-carbons** has held back any significant diversification of its exports. The country registered its first negative trade balance with the EU in 2015, as a result of the drop in international oil prices which had started in the second half of 2014. In 2018, following the upward trend in international oil prices, Algeria's trade balance became positive again. The EU continues to offer its support to the Algerian government to diversify its economy. At the same time, the Commission has pursued its dialogue with Algerian authorities on trade restrictive measures, in order to bring them in line with the Association Agreement.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Algeria (mio €)					
Imports	29.458	20.908	16.509	18.522	21.047
Exports	23.442	22.253	20.400	18.834	18.905

Balance	-6.016	1.345	3.891	312	-2.142
Share Algeria in EU28 trade with Extra-EU28					
Imports	1,7%	1,2%	1,0%	1,0%	1,1%
Exports	1,4%	1,2%	1,2%	1,0%	1,0%
Total (I+E)	1,6%	1,2%	1,1%	1,0%	1,0%
Share EU28 in trade Algeria with world					
Imports	51,1%	49,7%	47,5%	43,7%	53,6%
Exports	64,3%	65,1%	58,5%	58,9%	63,2%
Total (I+E)	57,9%	56,0%	51,7%	50,3%	58,3%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Algeria: IMF Dots

Total merchandise trade EU28 with Algeria (mio €)

Algeria	2017	2018	Growth mio €	Growth annual %
Imports	18.522	21.047	2.525	13,6%
Exports	18.834	18.905	71	0,4%
Balance	312	-2.142	-2.454	
Total trade	37.356	39.952	2.596	6,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Algeria (mio €)

Algeria	2017	2018	Growth mio €	Growth annual %
Imports	103	74	-29	-28,4%
Exports	2.422	2.660	238	9,8%
Balance	2.318	2.586	267	
Total trade	2.525	2.734	209	8,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Algeria (mio €)

Algeria	2017	2018	Growth mio €	Growth annual %
EU28 imports	18.419	20.973	2.554	13,9%
EU28 exports	16.412	16.245	-167	-1,0%
Balance	-2.007	-4.728	-2.722	
Total trade	34.831	37.218	2.387	6,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Algeria (mio €)

Algeria	2016	2017	Growth mio €	Growth annual %
Imports	1.500	1.558	58	3,9%
Exports	3.668	3.298	-370	-10,1%
Balance	2.168	1.740	-427	
Total trade	5.168	4.856	-312	-6,0%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Algeria (mio €)

	2013	2014	2015	2016	2017
Imports	1.487	1.619	1.728	1.500	1.558
Exports	2.839	3.295	3.529	3.668	3.298
Balance	1.352	1.676	1.802	2.168	1.740
Total trade	4.326	4.915	5.257	5.168	4.856

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Algeria (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	1.135	1.878	1.779	1.846	1.857
Outward	14.022	14.117	14.750	14.588	14.861
	FDI Flows				
Inward	357	222	157	26.661	21

Outward	2.196	769	2.495	1.921	1.339

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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

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: Egypt was able to export to the EU all industrial products covered by the Agreement tariff-free from the day of entry into force of the Agreement, while it benefited from a transitional period of 3 to 15 years, depending on the product, to dismantle tariffs on EU imports, Egypt finalized the process of fully dismantling tariffs applied to industrial goods on 1 January 2019.

In October 2008, the EU and Egypt signed an agreement providing for liberalisation in agricultural, processed agricultural and fisheries goods; the latter entered into force on 1 June 2010 and extended the list of agricultural products covered by the original Agreement. Today, 80% of trade in agricultural goods is covered by duty-free treatment.

In November 2010, the EU and Egypt signed a protocol establishing a Dispute Settlement Mechanism (DSM), for which the ratification process is still pending.

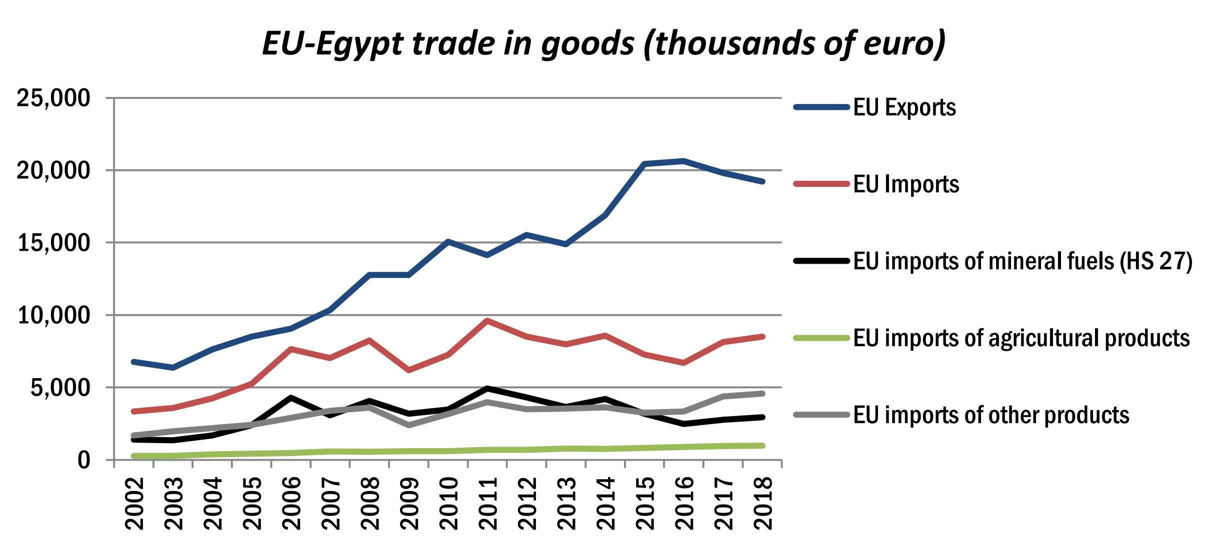
In November 2011, the Commission received a Council mandate authorising it to negotiate a **Deep and Comprehensive Free Trade Area** (DCFTA) with Egypt, but Egypt has shown limited interest so far.

Egypt also signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin on 9 October 2013 and notified it on 1 June 2014. The main objective of the Convention is to provide a more unified framework for origin protocols.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

In 2018, the EU remains Egypt's main trading partner, accounting for 23% of the total Egyptian trade, before China (10%), the United States (8%) and Saudi Arabia (6%). The EU is Egypt's first export market: 11% of Egyptian exports were directed towards the EU in 2018, followed by United States (8%), Ukraine (7%) and Jamaica (6%). The EU is also Egypts first source of imports, with 27% of Egyptian imports originating from the EU.
Total trade in goods between the EU and Egypt has increased significantly over the period since the FTA entered into force: +176% in 16 years, from €10.1 billion in 2002 (the year preceding the provisional entry into force of the Association Agreement) to €27.7 billion in 2018. The level of total EU-Egypt trade in 2018 was very similar to the one achieved in 2017 (€27.9 billion) , which was a record year in the bilateral trade of goods.



EU exports increased by 193% between 2002 and 2018, from € 6.7 billion to €19.2 billion. Between 2017 and 2018, EU exports decreased by 3%, from €19.2 billion to €19.8 billion. In 2018, the EU mainly exported to Egypt goods in the sectors of: machinery and transport equipment (34%), chemicals (15%), fuels and mining products (11%), and agricultural products (7%). The three biggest EU exporters to Egypt were Germany, Italy and France.

EU imports increased by 142% between 2002 and 2018, from €3.3 billion to €8.5 billion. Between 2017 and 2018, EU imports increased by 4.7%, from €8.1 billion to €8.5 billion. In 2018, EU imports were principally in the sectors of: fuel and mining products (35%), manufactured products (18%), and chemicals (16%). 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 have been stable since 2011, increasing during 2017 – most notably agricultural and food imports increased by 10.5% in 2017 – but back to a slower 1% growth in 2018.

A reduction in Egyptian exports between 2012 and 2016, 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 was 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, in the past, they used to constitute almost half of them). In 2017, an upward trend in Egyptian exports to the EU was noted with an increase of 21.2% which continued in 2018 (+4.7%), while imports from the EU somewhat decreased in 2017 and 2018. This was 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 agri-food products between the EU and Egypt increased by 225% between 2003 and 2018, from €0.8 billion in 2003 to €2.6 billion in 2018. EU agri-food exports increased slightly (+7%), going from €1.4 billion in 2017 to €1.5 billion in 2018. EU imports remained the same at €1 billion in 2018 compared to 2017.

In 2018, Egypt was the EU's second biggest supplier of agri-food products among our Euromed-partners. The EU imported mainly fruit (€426 million, 41%), including citrus fruit, and vegetables (€291 million, 28%) from Egypt. EU agri-food exports to Egypt were dominated by wheat (€224 million, 15%), vegetables (€176 million, 12%) and sugar (€153 million, 10%).

Regarding agri-food tariff rate quotas (TRQs), Egypt's 2018 fill rate was high for a limited number of products such as sweet oranges (93%), strawberries (89%, and already 100% for the 2019 season), or garlic (87%), but remained nil or close to zero for the majority of products, such as cucumbers, brown rice, cereal preparations, etc.

2.3 Trade in Services and Foreign Direct Investment[51]

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 €10 billion (€10.2 billion in 2010). In 2016, 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 €9.1 billion, a 14% decrease from 2015 levels; however, in 2017 it increased by 4% driven by increased exports of services by Egypt; total trade in services reached €9.5 billion.

As regards **Foreign Direct Investment** (FDI), the EU remains the biggest investor in Egypt but EU foreign investments in the country have been highly volatile, with divestments exceeding investments by €1.6 billion in 2015. Since 2016, the inflows of EU investments into Egypt have been increasing; they reached €2.7 billion in 2017, with the total EU investment stock amounting to €39.2 billion.

Overall, Egypt underperforms as regards its business climate. In 2018, it only ranked 120th out of 190 in the World Bank ranking "Doing Business 2019", with a distance to frontier (DTF)[52] score of 58.5 out of 100 - an increase of 2.7 in DTF score compared to 2017. FDI remains concentrated in the oil and 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. Since November 2017, the Egyptian Government also applies an online "Investment Map", a dedicated website that displays the details of investment opportunities across the country.

3. Issues addressed in the Joint Committee meetings

No meeting took place in 2018. The next meetings of the Sub-Committees are in 2019.

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 (this issue has meanwhile been addressed by Egypt in January 2019 in accordance with the Association Agreement), and the draft tax incentive scheme targeting the automotive industry, which in 2019 is still under review by Egypt. Egypt was invited to ratify the Protocol on the Dispute Settlement Mechanism. Discussions also covered various trade irritants – see in more detail section 5. Other issues included the progress on a potential Agreement on Conformity Assessment and Acceptance (ACAA), the need for time

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

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

to adapt Egyptian SPS legislation to EU requirements, and the continued possibility of a DCFTA in the long-term.

During the 2017 **Sub-Committee on Agricultural and Fisheries products**, the following issues were discussed, among others: agri-food trade developments with the recent increase of Egyptian agri-food exports to the EU market, the latest developments in the agricultural policies of both EU and Egypt, possible future cooperation on organic farming and GIs, and a review of the impact of the EU technical assistance provided to Egypt in the sector of agriculture and rural development.

The last **Sub-Committee on Customs Cooperation** was held in Brussels in November 2017. The EU and Egypt agreed to reinforce their cooperation through organisation of a TAIEX workshop on rules of origin and a workshop dedicated to tackle fraud (value, customs, forged documents).

4. SPECIFIC AREAS OF IMPORTANCE

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, in 2015 and 2016 the Egyptian government implemented a series of administrative measures aimed at restricting imports. In November 2016, the Egyptian authorities liberalised the exchange rate and adopted an economic reform programme supported by a three-year $12 billion IMF loan - the Extended Fund Facility (EFF) which is set to expire in mid-2019. Although challenging in the short term, bold economic measures were taken to address fiscal and external unbalances: flotation of the currency, energy subsidy reform, VAT introduction, and wage restraint.

Overall, since the start of the IMF programme, Egypt's economy has improved markedly. Growth has accelerated, external and fiscal deficits have narrowed, and public debt, inflation and unemployment have declined while international reserves have increased. Prudent monetary and fiscal policies have significantly helped the Egyptian economy that is showing clear **signs of stabilization** including an accelerated GDP growth (4.1% in 2017 fiscal year and 5.3% in 2018 fiscal year), declining paths of inflation and unemployment, achievements in fiscal consolidation, and increased international currency reserves. Going forward, the government's reform agenda is focused on public finance management, financial sector, energy sector, business climate, competition, social protection, and encouraging women 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 the 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 continue to affect economic operators.

In the light of the revised **European Neighbourhood Policy**, **Partnership Priorities**[53] 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)[54], structured around two components: i) foreign trade and trade agreements and ii) industrial policy and quality infrastructure. The TDMEP assists Egypt with 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. 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 strategy.

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

Following extended bilateral consultations **Egypt** confirmed at the Association Committee in November 2018 that it **would apply the staged reduction in tariffs on certain motor vehicles** under the terms of its obligations under the FTA. In line with this commitment Egypt fully liberalised its tariffs on imports of certain EU motor vehicles as of January 2019.

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 exporting certain goods to Egypt. These measures apply to 25 categories of manufactured goods since the beginning of 2016 and have been extended to four further product categories in January 2019. 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 were raised in the trade Commissioner's letters to the Egyptian Minister of Trade in 2018 and early 2019. The Commission also addressed this issue during bilateral meetings in 2018 and in early 2019, insisting on more transparency, rapidity, and streamlining of the administrative processes, in order to facilitate the registration from a practical point of view.

Other trade irritants include the following: arbitrary customs valuations by the Egyptian authorities, problems with acceptance of origin declarations by importers, restrictive labelling requirements, mainly affecting the ceramic tiles sectors, a prohibition on the import of certain motorcycles, and SPS issues, mainly affecting cereals and beef/live cattle importers. The issue of a 'reference list' of countries authorised to export milk formula that includes some, but not all, EU Member States was addressed by Egypt in early 2019. The implementation of the new approach will be now monitored. 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.

The SPS workshop organised in September 2018 in Cairo was successful and appreciated. Reinforced control measures imposed by Commission Regulation 669/2009 on strawberries and grapes were finally lifted in 2018 and the same is expected to happen for gelatine in 2019.

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

54 This programme will end in 2020.

Compliance with obligations in the field of competition and public aid, including transparency on the latter, has to be enhanced.

Egypt still 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. In effect, in 2017 and 2018, Egypt's exports to the EU increased resulting in a decrease of Egypt's trade deficit.

Discussion on implementation focuses on the above-mentioned trade irritants. The EU and Egypt are engaged in an **active dialogue** to address these, both at 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**[55], which should cover issues such as reduction of trade barriers as well as technical assistance on SPS issues and ACAA-related fields. Upgrading bilateral trade and investment relations remains a medium-term objective to be followed once Egypt is ready for it.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Egypt (mio €)					
Imports	8.579	7.263	6.703	8.124	8.503
Exports	16.894	20.426	20.618	19.807	19.218
Balance	8.315	13.163	13.915	11.683	10.715
Share Egypt in EU28 trade with Extra-EU28					
Imports	0,5%	0,4%	0,4%	0,4%	0,4%
Exports	1,0%	1,1%	1,2%	1,1%	1,0%
Total (I+E)	0,8%	0,8%	0,8%	0,7%	0,7%
Share EU28 in trade Egypt with world					
Imports	32,2%	32,4%	29,7%	26,9%	26,5%
Exports	29,5%	27,7%	30,4%	34,1%	10,6%
Total (I+E)	31,4%	31,3%	29,9%	28,9%	22,3%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Egypt: IMF Dots

Total merchandise trade EU28 with Egypt (mio €)

Egypt	2017	2018	Growth mio €	Growth annual %
Imports	8.124	8.503	379	4,7%
Exports	19.807	19.218	-590	-3,0%
Balance	11.683	10.715	-969	
Total trade	27.931	27.721	-211	-0,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

[55] See: http://www.consilium.europa.eu/media/23942/eu-egypt.pdf

Agrifood trade EU28 with Egypt (mio €)

Egypt	2017	2018	Growth mio €	Growth annual %
Imports	1.017	1.027	10	1,0%
Exports	1.351	1.528	177	13,1%
Balance	334	502	168	
Total trade	2.368	2.555	187	7,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Egypt (mio €)

Egypt	2017	2018	Growth mio €	Growth annual %
EU28 imports	7.107	7.476	369	5,2%
EU28 exports	18.456	17.689	-767	-4,2%
Balance	11.349	10.213	-1.136	
Total trade	25.563	25.166	-398	-1,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Egypt (mio €)

Egypt	2016	2017	Growth mio €	Growth annual %
Imports	4.587	5.092	504	11,0%
Exports	4.594	4.462	-132	-2,9%
Balance	6	-630	-636	
Total trade	9.181	9.553	373	4,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Egypt (mio €)

	2013	2014	2015	2016	2017
Imports	4.982	4.658	5.281	4.587	5.092
Exports	3.343	3.439	5.125	4.594	4.462
Balance	-1.640	-1.220	-156	6	-630
Total trade	8.325	8.097	10.406	9.181	9.553

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Egypt (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	6.550	836	185	683	875
Outward	43.327	49.492	39.462	37.939	39.285
FDI Flows					
Inward	137	76	357	-1	99
Outward	3.542	1.519	-2.360	2.865	2.179

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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

1. INTRODUCTION

The EU and Israel have an Association Agreement (AA), which further liberalised two-way trade in industrial goods, creating a free trade area, hereinafter called ‘the Agreement’. This Agreement provisionally has been applied since 1996 and fully entered into force on 1 June 2000. The EU and Israel had already signed a Free Trade Agreement (FTA) in 1975: such agreement provided reciprocal free trade for industrial products (applied for the EU since 1977 for Israeli originated goods and since 1989 in Israel for community goods) and duty free entry into the EU of 70% of Israeli agricultural products. The Association Agreement improved the provisions on rules of origin and included a series of reciprocal agricultural concessions, but does not include obligatory provisions on services and investments. 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. An adaptation to this agreement on agri-food products due to the accession of Croatia to the EU started to be implemented in 2018. 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 signed in 1999 a "Good Laboratory Practice" (GLP) agreement, ensuring the high quality, validity and reliability of health and environmental data generated during the testing of cosmetics, industrial chemicals, pharmaceuticals, food additives, animal feed additives, pesticides by means of mutual recognition of OECD principles of good laboratory practice (GLP) and compliance monitoring programmes. The EU and Israel also have Conformity Assessment and Agreement (ACAA) on pharmaceuticals, in force since January 2013, which facilitates trade on both sides, as it recognises each partner’s certification of conformity of pharmaceutical products without the need for re-testing at import. Finally, the Open Skies agreement provisionally entered into force in 2013 and substantially increased cooperation in civil aviation services.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

In 2018 the EU was Israel’s first trading partner, representing 36% of Israeli trade, followed by the US (19%) and China (8%). Israel is the EU’s 28th largest trading partner and the 3rd largest in the Euro-Mediterranean region, behind Algeria and Morocco. The EU was the largest exporter to Israel, holding a 41% market share, ahead of the US (13%) and Switzerland (10%). The EU was also Israel’s largest export market in 2018, receiving 29% of Israeli exports, closely followed by the USA with 28%.

Since the Agreement is in place the value of EU exports to Israel has been increasing and the EU’s trade surplus increased from €4.8 billion in 2002 to €7.1 billion in 2018.

Since the Association Agreement came into force, the value of imports and exports between the EU and Israel has been increasing in both directions. In 2002, the first year in which data is available, the value of trade in goods was €23.1 billion and in 2018 it was €34.3 billion, thus representing an increase by 48%.

The value of EU exports to Israel has risen by 49% from €13.9 billion in 2002 to €20.7 billion in 2018. Though, EU exports between 2017 and 2018 contracted by 3%, going from €21.4 billion in 2017 to €20.7 billlion in 2018. Nevertheless, with the exception of 2009 (financial crash), EU exports to Israel have shown a fairly consistent growth. In 2018, the most important export items by value were machinery and appliances (41%), transport equipment (23%), and chemical products (23%).

The value of EU imports from Israel has risen from €9.1 billion in 2002 to €13.6 billion in 2018, representing a 49% rise. Nevertheless, EU imports between 2017 and 2018 decreased by 8%, from €14.8 billion to €13.6 billion. At the same time, imports from Israel have been steadily increasing (with the exception of 2009 due to the financial crash). In 2018 the most important groups for import by value were chemicals (33%), machinery and appliances (18%) and mineral products (9%).

2.2 Trade in agricultural goods

Total trade in agri-food products between the EU and Israel increased by 100% between 2003 and 2018, from €1.4 billion in 2003 to €2.8 billion in 2018. EU agri-food exports increased by 11% over the past year, going from €1.8 billion in 2017 to €2 billion in 2018. By contrast, over the same time period, EU imports decreased by 10%, from €1 billion to €0.9 billion. In 2018, Israel was the EU's second most important destination for exports of agri-food products in the region and the EU's third largest supplier of agri-food products. Among the EU's agricultural imports from Israel 49% were fruit and vegetables, including citrus fruit while the EU mainly exported live animals (9%), chocolate, confectionary & ice cream (8%), followed by sugar (8%).

Regarding agricultural Tariff Rate Quotas (TRQ), Israel’s 2018 fill rate was 100% for some products (new potatoes, sweet peppers and wine). For the year-round clementime quota, the fill rate was 100%. For the spring and summer clementine quota, the fill rate was 35%. Other products with a relatively higher share of used quota were processed starch (48%), cut flowers (around a quarter - an exact number is not given, because the quota year does not coincide with the calendar year for one of the two quotas for these products), dried tomatoes (24%) and chicken preparations (25%), orange juice (21%), cucumbers (18%), whey (18%), turkey preparations (17%), fresh tomatoes other than cherry tomatoes (11%) and canned tomatoes (6%). Fill rates were below 5% for other products, including fresh oranges, fresh melons, orange and citrus juices, cherry tomatoes, sweetcorn, strawberries, live turkeys, gingerbread and fried peach slices.

2.3 Trade in Services and Foreign Direct Investment (FDI)

In 2017 **trade in services** between the EU and Israel was worth €12.3 billion. Between 2010 and 2017, there has been an overall increase in the value of services imported from Israel from €3.2 billion to €5.2 billion. Over the same period there has been an increase in EU exports of services to Israel from €3.8 billion to €7.1 billion.

On **FDI flows** there is no consistent image on volume or partner country. Figures show fluctuations every year and no trend can be identified. EU FDI in both stocks and flows both in and out of Israel have grown continuously since 2001. 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.[56]

According to The World Bank Doing Business Index 2019 which ranks 190 countries, Israel, an OECD member, was ranked 49th in the world (up from the 54th position of 2018) with a distance to frontrier (DTF)[57] score of 73.23 out of 100 – an improvement from the value of 2018 (72.59).

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

The **EU-Israeli Sub-committees on Industry, Trade and Services** met in 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. Regarding trade barriers, the EU stressed the need to resolve the distinction between 'new' and 'old' Member States (pre and post-2004) for imports of medical devices, as well as the situation of the EU's request for granting IPR protection to biological pharmaceuticals and the EU's comments regarding the legislation on cosmetics in Israel. Parties also exchanged information regarding the implementation of the so-called "Technical Arrangement" on zip codes. Both parties provided an update on their ongoing bilateral and multilateral trade negotiations.

The **EU-Israeli Sub-Committee on Agriculture and Fisheries** also met in May 2018. A range of issues were discussed, including the current trade in agri-food products and related issues, such as SPS regulations in both directions, Israel's policy on imports of live animals and Kosher slaugthering. Israel provided an update on changes to its agricultural policy reform as well as the state of play of Geographincal Indications in Israel. Parties also discussed Israel's request to open negotiations of a bilateral agreement on organics, in order to adjust Israel's exports to the EU, following the new EU's organic regulation which will be

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[56] Both Eurostat and IMF data was used for investment figures.

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

applicable as of January 2021. On fisheries, Israel's position in the framework of the General Fisheries Commission for the Mediterranean was discussed.

The **EU-Israel Customs Cooperation and Taxation Subcommittee** did not meet in 2018.

4. SPECIFIC AREAS OF IMPORTANCE

The Israeli economy stayed on its path of steady growth, relatively 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 on 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. On the other side, recent growing budget deficit/GDP and debt/GDP ratios deserve an increased attention by the government. It should be also noted that there is a growing duality in the economy, with the traditional industrial agriculture and services lagging behind. Also, the increased shortage of skilled labour could become an impediment for growth in the high-tech sector.

With a clear understanding of the importance and the economic potential of EU regulations and best-practice in many fields, 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 transport, environment, energy, statistics, agriculture and telecomm) EU regulatory practice (norms, standards and procedures) has been shared with the Israeli authorities, thus helping specific policy formulation and implementation. For trade, it is particularly important to continue providing 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 and increase competition in Israel. It should also be noted that some important European regulations such as the General Data Protection Regulation (GDPR), waste management and others, became relevant and economically important in the Israeli context. Also, there is an increasing number of European companies establishing research centers, tech hubs and scouting companies in Israel, particularily in the automative sector.

Exports of gas to the EU are also on the agenda, with the final aim, pending feasibility, to export natural gas from Israel to Cyprus, Greece and Italy as of 2025.

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

No significant roll back of commitments in the Agreement has been recorded; however there are a **number of persistent trade irritants**. These include the discriminatory treatment of EU Member States, who have joined since 2004 and of Luxembourg, with particular reference to restrictions on import authorization of medical devices, the lack of data protection on biological medicines, the rigid regime of kosher certification of slaughtered meat, the difficulties in registration of imported food products as well as restrictions to the import of live animals. A number of official and technical meetings have taken place to look into these issues. On **trade defence policy**, an anti-dumping investigation on imports of cement from Greece took longer than the WTO ceiling of 18 months. The EU has drawn Israel's attention to this issue and asked that no duty would be imposed. Israel ignored the EU's request and imposed a minimal 0.25% duty.

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, competition, etc.

6. CONCLUSIONS AND OUTLOOK

Overall the value of trade between the EU and Israel has increased during the period of implementation of the Agreement and this is true in both directions. Goods continue to account for the majority of trade, although services and foreign investment are also noteworthy.

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 2019 working with Israel on cosmetics, food and other areas, advocating for rules that are aligned with international and, possibly, EU standards.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Israel (mio €)					
Imports	13.255	13.385	13.178	14.809	13.602
Exports	16.992	18.930	21.108	21.426	20.736
Balance	3.737	5.545	7.931	6.617	7.134
Share Israel in EU28 trade with Extra-EU28					
Imports	0,8%	0,8%	0,8%	0,8%	0,7%
Exports	1,0%	1,1%	1,2%	1,1%	1,1%
Total (I+E)	0,9%	0,9%	1,0%	1,0%	0,9%
Share EU28 in trade Israel with world					
Imports	33,4%	36,4%	40,6%	41,2%	41,2%
Exports	27,4%	24,3%	26,2%	29,7%	28,4%
Total (I+E)	30,4%	30,2%	33,7%	35,8%	35,7%

Source Trade G2 Statistics/ISDB
Trade EU28: Eurostat COMEXT; Trade Israel: IMF Dots
25-mars-19

Total merchandise trade EU28 with Israel (mio €)

Israel	2017	2018	Growth mio €	annual %
Imports	14.809	13.602	-1.207	-8,2%

Exports	21.426	20.736	-690	-3,2%
Balance	6.617	7.134	517	
Total trade	36.235	34.337	-1.898	-5,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Israel (mio €)

Israel	2017	2018	Growth mio €	Growth annual %
Imports	990	874	-116	-11,7%
Exports	1.798	1.955	157	8,8%
Balance	808	1.081	274	
Total trade	2.788	2.829	41	1,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Israel (mio €)

Israel	2017	2018	Growth mio €	Growth annual %
EU28 imports	13.819	12.728	-1.091	-7,9%
EU28 exports	19.628	18.781	-848	-4,3%
Balance	5.809	6.053	243	
Total trade	33.447	31.508	-1.939	-5,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Israel (mio €)

Israel	2016	2017	Growth mio €	Growth annual %
Imports	4.756	5.186	430	9,0%
Exports	6.830	7.154	324	4,7%
Balance	2.074	1.967	-106	
Total trade	11.586	12.340	754	6,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Israel (mio €)

	2013	2014	2015	2016	2017
Imports	4.272	3.913	4.633	4.756	5.186
Exports	4.579	4.969	6.983	6.830	7.154
Balance	307	1.057	2.350	2.074	1.967
Total trade	8.851	8.882	11.616	11.586	12.340

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Israel (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	32.237	40.872	33.445	45.155	58.254
Outward	11.544	16.066	17.491	28.464	30.079
	FDI Flows				
Inward	2.023	7.094	2.348	13.948	205
Outward	4.194	1.855	1.231	904	2.613

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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

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. This allowed Jordan to phase in tariff reductions over a 12 year period. Tariff dismantling has now been completed. The EU and Jordan upgraded the Agreement in 2006 concluding an additional agreement on trade in agricultural and processed agricultural products. Today all Jordanian agricultural products can enter the EU duty free with the exception of virgin olive oil and cut flowers, which are under tariff rate quotas (TRQs), while agricultural liberalisation on the Jordanian side is substantial, but not complete. A protocol establishing a bilateral Dispute Settlement Mechanism was added to the Agreement in 2011. In December 2018, the EU and Jordan agreed to review their initiative from July 2016 to simplify the rules of origin that Jordanian exporters use in their trade with the EU[58].

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 Council of the European Union adopted negotiating directives to further enhance the trade relationship through a Deep and Comprehensive Free Trade Area (DCFTA) with Jordan, but negotiations have not yet started.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

[58] https://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157588.pdf

In 2018 the EU was Jordan's largest trade partner, representing 21.5% of its total trade. The EU was the largest importer into Jordan with a 16.8% 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 in goods between the EU and Jordan has increased in both directions since the Agreement entered into force, from €2.4 billion in 2002 to €3.87 billion in 2018.

In 2018, the outlook for EU-Jordan trade reflects the concerns of the state of the Jordanian economy, with consumption levels contracting. Jordan was 64th on the list of the EU's main trading partners, accounting for 0.1 % of the EU's total trade with the rest of the world. Total trade in goods between the EU and Jordan in 2018 declined by 14% from €4.5 in 2017 to €3.9 billion in 2018.

The value of EU exports in goods to Jordan has increased more than EU's imports. Jordan's trade deficit with the EU has grown over the period 2002-2018. 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 – i.e. €3.27 billion (35.8%) of its €9.13 billion total deficit. In 2018 the overall trade in goods deficit of Jordan with the EU decreased by 4.6% when compared to 2017.

The value of EU exports to Jordan has risen by 80% between 2002 and 2018 (from €2 billion to €3.6 billion in 2018), but show a 13% decline in 2018 compared to 2017. Exports to Jordan have risen year-on-year with the exception of 2009 (financial crisis), 2014 and 2018; which may be related to regional political and economic instability. The most important export sectors were machinery and transport equipment (32.4%), agricultural products (23.3%) and chemicals (16.5%).

In 2018, the EU imported for €300 million in goods from Jordan, mostly chemicals (36.4%) and textiles and clothing (17.7%).

The value of EU imports from Jordan has risen from €314 million in 2002 to €358 million in 2017, but declined in 2018 to reach €300 million. Within the lifespan of the agreement the value of imports has fluctuated. In 2015, imports reached an all-time high of €386 million, but have since declined. In8, the most important import sectors were chemicals (38.3 %) and textiles and clothing (17.8 %).

2.2. Trade in agricultural goods

Total trade in agricultural products between the EU and Jordan increased more than eight times between 2003 and 2018, from €0.1 billion in 2003 to €0.87 billion in 2018. Between 2017 and 2018, EU agricultural exports remained stable. EU imports decreased (5%) from €45 million in 2017 to €43 million in 2018. In 2018 the EU mainly exported wheat, live animals, chocolate and infant food and other cereals, flour, starch or milk preparations to Jordan. The EU's key agricultural imports from Jordan were cigars and cigarettes, vegetables and preparations of vegetables, fruits and nuts.

Regarding agricultural tariff rate quotas (TRQs), Jordan's 2018 fill rate of the two TRQs on virgin olive oil and fresh cut flowers and buds was close to 0% (very low imports of virgin olive oil – 229 kg in 2018 and 48 kg in 2019 until 10/04; no imports of fresh cut flowers).

2.3. Trade in Services and Investment

In 2017 **trade in services** between the EU and Jordan was worth €1.5 billion. There has been an overall decline in the value of services imported from Jordan from €0.6 billion in 2010 to €0.5 billion in 2017, due to instability in the region. Over the same time period, EU services exports to Jordan increased from €0.6 billion to €1.0 billion. Jordan's services exports are dominated by services in the travel sector, while Jordan's imports of services are dominated by the transport sector.

In 2017, **FDI** stocks were worth €4.3 billion (i.e. €3.3 billion of EU FDI in Jordan and €1 billion of Jordanian FDI in the EU). According to the World Bank 2019 "Ease of Doing Business" index which ranks 190 countries, Jordan ranked 104th in the world for overall ease of doing business, with a distance to frontier (DTF)[59] score of 60.98 out of 100 – an increase of 1.42 in DTF score compared to 2018.

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

There were no sub-committee meetings in 2018. The latest committee meeting took place in 2017 and were reported in the 2018 Staff Working Document (SWD (2018)454 Final) attached to the 2018 Report on the implementation of Free Trade Agreements.

4. Specific areas of importance

The **protracted Syrian crisis** has had serious consequences for the Jordanian economy and its trade. The closure of traditional trade routes resulted in significant losses and downscaling of production for the export market. The presence of over 650,000 Syrian refugees in Jordan[60] 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. In 2016, Jordan agreed with the IMF on a three-year programme foreseeing long-delayed structural reforms. Additionally, Jordan (together with Tunisia) continued to benefit from Macro-Financial Assistance (MFA) from the EU and the country is currently implementing a second MFA operation aimed at strengthening the its 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 provided Jordan with a package of support, including the **simplification of the rules of origin applicable to Jordanian exports to the EU and trade support programs**. The initiative to simplify rules of origin was agreed in July 2016 and, based on Jordan's request for additional flexibility, further reviewed in December 2018. Under the initiative, **Jordanian exporters to the EU can now benefit from the same rules of origin for manufactured products as those applied by the EU for the Least Developed Countries**, provided that certain conditions are met. These rules are simpler than those that would otherwise apply under the Agreement. The simplification applies to 52 product groups. To qualify to use the simpler rules, production must take place in the territory of Jordan and Syrian refugees must also account for no less than 15% of a manufacturer's workforce. The parties have also foreseen a possibility to extend the scheme to all companies operating in Jordan (without the 15% requirement as above) once Jordan reaches a target of

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

[60] According to UNHCR data, see http://data2.unhcr.org/en/situations/syria/location/36

60,000 legal and active jobs for Syrian refugees. The scheme will apply until 2030. The government of Jordan has also agreed to put in place specific monitoring procedures to ensure companies who benefit comply with all the requirements of the scheme. Monitoring and capacity building for the Ministry of Labour will be carried out by the International Labour Organisation (ILO).

Regarding the **Rules of Origin initiative** there is interest on both sides to further incentivise economic operators to use the scheme. Thirteen companies have already registered and six of them exported their products into the EU for a total value of €19.26 million.

A renewed **effort towards enhancing regulatory coherence** features among the **Partnership Priorities** adopted in December 2016[61] . The Priorities, which also cover actions to enhance Jordan's social and economic resilience, were extended until the end of 2020. 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 thus will 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 to the economy.

Trade policy featured prominently in both the government's Renaissance/Nahda Plan and in the five-year growth plan presented during the London Conference of February 2019. The government identified trade as one of the engines for growth, with the aim to grow exports by 5% annually and reduce imports by 15% by the end of 2020. In the coming 3 years the government plans to work towards the following objectives: i) providing technical assistance and financial incentives for companies that export utilising Jordanian workers; ii) establishing a company that is concerned with export promotion; iii) rehabilitating border crossings with Syria, Iraq and Palestine; establishing a Jordanian–Iraqi joint free zone close to both borders; and iv) expanding the scope of insurance coverage for Jordanian exporters within the export credit guarantee program to reach 100 million Dinars annually by the end of 2020. The government is also requesting support in its efforts to reform the national quality infrastructure and attract FDI.

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 the needs and potential technical assistance.

On trade-related assistance, the EU continued to provide direct and indirect assistance. The EU is also providing one million euros to the Jordan Standards and Metrology Organisation for capacity-building for accreditation and market surveillance. Progress is being made on regulatory approximation in preparation of the possible launch of an Agreement on Conformity Assessment and Acceptance (ACAA). In addition, to support the government's objectives, the EU is also preparing to sign a programme with the International Finance Cooperation/World Bank Group for technical assistance for the review of Jordan's national quality infrastructure.

Trade-related assistance projects to improve the trade and investment climate also include a €55 million Private Sector Development programme comprising a budget support component,

[61] See http://www.consilium.europa.eu/en/press/press-releases/2016/12/20/eu-jordan-partnership-priorities-and-compact/

technical assistance to the Government and company-level assistance for the private sector. There is a further project to support entrepreneurship in the north of Jordan, the region most strongly affected by the influx of refugees. It aims at stimulating innovation, increasing the competitiveness of Jordanian exports and supporting the Rules of Origin initiative.

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

Jordan has recently started to be more active in enacting/adopting trade restrictive measures: e.g. Jordan has banned (or significantly reduced) imports of several categories of dairy products. Discussions between the EU side and the relevant authorities are ongoing.

There is also a continuing difference of views concerning **Jordan's commitments on the import conditions for alcoholic drinks**, arising from the interaction between the initial and the subsequently 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 Agreement, such as a lack of clear trade and development policies and administrative weaknesses. There is a lack of interest from the Jordanian private sector, which still prefers to focus on neighbouring markets as the EU is seen as a highly competitive and demanding market with high regulatory requirements. In addition, production costs in Jordan are high due to water shortages, high electricity prices and transportation costs, which tend to reduce the international 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 has come into force. Goods continue to account for the majority of trade, although services and foreign investment are also present. However, in 2018, both EU exports to EU imports from Jordan have decreased in comparison to 2017. Over the same time period, Jordan's exports to the EU decreased below the 2002 level. 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 used by Jordan. The Decision on relaxation of Rules of Origin, adopted in July 2016 and revised in 2018, was designed to boost Jordanian exports to the EU and to support formal integration of Syrian refugees into the Jordanian economy. Further actions are planned to raise awareness of this initiative and to promote the business opportunities it provides.

DCFTA negotiations have not yet started, however, the **importance of the DCFTA to improve the resilience of the Jordanian economy was formally recognised** in the Partnership Priorities[62]. 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 when the time is right.

[62] See http://data.consilium.europa.eu/doc/document/ST-12384-2016-ADD-1/en/pdf

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Jordan (mio €)					
Imports	338	384	337	359	300
Exports	3.672	3.985	4.056	4.105	3.569
Balance	3.335	3.601	3.719	3.746	3.269
Share Jordan in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,2%	0,2%	0,2%	0,2%	0,2%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Jordan with world					
Imports	19,7%	21,6%	24,4%	22,0%	21,5%
Exports	4,2%	2,5%	2,8%	2,8%	3,2%
Total (I+E)	16,0%	16,9%	19,1%	17,4%	17,1%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Jordan: IMF Dots

Total merchandise trade EU28 with Jordan (mio €)

Jordan	2017	2018	Growth mio €	Growth annual %
Imports	359	300	-58	-16,3%
Exports	4.105	3.569	-536	-13,1%
Balance	3.746	3.269	-477	
Total trade	4.463	3.869	-594	-13,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Jordan (mio €)

Jordan	2017	2018	Growth mio €	Growth annual %
Imports	45	43	-2	-5,4%
Exports	767	764	-3	-0,4%
Balance	722	722	0	
Total trade	813	807	-5	-0,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Jordan (mio €)

Jordan	2017	2018	Growth mio €	Growth annual %
EU28 imports	313	257	-56	-17,9%
EU28 exports	3.337	2.804	-533	-16,0%
Balance	3.024	2.547	-477	
Total trade	3.650	3.062	-589	-16,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Jordan (mio €)

Jordan	2016	2017	Growth mio €	Growth annual %
Imports	538	507	-30	-5,6%
Exports	897	974	78	8,7%
Balance	359	467	108	
Total trade	1.434	1.481	47	3,3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Jordan (mio €)

	2013	2014	2015	2016	2017
Imports	460	668	471	538	507
Exports	856	1.485	932	897	974
Balance	396	817	461	359	467
Total trade	1.316	2.154	1.403	1.434	1.481

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Jordan (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	500	496	453	510	991
Outward	2.424	2.977	2.914	3.193	3.261
	FDI Flows				
Inward	72	20	-27	-381	-7
Outward	-153	335	235	227	216

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-LEBANON ASSOCIATION AGREEMENT

1. INTRODUCTION

The EU and Lebanon have an Association Agreement, creating a tree 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-in liberalisation of industrial products by Lebanon started in 2008 and was completed in 2015. In regard to agri-food trade, the Agreement as of its provisional application, granted tariff-free access of most Lebanese agricultural and processed agricultural products to the EU market (i.e. 89% of products enter tariff and quota free) with only 27 agricultural products facing a specific tariff treatment, mostly Tariff Rate Quotas (TRQs). On the other hand, agricultural liberalisation by Lebanon has been more limited. In 2010, the EU and Lebanon signed an additional protocol on a Dispute Settlement Mechanism. Lebanon notified the ratification of the protocol at the end of 2018.

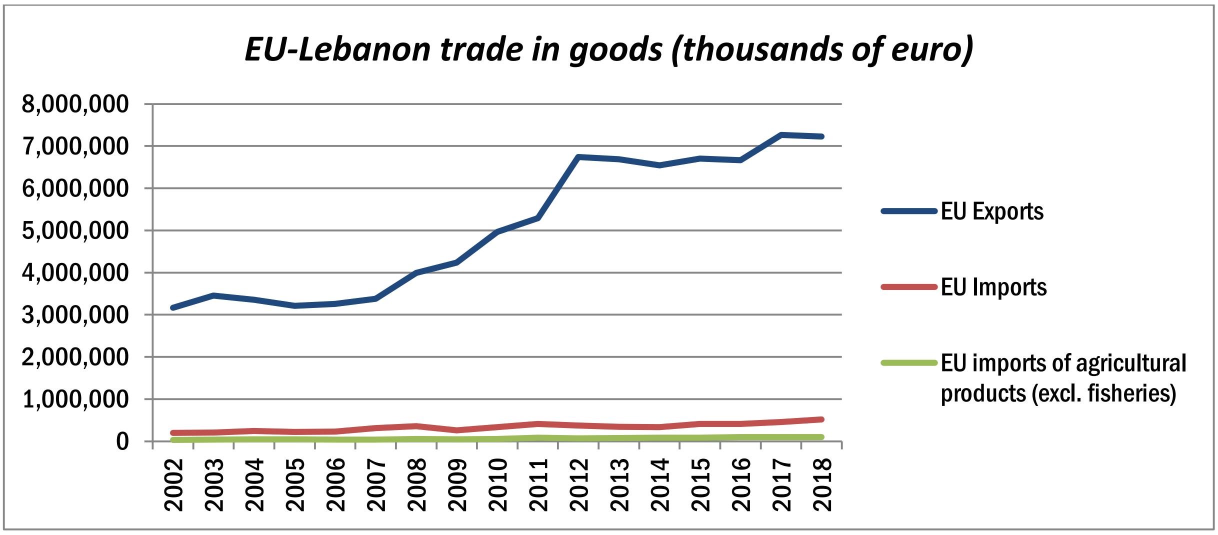
In 2014, Lebanon signed the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (PEM Convention). The country notified its ratification in October 2017 and formally joined on 1 December 2017[63]. The Convention's main objective is to provide a more unified framework for origin protocols.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

Since 2012, the EU has been consistently ranking as Lebanon's number one trading partner. In 2018, the EU represented 37% of Lebanese trade. Over the last sixteen years, the value of EU exports to Lebanon has increased more than in the other direction, leading to a progressive widening of Lebanon's trade deficit with the EU, from €3.0 billion in 2002 to €6.7 billion in 2018.

[63] 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 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 €3.4 billion and by 2018 it reached €7.7 billion (an increase of 130%).

The value of EU exports to Lebanon has risen by 128% from €3.2 billion in 2002 to €7.2 billion in 2018. In 2018 the EU exports were substantially stable, decreasing by less than 1%. The most export sectors by value were fuel and mining products (33%), machinery and transport equipment (16%) and chemicals (14%).

The value of EU imports from Lebanon has risen from less than €0.2 billion in 2002 to more than €0.5 billion in 2018. 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 2017 and 2018, EU imports increased by 13%, going from €455 million to €513 million. The most important groups for import by value were base metals (32%), agricultural and food products (16%) and chemical products (11%).

2.2 Trade in agricultural goods

Total trade in agri-food products between the EU and Lebanon increased by 140% between 2003 and 2018, from €0.5 billion to €1.2 billion. Between 2017 and 2018, EU agri-food exports increased slightly (4%) from €1.03 billion to €1.07 billion. Over the same period, EU agri-food imports increased very slightly (0.1%) from €103 million to €104 million. In 2018, the EU mainly exported live animals (17%), cheese (9%), spirits and liqueurs (6%), cereals other than wheat & rice (6%) and milk powder & whey (6%). The EU's key agri-food imports were preparations of vegetables, fruits and nuts (23%), offal, animals fats & other meats (16%) and raw tobacco (11%).

Regarding agricultural tariff rate quotas (TRQs), the fill rate by Lebanon was very low in 2018. The country only used 8% of its olive oil quota. For table grapes, where the quota year does not coincide with the calendar year, it used 8% for 2017-18. It used less than 1% of its quotas for tomatoes, apples, apricots, peaches, or plums. All other quotas remained unused.

2.3 Trade in Services and Foreign Direct Investment (FDI)

In 2017, **trade in services** between the EU and Lebanon was worth €2.5 billion. Over the last 5 years, trade in services increased in both directions, albeit with a fluctuating trend. EU services imports from Lebanon have risen from €0.9 billion in 2010 to €1.1 billion in 2014 and then have again shrunk to €1.0 billion in 2017, while EU services exports have risen from €1.2 billion in 2010 to €1.9 billion in 2014, before shrinking again to reach €1.5 billion in 2017. The EU's trade surplus has increased from €0.3 billion in 2010 to €0.4 billion in 2017.

In 2017, EU **FDI** stocks in Lebanon amounted to €2.0 billion, with inward FDI stocks from Lebanon to the EU accounting for €4.6 billion. In 2017, EU FDI flows accounted for €256 million, while flow of Lebanese FDI reached €184 million.

According to The World Bank Doing Business Index 2019 ranking 190 countries, Lebanon ranked 142nd in the world on the ease of doing business (it ranked 133rd in 2018), with a distance to frontier (DTF)[64] score of 54.04 out of 100 – stable if compared to 2018, when the value was 53.97.

3. Issues addressed in the Annual Joint Committee meetings

The **EU-Lebanon Sub-Committee on Industry, Trade and Services, Customs** met 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[65] and the WTO membership bid – which the EU supports. The parties also discussed the EU support to the strengthening of Lebanese capacity in key sectors that were identified in the Joint Working Group on Trade and Investment[66] of July 2017 and included in an **Action Plan**: 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 affect EU exports, notably additional duties on imports of wine and spirits and the exemption of oil from customs duties that have been suspended. Agricultural topics were also discussed. In this context, the Parties exchanged views on the latest developments in Lebanese and EU agricultural and rural development policies, the state of play regarding the review of the Lebanese draft law on geographical indications (GIs), organic farming and the technical assistance for increasing competitiveness of the agricultural and agro-food sectors.

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 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

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64 The DTF score is a measurement used by the World Bank to assess the absolute level of regulatory performance in economies over time. The higher the score, the better.

65 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.

66 See in the following paragraph. For more information see https://eeas.europa.eu/headquarters/headquarters-Homepage/26716/european-union-and-lebanon-set-joint-working-group-trade-and-investment_en

growth and job creation, waste management, energy and other issues. The CEDRE[67] 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.

Furthermore, the EU and Lebanon had technical discussions in July 2018 and January 2019 in the framework of the **EU-Lebanon Joint Working Group on Trade and Investment (JWG).** The JWG is a forum for technical level discussions aimed at improving economic cooperation and trade, in particular with a view to support Lebanon's capacity to beneft from the trade preferences that are granted in the Agreement. Work in the JWG informs the Sub-Committees. The JWG 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 addressed by thr JWG include the following, inter alia: 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. The last JWG of January 2019 focussed on rules of origin, EU support to Lebanese export capacity in the agri-food and pharmaceutical sector, Lebanese participation in the Enterprise Europe Network, update on Geographical Indications as well as Lebanon's accession to the Agadir Agreement.

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. The number of Syrian refugees is extremely high (between 1 million and 1.5 million in a country of 6 million people, which alread hosts half a million of Palestinian refugees). These shocks have resulted in a decline in economic activity, such as tourism and investments. Economic growth has been falling sharply from the 7%-9% growth rates experienced between 2008 and 2010 to sluggish rates: in 2017, the annual GDP only grew by 0.6% and by only 0.3% in 2018. The **unstable political environment** and budgetary constraints (exacerbated by the high debt levels, currently at 152% of GDP) have made it difficult for Jordan to address issues such as poverty, unemployment, poor infrastructures and the 'brain drain'. On a positive note, a government was formed on 31 January 2019, following nine months of deadlock after the national elections of May 2018. The new government vowed to revive the reform agenda that is linked to the CEDRE Conference (see section 3), where international donors – the EU among them – pledged $11 billion in grants and loans, conditional upon the implementation of a fiscal and structural adjustment plan.

At bilateral level, following the commitments undertaken by the EU and Lebanon (reflected in the Partnership Priorities and Compact) to address the factors hindering trade towards the EU, the Joint Working Group on Trade and Investment (JWG) was set. Its aim is to address issues hindering Jordan-EU trade and to **help Lebanon to upgrade its local production standards** (see in more detail section 3 above). Lebanon also receives assistance under the TAIEX program[68]. 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 € 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.

[67] Conférence économique pour le développement, par les réformes et avec les entreprises
[68] More information can be found here: https://ec.europa.eu/neighbourhood-enlargement/tenders/taiex_en

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

The EU and Lebanon are committed to strengthen their dialogue on trade, with a view to identifying pragmatic solutions to help Lebanon take advantage of trade opportunities provided for by the Agreement. The EU-Lebanon **Joint Working Group** on Trade and Investment created in 2017 will continue its works in a sustained way in the following months and years.

In 2018, an intense dialogue took place on **rules of origin**: EU and Lebanon are cooperating in the revision of the PEM rules; this modernisation will allow, most probably between the end of 2019 and 2020, the implementation of much more modern rules of origins in the trade between EU and Lebanon and the rest of the Euro-mediterranean region.
Lebanon is still in the process of applying to join the **WTO** and announced its intention to rediscuss its offers in terms of schedule of concession of goods. The accession process to join the **Agadir Agreement** is also ongoing and Lebanon now has to comply with the institutional and administrative requirements that follow the approval of its candidature by the four current members. The EU will continue to support and encourage Lebanon to pursue these accessions.

6. CONCLUSIONS AND OUTLOOK

Overall the **value of trade between the EU and Lebanon has increased in both directions** since the Agreement entered into force. EU exports have grown more strongly than Lebanese exports and consequently the EU trade surplus has widened. Goods continue to account for the majority of trade, although services and foreign investment are also noteworthy.

Services are the main driver of Lebanon's economy. Enhancing the competitiveness of the Lebanese service sector could thus lead to economic growth in selected sectors of strategic importance for the country. There is therefore **untapped potential in services** sectors 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 restricting trade and investment in Lebanon and preventing the country from taking full advantage of the Agreement. Amongst others, compliance with EU standards, for example for SPS and Pharmaceutical products, will be key. The private sector, in particular SMEs, forms the cornerstone of the Lebanese economy and remains the main source of job creation in Lebanon. Despite its dynamism and high resilience, the private sector continues to 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.

Finally, Lebanon remains constrained by the **spill-over of the Syrian conflict**: apart from the high number of Syrian migrants in the country, traditional trade routes for both Lebanese imports and exports remain closed. The EU and Lebanon continue to consider further collaboration to ease the strain of the refugee crisis.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Lebanon (mio €)					
Imports	332	408	407	455	513

Exports	6.545	6.699	6.668	7.265	7.222
Balance	6.213	6.291	6.261	6.810	6.709
Share Lebanon in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,4%	0,4%	0,4%	0,4%	0,4%
Total (I+E)	0,2%	0,2%	0,2%	0,2%	0,2%
Share EU28 in trade Lebanon with world					
Imports	41,9%	42,4%	40,5%	42,4%	41,3%
Exports	10,3%	12,0%	10,7%	8,9%	13,1%
Total (I+E)	36,5%	37,1%	35,5%	36,8%	36,8%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Lebanon: IMF Dots

Total merchandise trade EU28 with Lebanon (mio €)

Lebanon	2017	2018	Growth mio €	Growth annual %
Imports	455	513	59	12,9%
Exports	7.265	7.222	-43	-0,6%
Balance	6.810	6.709	-101	
Total trade	7.719	7.736	16	0,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Lebanon (mio €)

Lebanon	2017	2018	Growth mio €	Growth annual %
Imports	103	104	2	1,6%
Exports	1.039	1.065	26	2,5%
Balance	936	960	24	
Total trade	1.142	1.169	27	2,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Lebanon (mio €)

Lebanon	2017	2018	Growth mio €	Growth annual %
EU28 imports	352	409	57	16,3%
EU28 exports	6.226	6.158	-68	-1,1%
Balance	5.874	5.749	-126	
Total trade	6.578	6.567	-11	-0,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Lebanon (mio €)

Lebanon	2016	2017	Growth mio €	Growth annual %
Imports	1.074	1.025	-49	-4,5%
Exports	1.410	1.473	63	4,5%
Balance	336	448	112	
Total trade	2.484	2.498	15	0,6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Lebanon (mio €)

	2013	2014	2015	2016	2017
Imports	981	1.121	967	1.074	1.025
Exports	1.480	1.908	1.572	1.410	1.473
Balance	499	788	605	336	448
Total trade	2.460	3.029	2.539	2.484	2.498

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Lebanon (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	3.645	3.774	2.677	4.434	4.629
Outward	1.331	1.601	1.866	2.232	2.046
FDI Flows					

Inward	320	261	1.231	133	184
Outward	234	190	-46	213	256

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-MOROCCO ASSOCIATION AGREEMENT

1. INTRODUCTION

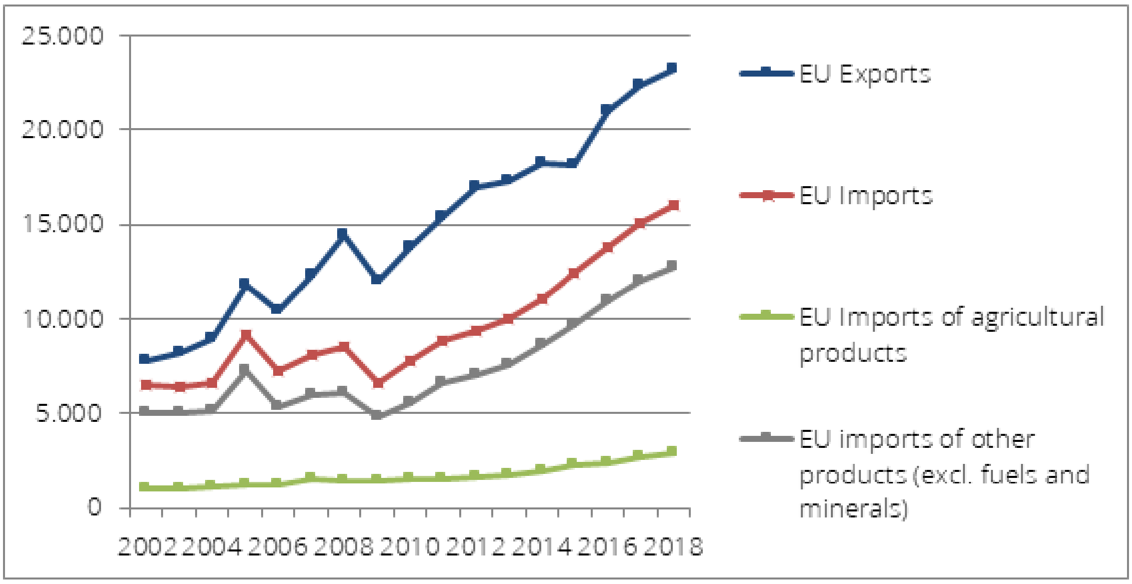
The EU and Morocco established a Free Trade Area as part of the EU-Morocco Association Agreement (AA; the "Agreement"), signed in 1996, which entered into force on 1 March 2000. The Agreement provides for a reciprocal liberalisation of trade in goods, with elements of asymmetry in favour of Morocco: since the day of entry into force of the Agreement, all industrial products covered could be exported by Morocco to the EU tariff-free, while Morocco benefited from a transitional period of 12 years. The transitional period for Morocco to reduce its tariffs on industrial products to zero ended in March 2012. The EU and Morocco also signed an agreement on additional liberalisation of trade in agricultural products, processed agricultural products, fish and fisheries products, which entered into force in October 2012. Trade for industrial products is now entirely liberalised, while market opening for agricultural products is also substantial with only a few limited number of Moroccan products subject to TRQs on each side when imported into the EU. The tariff dismantling for EU exports will be completed by 1 October 2020, with a considerable number of products still subject to quotas when exported to Morocco. Negotiations for a DCFTA started in 2013. The last round took place in April 2014.

A protocol establishing a Dispute Settlement Mechanism was agreed upon by the EU and Morocco and entered into force in 2012. Morocco also signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) on 18 April 2012 and ratified it in May 2019. The ratification process is still pending, though it could be accelerated in view light of the upcoming conclusion of negotiations of the modernisation of the PEM Convention. The main objective of the PEM Convention is to provide a more unified framework for origin protocols. Negotiations in view of an Agreement for the Protection of geographical indications (GIs) were concluded in 2015, and ratification is pending on both the EU and Morocco's sides.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

In 2018, the EU was Morocco's first trading partner for goods, accounting for almost 55% of Morocco's total trade. Other trading partners fell far behind the EU, such as China (9.9%), the United States (7.8%), and Turkey (4.6%). Morocco is the EU's 29th largest trading partner and the second trading partner in the Euro-Mediterranean region (after Algeria).



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 €14.3 billion in 2002 to €39.3 billion in 2018 (170%). Between 2017 and 2018, total trade increased by 4.9%, from €37.5 billion to €39.3 billion.

EU exports rose by 196% between 2002 and 2018, from €7.8 billion to €23.3 billion. Between 2017 and 2018, EU exports increased (4%) from €22.4 billion to €23.3 billion. In 2018, EU exports to Morocco were mainly made of machinery and transport equipment (38.3%), fuels and mineral products (12.9%) and textiles (6.8%).

EU imports increased by 148% between 2002 and 2018. Between 2017 and 2018, EU imports increased (6.3%) from €15.0 billion to €16.0 billion. In 2018, the main EU imports were machinery and transport equipment (41.6%), agricultural products (21.3%) and textiles and clothing (18.6%).

The agreement has proven mutually beneficial. While the first years of implementation of the EU-Morocco Free Trade Area led to an increase of the trade surplus for the EU, the trade balance between the two partners has now stabilised to slightly below 20% of total trade in goods.

2.2 Trade in agricultural goods

Morocco is the largest exporter of vegetables to the EU. Among the EU's Euromed partners, Morocco is the largest supplier of agricultural products. Total trade in agricultural products between the EU and Morocco tripled since 2003, from €1.3 billion in 2003 to €3.9 billion in 2018.

EU agricultural exports to Morocco were stable in 2018 at €1.5 billion. Agricultural imports have been increasing by 7% on average year-on-year, from €2.2 billion in 2017 to €2.4 billion in 2018, mainly driven by fruit imports.

Under the association agreement, the EU grants tariff rate quotas for 7 categories of Moroccan agricultural products, mostly fruit and vegetables. Most quotas are opened for periods split over two calendar years; as a result, quota fill rates set at the end of 2018 might not be fully representative. As in previous years, at the end of 2018, the tomato monthly sub-quotas were entirely utilised. Fill rates remained high for courgettes (72%) and intermediate for clementines (52%), cucumbers (40%) and strawberries (35%). The quotas for garlic and fructose remained unused by Morocco.

2.3 Trade in Services and Foreign Direct investment (FDIs)

Total **trade in services** between the EU and Morocco increased between 2010 and 2017, from €7.5 billion to €10.4 billion. Moroccan exports of services to the EU rose by 9% between 2016 and 2017 and EU exports of services to Morocco increased by 10.1% over the same period. In 2017, the EU exported €4.3 billion in services to Morocco and Morocco exported €6.1 billion in services to the EU.

EU-Morocco FDI flows remained relatively steady between 2013 and 2017, despite some volatility, resulting in a total EU FDI stock of €18.5 billion in Morocco at the end of 2017.

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* – OFEC*)* 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)[69] score of 67.9 out of 100 – this means 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 but are expected to start reconvening in 2019.

4. SPECIFIC AREAS OF IMPORTANCE

Safeguard measures

Morocco is a user of trade defence measures, some of which affect imports from the EU.

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

On 20 December 2018 the Moroccan Ministry of Trade published the results of its investigations on the extension of two safeguard measures in the steel sector (one on wire rods and reinforcing bars, another on cold-rolled sheets, neither plated nor coated, and plated or coated sheets), which were due to expire by the end of 2018. Having found that the concerned sectors are still vulnerable from a surge of imports, the Ministry decided that the safeguard measures should be extended for a further three years i.e. until end of 2021. The EU requested consultations with Morocco, which were held on 22 March 2019, to complain about the absence of prior consultation with the EU before imposing the measures (as foreseen by the EU-Morocco Association agreement) and the insufficient rhythm of liberalisation during the extension period (which does not meet the requirements of the WTO safeguard agreement).

On another front, on 28 February 2019, the Moroccan Ministry of Trade organised a public hearing on the safeguard investigation on coated wood boards. The hearing brought together a large number of representatives of governments (EU, France, Italy, Spain, Portugal and Turkey), wood board exporters and associations from the EU and Turkey, as well as domestic importers and industrial users, opposing the request for safeguard measures by the sole Moroccan manufacturer of coated wood boards CEMA Bois de l'Atlas. On 26 February 2019, the Ministry opened a mid-term review investigation on the implementation of the safeguard measure on imports of paper reels and reams, which have been applied since 1 January 2017 for a 4 year period.

Law N°24-09 on consumer protection makes it compulsory to affix the Cmim marking on products subject to specific technical regulation, whether locally produced or imported. As of 1st February 2019, the new Moroccan (reads Cmim) marking became compulsory for the sale in Morocco of electrical products subject to technical regulations 2573-14 (low voltage) and 2574-14 (electromagnetic compatibility), as well as toys subject to technical regulation 2574-15 on toy safety. These three technical regulations are aligned to relevant EU directives, and their drafting and adoption back in July 2015 was supported by EU development cooperation. Although the Cmim marking is largely equivalent to the European CE marking, the latter will no longer suffice on products imported into Morocco. In due course, the Moroccan Ministry of industry would be interested in negotiating a mutual recognition agreement with the EU.

Once the Ministry finalises the technical regulations applicable to other sectors (detergents, building materials, gas appliances, personal protection equipment and industrial machinery), the Cmim marking will be extended to further families of products.

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

Negotiations on the amendments to the Protocols of the Association Agreement and the fisheries agreement

On 25 October 2018, the EU and Morocco signed the amendment of the Protocols to the Association Agreement extending trade preferences to goods originating in Western Sahara.

On 16 January 2019 the European Parliament approved the amendment of the relevant protocols of the EU-Morocco Association, thereby extending the tariff preferences laid down in the Association Agreement to products originating in Western Sahara. The European

Parliament on 12 February 2019 also approved the new Sustainable Fisheries Partnership Agreement (SFPA) with Morocco, which also covers the waters of Western Sahara.

On 4th March 2019, the Council of the European Union adopted the decision on conclusion of the EU-Morocco Sustainable Fisheries Partnership Agreement, extending the fishing zone to waters of Western Sahara.

The ratification of both agreements still needs to be finalised in accordance with the Moroccan procedure.

On 27 April 2019, Polisario Front has brought a case against the Council of the EU where it requests the Court of Justice to annul the Decision of the Council of the EU amending the EU-Morocco Association Agreement. Other cases brought by Polisario are also pending before national and European courts (the Court of Justice and the General Court) including the EU-Morocco Aviation Agreement and the Sustainable Fisheries Partnership Agreement (SFPA) in which the fishing zone extends to waters adjacent to the territory of Western Sahara.

6. CONCLUSIONS AND OUTLOOK

EU-Morocco trade and investment relations are intense and are expected to be further strengthened in view of the willingness on both sides to relaunch and reinvigorate all the dimensions of the EU-Morocco partnership following the resumption of full political relations throughout 2019.

The overall impact of the Free Trade Area on EU-Morocco trade has been **positive**, bringing both economies closer together and rapidly intensifying exchanges in goods. As a result, the EU is the leading trade partner of Morocco today, accounting for over 50% of total Moroccan trade.

It will thus be all the more **important to resume** the technical work under the EU-Morocco trade sub-committee. Compliance with obligations in the field of competition and public aid, including transparency on the latter, has to be enhanced. Negotiations are meant to cover areas such as access to public procurement, disciplines on non-tariff measures, but also standards and regulatory issues (bringing them closer to the EU acquis), SPS measures, intellectual property rights, consumer protection, competition, investment as well as trade in services and sustainable development.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Morocco (mio €)					
Imports	11.053	12.456	13.792	15.117	16.073
Exports	18.213	18.142	20.966	22.366	23.260
Balance	7.160	5.686	7.175	7.249	7.187
Share Morocco in EU28 trade with Extra-EU28					
Imports	0,7%	0,7%	0,8%	0,8%	0,8%
Exports	1,1%	1,0%	1,2%	1,2%	1,2%
Total (I+E)	0,9%	0,9%	1,0%	1,0%	1,0%
Share EU28 in trade Morocco with world					
Imports	51,0%	52,5%	55,6%	56,5%	54,6%
Exports	63,4%	61,3%	64,9%	64,6%	64,1%
Total (I+E)	55,2%	55,7%	58,9%	59,4%	57,9%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Morocco: IMF Dots

Total merchandise trade EU28 with Morocco (mio €)

Morocco	2017	2018	Growth mio €	Growth annual %
Imports	15.117	16.073	955	6,3%
Exports	22.366	23.260	893	4,0%
Balance	7.249	7.187	-62	
Total trade	37.484	39.332	1.849	4,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Morocco (mio €)

Morocco	2017	2018	Growth mio €	Growth annual %
Imports	2.248	2.396	148	6,6%
Exports	1.504	1.485	-19	-1,2%
Balance	-745	-911	-167	
Total trade	3.752	3.881	130	3,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Morocco (mio €)

Morocco	2017	2018	Growth mio €	Growth annual %
EU28 imports	12.869	13.676	807	6,3%
EU28 exports	20.863	21.775	912	4,4%
Balance	7.994	8.098	104	
Total trade	33.732	35.451	1.719	5,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Morocco (mio €)

Morocco	2016	2017	Growth mio €	Growth annual %
Imports	5.548	6.074	526	9,5%
Exports	3.933	4.331	398	10,1%
Balance	-1.615	-1.743	-128	
Total trade	9.481	10.405	923	9,7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Morocco (mio €)

	2013	2014	2015	2016	2017
Imports	4.483	5.456	5.094	5.548	6.074
Exports	3.080	3.369	4.101	3.933	4.331
Balance	-1.403	-2.087	-993	-1.615	-1.743
Total trade	7.563	8.826	9.194	9.481	10.405

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Morocco (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	707	948	927	543	869
Outward	17.508	14.156	14.862	15.337	18.478
FDI Flows					
Inward	-19	195	42	-314	73
Outward	860	-3.456	770	608	340

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-PALESTINE INTERIM ASSOCIATION AGREEMENT

1. INTRODUCTION

The Interim Association Agreement creating a free trade area between the EU and Palestine[70] (hereinafter called 'the Interim Agreement') was signed in 1997 and entered into force on 1 July 1997. The Interim Agreement liberalised two-way trade in industrial goods by providing duty-free and quota-free access for industrial goods traded in both directions, with some limited liberalisation of agricultural products by both parties. This was an asymmetrical liberalisation to the extent that the EU dismantled its tariffs on the first day of the agreement while Palestine had a phased reduction of tariffs. The Agreement was first updated in 2005 before a more significant update was signed in 2011 to further liberalise trade in agricultural, processed agricultural products (PAPs), fish and fishery products. The EU removed all tariffs and quotas on agricultural products and PAPs imported into the EU for a period of ten years, which is renewable. Palestine continues to maintain a number of tariffs and quotas on selected agricultural and 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)[71], 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 2018, the EU was Palestine's second largest trade partner behind Israel, representing 11% of its total trade. With a 11% share, the EU was the second largest exporter to Palestine behind Israel (53%). Together with Kuwait the EU was Palestine's fourth largest export destination (2%), behind Israel (80%), Jordan (7%) and UAE (3%).

The value of trade between the EU and Palestine has increased since the Association Agreement came into force, in both directions. In 2002 the value of trade in goods was € 41 million and in 2018 it was € 243 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

[70] 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

[71] 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 competitiveness issues and the Palestinian difficulty in meeting EU standards, in particular SPS and technical standards.

The value of EU exports to Palestine has risen from €33 million in 2002 to €243 million in 2018 (an increase of more than 600%). EU exports decreased (7%) between 2017 and 2018, declining from €261 million to €243 million. This was the first decline after the period 2008-09. The main export sectors in 2018 were machinery and transport equipment (49%), food and live animals (20%) and chemicals (13%).

The value of EU imports from Palestine has risen from less than €8 million in 2002 to more than €18 million in 2018, which represents an increase of 137%. Within the lifespan of the agreement, however, the value of imports has been fluctuating: Between 2017 and 2018, EU imports increased by 12% from €16 million to €18 million. In 2018 the most important import sectors were agri-food products (94% out of which 50% are fruits and nuts) and chemicals (6%).

2.2 Trade in agricultural goods

Total trade in agri-food products between the EU and Palestine increased by 863% between 2003 and 2018, from €8 million to €77 million in 2018. EU exports remained the same between 2017 and 2018, accounting for €60 million. EU imports increased (31%) between 2017 and 2018, from €13 million to €17 million.

In 2018, agri-food products represented the majority of EU imports from Palestine, accounting for €17 million (over 90%) of the EU's total imports. Palestine exports a limited number of agri-food products including: fruit, nuts and spices, olive oil, bulbs, roots, live plants, and vegetables. Overall the level of Palestinian agri-food exports has grown since the Agricultural Agreement of 2012, rising from €9 million in 2011 to its current value. The biggest increase has been in olive oil, which has risen from €1 million to €5 million in the same period, with year-on-year variations. Export levels of vegetables, bulbs, roots and live plants have remained relatively static over the same period and even fell slightly in the last couple of years; the "star export item" more recently has been dates. The EU exported mainly infant food and other cereals, flour & starch or milk preparations, followed by chocolate, confectionary and ice cream, and live animals to Palestine.

2.3 Trade in Services and Foreign Direct investment (FDIs)

In 2017 **trade in services** between the EU and Palestine was worth €113 million, which represents a 23% increase as compared to €92 million in 2010. There have been year-on-year fluctuations in the value of services imported from Palestine, which has declined slightly overall between 2011 and 2015. In 2016, EU imports from Palestine reached a high of €95 million, but then declined to €36 million in 2017. As for EU exports of services, they have been growing since 2014, with a slight fluctuation in 2016, to reach an all-time high of €78 million in 2017.

In 2017, EU **FDI** stocks in Palestine amounted to €28 million, an increase from €15 million in 2013. In 2016, EU FDI flows accounted for €14 million.

According to the World Bank 2018 "Ease of Doing Business" index which ranks 190 countries, Palestine ranked 116th in the World for overall ease of doing business, slightly down from the 114th position held in 2018. The distance to frontier (DTF)[72] score is 59.11 out of 100 – a slight improvement from the value achieved in 2018 (58.7).

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

The most recent meeting of the **EU-Palestinian Sub-committee on Trade and Internal Market, Industry, Agriculture and Fisheries, and Customs** took place 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[73] and to materialise this in practice. A 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 2018 accounted for 53% of Palestinian imports and absorbed 80% 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.

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'.

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

[73] 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.

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 has started in 2018.

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

The ongoing situation with Israel remains a key factor in EU-Palestinian trade. The **Union for Mediterranean Trade Ministerial** in 2010 adopted a package of measures to facilitate trade in Palestinian products with other Euro-Mediterranean partners on a bilateral and regional basis and 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 Programme 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 EU for preparing a Technical Progress Report[74] 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 with the Agreement. The EU trade surplus continues to increase since the value of Palestinian exports to the EU remains negligible. The continuation of the trade restrictions applied by Israel remains a key issue in EU-Palestinian trade relations and continues to be addressed in the trade discussions with both parties. The EU promotes trilateral discussions on trade to facilitate progress and will continue to engage with both sides to remove the obstacles to Palestinian trade.

7. STATISTICS

Merchandise trade EU28 2014-2018					
	2014	**2015**	**2016**	**2017**	**2018**
EU28 trade with Occupied Palestinian Territory (mio €)					
Imports	14	16	19	16	18
Exports	141	195	254	261	243
Balance	127	179	235	245	225
Share Occupied Palestinian Territory in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%

74 For more information see http://trade.ec.europa.eu/doclib/docs/2018/june/tradoc_156946.pdf

Share EU28 in trade Occupied Palestinian Territory with world

Imports	9,0%	11,7%	12,4%	13,7%	15,0%
Exports	2,1%	1,6%	1,9%	1,6%	2,5%
Total (I+E)	8,1%	10,1%	10,8%	11,8%	11,5%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Occupied Palestinian Territory: IMF Dots

Total merchandise trade EU28 with Occupied Palestinian Territory (mio €)

Occupied Palestinian Territory	2017	2018	Growth mio €	annual %
Imports	16	18	2	12,3%
Exports	261	243	-19	-7,1%
Balance	245	225	-21	
Total trade	278	261	-17	-6,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Occupied Palestinian Territory (mio €)

Occupied Palestinian Territory	2017	2018	Growth mio €	annual %
Imports	13	17	3	25,2%
Exports	60	60	0	0,1%
Balance	46	43	-3	
Total trade	73	77	3	4,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Occupied Palestinian Territory (mio €)

Occupied Palestinian Territory	2017	2018	Growth mio €	annual %
EU28 imports	3	1	-1	-49,2%
EU28 exports	202	183	-19	-9,2%
Balance	199	182	-17	
Total trade	204	184	-20	-9,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Occupied Palestinian Territory (mio €)

Occupied Palestinian Territory	2016	2017	Growth mio €	annual %
Imports	98	36	-62	-63,3%
Exports	70	78	8	11,2%
Balance	-28	42	70	
Total trade	168	113	-54	-32,3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Occupied Palestinian Territory (mio €)

	2013	2014	2015	2016	2017
Imports	37	31	39	98	36
Exports	47	58	73	70	78
Balance	10	28	35	-28	42
Total trade	84	89	112	168	113

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Occupied Palestinian Territory (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	3	5	13	14	15
Outward	15	16	17	24	28
FDI Flows					
Inward	-1	-0	2		1
Outward	-91	0	0	2	14

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-TUNISIA ASSOCIATION AGREEMENT

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 can 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 opened its market (with only one product subject to tariff rate quota) while the Tunisian market remains closed. In 2011, the EU and Tunisia signed a protocol establishing a Dispute Settlement Mechanism, which came into force. Both sides are currently discussing the steps to undertake in order to make the system operational.

The Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (PEM convention) was signed by Tunisia on 16 January 2013. The Convention seeks to provide a more unified framework for origin protocols. The EU hopes that Tunisia will grasp this opportunity and join the PEM revised rules that will strongly benefit Tunisian companies and help them to hook into new and profitable regional value chains.

Negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) with Tunisia were launched in Tunis in October 2015 and the first full round of negotiations took place in April 2016.

One of the main objectives of the negotiations is to support economic reforms in Tunisia and to bring Tunisian legislation closer to EU legislation in trade-related areas. This means atypical trade negotiations where the principles of asymmetry and progressiveness in favour of Tunisia guide both market access (especially in agriculture, services and investment) and regulatory approximation.

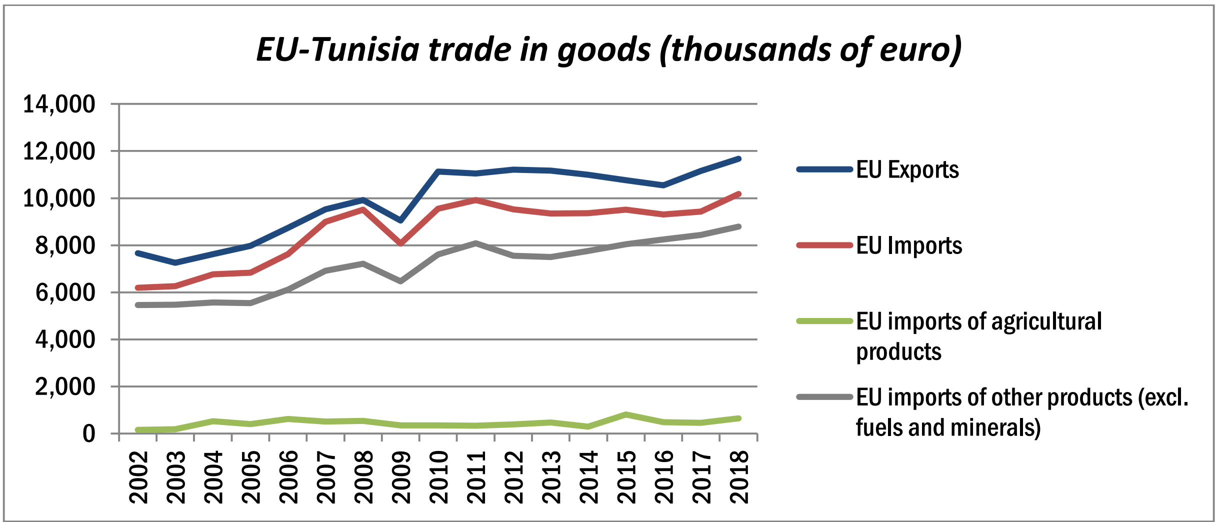
The first two rounds covered all chapters and were very constructive, which reaffirms the Tunisian commitment to the DCFTA. Ahead of the 2nd and the 3rd negotiating rounds, the EU submitted a number of new or updated negotiating texts, modified to take account of the latest legislative and policy developments.

The negotiations have been carried out in utmost transparency both on the EU side and on the Tunisian side. All EU initial proposals are public and civil society consultations are held in the margins of negotiating rounds, including jointly. Joint reports are also published after each round, including in Tunisia. After the third round (which took place in December 2018), good progress was made.

2. Evolution of trade

2.1 Trade in Goods

The EU is Tunisia's main trading partner and Tunisia is the 33rd trading partner for the EU – 4th in the Euro-Med region. In 2018, the EU accounted for 73% of Tunisian total exports of goods, and 53% of its total imports. Overall the EU accounted for 61% of Tunisia's total trade.



Trade in goods between the EU and Tunisia has increased significantly over the period since the Agreement entered into force: between 2002 and 2018, the total trade in goods increased by 58%, from €13.9 billion to €21.9 billion.

EU exports rose by 52% between 2002 and 2018, up to €11.7 billion. Between 2017 and 2018, they increased by 5%. In 2018, the EU mainly exported machinery and transport equipment (33%), manufactured products (23%), and fuels and mining products (15%).

EU imports rose by 65% since 2002, reaching €10.2 billion in 2018. Year-on-year, they increased by 8% in 2018. Tunisia's exports of non-fuel industrial products (machinery, transport equipment, textiles and clothing) increased steadily over the period, while the exports of agricultural products have remained at a comparatively low level, even though they have quadrupled since 2002. In 2018, EU imports consisted mainly of machinery and transport equipment (39%), miscellaneous manufactured articles (mainly textiles) at 34% and mineral fuels (7%).

Overall, the agreement has proven mutually beneficial. Tunisia's trade deficit with the EU is relatively small when compared to the one Tunisia has with China, Russia or Turkey – three countries, which make up for a far smaller share of Tunisia's total trade. Following a dip in 2008 due to the financial crisis, trade flows between the EU and Tunisia reached a plateau between 2011 and 2016, and then picked up more vigorously. Ongoing negotiations for the DCFTA aim at making room for further progress in trade between the EU and Tunisia, including further liberalisation of agricultural and fisheries' 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 Tunisia increased by 140% between 2003 and 2018, from €0.5 billion to nearly €1.2 billion.

Year-on-year, EU agricultural exports slightly decreased by 1.3%, from €555 million in 2017 to €547 million in 2018. The decrease was mainly due to a €39 million decrease in wheat exports, but exports grew for various other agricultural goods such as other cereals, live animals and beef.

Tunisia is by far the main origin for olive oil imports into the EU (69% of olive oil imports in 2018). EU agricultural imports increased by 44% from €459 million in 2017 to €662 million in 2018, driven by dynamic olive oil imports. Despite that increase, agri-food imports remained well below their 2015 level (€811 million).

The 56 700 tonne tariff rate quota (TRQ) for olive oil imports from Tunisia set out in the bilateral agreement was almost filled in 2018 (fill rate of 98%). The fill rate was intermediate for fresh oranges (31%) and low for prepared tomatoes (12%), wine and cut flowers (4%). Several quotas for Tunisian products were not utilised at all in 2018 (including wine with geographical indication, apricot pulp, new potatoes, natural honey and truffles).

2.4 Trade in Services and Investment[75]

Total **trade in services** between the EU and Tunisia decreased between 2010 and 2017, from €5.9 billion to €3.8 billion, 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 43% between 2010 and 2017 and EU exports of services to Tunisia falling by 20% over the same period. In 2017, the EU exported € 1.3 billion in services to Tunisia, compared to € 1.4 billion in 2016 and Tunisia exported € 2.5 billion in services to the EU compared to € 2.3 billion in 2016.

FDI flows remained relatively steady between 2013 and 2017, despite a slowdown of EU FDI in Tunisia, resulting in the total EU FDI stock of € 4.0 billion in Tunisia at the end of 2017. 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.[76]

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 80th out of 190 in the Doing Business 2018 ranking – up from the 88th place in 2017– with a distance to frontier (DTF)[77] score of 66.11 out of 100 – an improvement from the score of 2018 (64.60).

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75 For more information see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111593.pdf.

76 Tunisian Foreign Investment Promotion Agency, 2017.

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 last **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 geographical indications (GIs). Both Parties discussed Tunisian requests for a reintegration into the Generalized System of Preferences, an additional olive oil quota and a possibility to renew a quota for eels. The EU raised several SPS issues, notably regarding the exports of apples, live plants, and poultry products from the EU to Tunisia. Tunisia touched on the SPS issues related to its exports of fishery products and inquired about a possibility to export dairy products to the EU. The EU raised concerns about the increase of customs duties by Tunisia on some agricultural products and import restrictions on red meat and live animals.

The Tunisian authorities did not follow up in 2018 on the issue of exporting dairy products to the EU.

The **Sub-Committee on Customs Cooperation and Taxation** met in February 2017. Several issues were discussed covering both customs and taxation. On customs, the main issues considered were 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), the fight against counterfeiting goods, methods of mutual administrative assistance and preferential origin, including a state of play of the revision of the pan-euro-Mediterranean preferential rules of origin. On Taxation, Tunisia informed about the reform of its taxation rules. In general, both Parties agreed on the need to support Tunisian customs in preparing projects relating to customs legislation, as well as modernisation.

4. SPECIFIC AREAS OF IMPORTANCE

Tunisia's economic situation remains fragile. Multiple shocks, including the fall in EU demand for Tunisian products because of the economic crisis, the 2011 Revolution and the political transition that ensued, led to 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 continues to provide support to Tunisia and its authorities, and has been stepping up its political and financial support considerably since 2011.

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 Neighbourhood 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',[78] 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

[78] http://europa.eu/rapid/press-release_IP-16-3192_en.htm

concessions on agricultural market access under 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 concluded that Tunisia has achieved considerable progress in terms of regulatory alignment in the areas to be covered by the future DCFTA. Nevertheless, some challenges remain in terms of implementation of some key and of institutional capacity, such as for meeting the obligations in the field of competition and public aid, including transparency on the latter.

In addition to the benefits emitted from the deeper economic exchange, the EU provides substantial trade-related assistance to help Tunisia adjust to the new conditions of competition following the signature of the EU-Tunisia Association Agreement, as well as to adapt to the possible impact of the DCFTA agreement. Ongoing European projects provide not only assistance to wide range of Tunisian companies to increase their competitiveness on the local and international markets, but equally favour reforms and help upgrading the quality infrastructure which benefits Tunisian consumers. The signature of a new programme "*Programme d'appui à la compétitivité et aux exportations (PACE)*" in November 2018 shows ongoing European support to the industrial and agriculture sectors and complements another programme, the "*Programme d'Appui à la Compétitivité des Services (PACS)*" launched in 2016 which focuses mainly on the services sector. Upon request by the Tunisian authorities, the European Union also provides financial resources to hire technical expertise in order to understand the gap between the EU and the Tunisian legislation, the potential effect of the conclusion of the DCFTA agreement and the strategic orientations and eventual reforms to undertake. Current and recent projects include studies on public procurement, competition and state aid, postal services, the EU sanitary and phytosanitary requirements to protect human and animal health, Conformity Assessment and Acceptance of Industrial Products in the sectors identified by the Tunisian authorities.

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

Since the end of last year contentious trade issues between the EU and Tunisia have substantially increased. On 29 November 2018, without prior notice to private operators, Tunisia enforced by surprise a new restrictive measure imposing **import authorizations** on a very long list of products. The import authorizations should in theory be guided by objective technical specifications ("**cahier des charges"**) but these have not yet been defined and the Ministry of Trade intends to evaluate and decide on importation requests on a **case-by-case basis in the absence of specific criteria**. **Quantitative restrictions** are also being applied.
The measure imposes de facto **non-automatic import licenses** and appears to be a clear violation of Article 19 of the EU-Tunisia Association Agreement which **prohibits quantitative restrictions**. The new measure has not been notified to the WTO and appears contrary to WTO provisions.

The list includes many agricultural and agri-food products, textiles & clothing, cosmetics, leather products, shoes, toys, electrical goods.

- The products affected represent roughly 4**% of total EU exports** to Tunisia (€398 million in 2017).
- Key sectors affected (2017 EU export data): clothing €155 million, cosmetics €94 million, agri-food products €35 million, cleaning products €26 million, toys & sports €21 million, textile €17 million.
- Member States most affected: France €126 million (including €49 million in cosmetics); Italy €115 million (incl. €65 million in clothing), Spain €44 million.

All affected EU Member States clearly voiced their concerns and asked for a prompt resolution of this issue. A letter by Commissioner Malmström was addressed to the Tunisian Minister of Trade on 19/12/2018, calling for the elimination of the new measure as soon as possible. In his reply Tunisia trade minister reaffirms the compatibility of these measures with WTO rules and underlines the necessity of these measures for ensuring consumer protection. A reply to the Minister's letter has been sent on 12/02/2019 dismissing the Minister's arguments and suggesting in the immediate term ways to except EU exports in the application of the erga omnes measure (e.g. considering the CE mark as sufficient as well as suggesting discussions on other technical options for products not covered by CE mark).

This issue was also debated at length during the trade sub-committee meeting that took place on 28 February 2019 in Tunis, during the WTO licence committee meeting on 4 April in Geneva and during the Association committee meeting on 11 April. The EU raised again the issue during the Association Council meeting in May 2019. In July 2019, following bilateral cooperation efforts and extensive calls for the withdrawal of these measures, the Tunisian government informed that it cancelled the import restrictive authorisation measures as of 26 July 2019).

Several other open issues include:

- ✓ technical and administrative difficulties met by EU exporters on pharmaceutical products, ceramic tiles, tyres and cars
- ✓ Export declaration requested to EU operators.
- ✓ longstanding SPS issues related to exports of apples.

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.

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 (notably related to the exlusion of agricultural products), 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.

DCFTA talks take place at delicate political times in Tunisia ahead of two elections in Tunisia: parliamentary and presidential elections. These are scheduled for October and December 2019, respectively. After four full rounds some texts have been practically closed at technical level (GIs and most of the IP text), while for other texts more than 60% of provisions have been agreed (this is the case for sustainable development, competition, digital trade). Good progress has also been made on TBT, SPS and trade facilitation. In other areas, progress is slower, (e.g. public procurement). Some texts have led to intense debates with civil society in Tunisia (e.g. intellectual property).

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Tunisia (mio €)					
Imports	9.365	9.506	9.309	9.433	10.179
Exports	10.992	10.758	10.550	11.163	11.676
Balance	1.627	1.252	1.241	1.731	1.497
Share Tunisia in EU28 trade with Extra-EU28					
Imports	0,6%	0,6%	0,5%	0,5%	0,5%
Exports	0,6%	0,6%	0,6%	0,6%	0,6%
Total (I+E)	0,6%	0,6%	0,6%	0,6%	0,6%
Share EU28 in trade Tunisia with world					
Imports	52,5%	55,2%	54,4%	54,0%	53,4%
Exports	77,8%	78,1%	77,5%	74,3%	73,3%
Total (I+E)	62,4%	64,3%	63,7%	62,3%	61,5%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Tunisia: IMF Dots

Total merchandise trade EU28 with Tunisia (mio €)

Tunisia	2017	2018	Growth mio €	Growth annual %
Imports	9.433	10.179	747	7,9%
Exports	11.163	11.676	513	4,6%
Balance	1.731	1.497	-234	
Total trade	20.596	21.855	1.260	6,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Tunisia (mio €)

Tunisia	2017	2018	Growth mio €	Growth annual %
Imports	459	662	203	44,2%
Exports	555	547	-7	-1,3%
Balance	96	-114	-210	
Total trade	1.014	1.209	195	19,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Tunisia (mio €)

Tunisia	2017	2018	Growth mio €	Growth annual %
EU28 imports	8.974	9.517	544	6,1%
EU28 exports	10.609	11.129	520	4,9%
Balance	1.635	1.611	-24	
Total trade	19.582	20.646	1.064	5,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Tunisia (mio €)

Tunisia	2016	2017	Growth mio €	Growth annual %
Imports	2.253	2.451	197	8,8%
Exports	1.359	1.329	-29	-2,1%
Balance	-895	-1.121	-227	
Total trade	3.612	3.780	168	4,7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Tunisia (mio €)

	2013	2014	2015	2016	2017
Imports	3.630	3.511	3.310	2.253	2.451
Exports	1.492	1.135	1.401	1.359	1.329
Balance	-2.138	-2.376	-1.909	-895	-1.121
Total trade	5.122	4.646	4.711	3.612	3.780

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Tunisia (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	170	248	246	284	357
Outward	2.945	4.307	4.026	4.181	4.019
	FDI Flows				
Inward	-92	-25	-43	39	52
Outward	92	754	503	734	351

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FIRST GENERATION FREE TRADE AGREEMENTS WITH THE WESTERN BALKAN PARTNERS

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[79]. 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 liberalised 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 liberalised (with very few exceptions). On the other hand, EU agricultural exports to Albania are subject to tariffs and tariff rate quotas (TRQs).

The Agreement also includes provisions concerning competition matters, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the entry into force of the full SAA on 1 April 2009, a number of additional disciplines are being implemented concerning, notably, government procurement, legislative approximation in many areas including standardisation, as well as provisions regarding services and establishment.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

Total bilateral trade between the EU and Albania increased by 10% between 2017 and 2018 reaching a total of **€5 billion**. This represents a 150% increase in trade since the implementation of the trade agreement in 2006. The EU remains Albania's first trading partner accounting for 76% of total exports and 62% of total imports of goods. More specifically, Germany, Greece, Italy, and Spain are responsible for 73% of the EU's exports to Albania and 85% of the EU's imports from Albania. The main traded products concern the following sectors: machinery and appliances; footwear; hats and other headgear; textiles and textile articles and mineral products. The overall trade balance is in favour of the EU, which has enjoyed a stable surplus of €1.4 billion over the last 3 years, which is partly offset by a small surplus in the balance of services.

[79] See http://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/ for more information

2.2 Trade in agricultural goods

In 2018, trade in agricultural products increased by 8% reaching a total of **€500 million**, which represents 10% of the total bilateral trade. Only 5% of Albania's exports to the EU are agricultural products versus 13% of all EU's exports to Albania. However, another 5% of Albania's exports include fishery products versus only 2% for the EU. The EU imported mainly edible vegetables, fruits and nuts, and oil seeds and oleaginous fruits from Albania and exported primarily beverages, food preparations and tobacco to Albania.

A limited share of the EU-Albania agricultural trade is subject to duty-free Tariff Rate Quotas (TRQs). Three out of five TRQs granted by Albania were fully utilised by EU exporters whereas two were not used or almost not used in 2018. On the EU side, the two TRQs in place for wine and sugar suffered again a low uptake from Albanian exporters in 2018 (see table below.

TRQ identification		TRQ availability	TRQ use
Code	**Description of goods**	**Weight**	**Weight**
04011010	Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, not exceeding 1 %, in immediate packings of a net content not exceeding two litres	790 tonnes	789.80 tonnes
04012011	Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, not exceeding 3 %, in immediate packings of a net content not exceeding two litres		
04012091	Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, exceeding 3 %, in immediate packings of a net content not exceeding two litres		
10019120	Common wheat and meslin	42,000 ton	471.61 tonnes
10019900	Other		
10059000	Maize (except seeds)	10,000 ton	0 tonne
220410	Sparkling wine	10,000 HL	10,000 HL
220421	In containers holding 2 litres or less		
21032000	Tomato ketchup and other tomato sauces	60 tonnes	60 tonnes

2.3 Trade in Services and Foreign Direct investment (FDIs)

Total bilateral trade in services increased by 4% in 2017, reaching a total of **€1.6 billion**. Albania enjoys a small surplus of €78 million in its trade in services with the EU, mainly resulting from a continued solid growth of its foreign tourism. This is also reflected in the increasing share of services in Albania's total trade of goods and services with the EU, which grew from 28% in 2016 to 33% in 2017. In contrast, trade in services only make up 20% of the EU's total trade in goods and services with Albania.

The EU remains the main source of Foreign Direct investment into Albania holding over half of the total FDI stock (€5.5 billion) by end of 2017. The main EU countries investing in Albania are Greece, the Netherlands, Italy, Austria and France. EU FDI inflows to Albania were modest in 2017, reaching only just €100 million.

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 meeting took place 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.

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 remain essential issues that affect EU companies doing business in Albania. Although the procurement legislation improved over the last period, the implementation of public procurement still needs to be improved and be made more transparent. In addition, the enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to the adoption of legislation and enforcement in the field of state aid control, including transparency of aid granted.

Equally, progress of the ongoing judicial and institutional reforms has yet to be translated into a more favourable business environment. In spite of measures taken to address the informal economy, it is estimated to account for about one third of GDP causing unfair competition in the market. Lack of effective regulatory implementation of legislation, ad-hoc regulatory changes are also major concerns raised by the business community.

Some positive outcome is expected from the ongoing implementation of the activities planned in the country's National Plan on Trade Facilitation. Furthermore, the acceleration of the European integration progress is also expected to 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 more than doubled their total trade since the entry into force of the trade agreement. The EU is Albania's main trading partner, accounting for 76% of total exports and 62% 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 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. A big milestone was in fact reached on 4 April 2019 when Ministers of Telecommunications from the Western Balkans signed a Regional Roaming Agreement that envisages a roaming-free region across the Western Balkans in 2021, also paving the way for further reductions of the roaming costs between the Western Balkans economies and the European Union.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Albania (mio €)					
Imports	1.246	1.165	1.290	1.503	1.757
Exports	2.468	2.519	2.706	2.989	3.195
Balance	1.222	1.355	1.415	1.486	1.438
Share Albania in EU28 trade with Extra-EU28					
Imports	0,1%	0,1%	0,1%	0,1%	0,1%
Exports	0,1%	0,1%	0,2%	0,2%	0,2%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Albania with world					
Imports	60,5%	61,1%	63,2%	61,5%	61,6%
Exports	73,8%	72,1%	77,9%	77,2%	76,4%
Total (I+E)	64,8%	64,5%	67,5%	66,2%	66,5%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Albania: IMF Dots

Total merchandise trade EU28 with Albania (mio €)

Albania	2017	2018	Growth mio €	Growth annual %
Imports	1.503	1.757	253	16,9%
Exports	2.989	3.195	206	6,9%
Balance	1.486	1.438	-48	
Total trade	4.492	4.952	459	10,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Albania (mio €)

Albania	2017	2018	Growth mio €	Growth annual %
Imports	79	90	12	14,7%
Exports	389	417	28	7,3%
Balance	310	327	17	
Total trade	468	508	40	8,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Albania (mio €)

Albania	2017	2018	Growth mio €	Growth annual %
EU28 imports	1.424	1.666	242	17,0%

EU28 exports	2.600	2.778	178	6,8%
Balance	1.176	1.112	-64	
Total trade	4.025	4.444	419	10,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Albania (mio €)

Albania	2016	2017	Growth mio €	Growth annual %
Imports	813	858	45	5,6%
Exports	764	780	16	2,1%
Balance	-49	-78	-29	
Total trade	1.577	1.638	61	3,9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Albania (mio €)

	2013	2014	2015	2016	2017
Imports	686	730	723	813	858
Exports	629	722	724	764	780
Balance	-57	-8	1	-49	-78
Total trade	1.315	1.452	1.446	1.577	1.638

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Albania (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	-21	50	-109	198	168
Outward	2.504	5.723	5.920	5.430	5.456
	FDI Flows				
Inward	-84	21	-160	243	1
Outward	266	162	189	-177	96

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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. 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 liberalised (with very few exceptions). On the other hand, EU agricultural exports to Bosnia and Herzegovina are subject to tariffs and tariff rate quotas (TRQs).

The Agreement also includes provisions concerning competition and State aid, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the entry into force of the full SAA on 1 June 2015, a number of additional disciplines are being implemented concerning, notably, government procurement, legislative approximation in many areas including standardisation, as well as provisions regarding services and establishment.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

Total bilateral trade between the EU and Bosnia and Herzegovina increased by 5% between 2017 and 2018 reaching a total amount of **€11 billion**. This represents a modest increase of 38% since the implementation of the trade agreement in 2008. The EU remains Bosnia and Herzegovina's first trading partner accounting for 73% of total exports and 61% of total imports of goods. More specifically, Croatia, Italy, Germany and Slovenia are responsible for 67% of the EU's exports to Bosnia and Herzegovina and for 68% of the EU's imports from Bosnia and Herzegovina. The main traded products concern the following sectors: machinery and appliances; base metals and articles thereof and mineral products. The overall trade balance is in favour of the EU, however, last year Bosnia and Herzegovina reduced the deficit to its lowest since 2008 at €1.45 billion.

2.2 Trade in agricultural goods

In 2018, trade in agricultural products increased by 2.6% - on both imports and exports - reaching a total of **€1.1 billion**, which represents 10% of the total bilateral trade. Only 4.5% of Bosnia and Herzegovina's exports to the EU are agricultural products versus 14% of all

EU's exports to Bosnia and Herzegovina. The EU imported mainly fruits and vegetables; raw hides, skins and fur and waters and soft drinks while its main exports to Bosnia and Herzegovina included meat, chocolate, confectionary and ice cream; food preparations; cheese and wheat.

A limited share of EU-Bosnia and Herzegovina agricultural trade is subject to duty-free Tariff Rate Quotas (TRQs).

Data on the utilisation of the TRQs have been provided by Bosnia and Herzegovina authorities and are included in Section 7 Statistics.

The EU grants very few agricultural TRQs to Bosnia and Herzegovina: beef (not used by exporters from the country, mainly due to SPS reasons: Bosnia and Herzegovina is indeed not authorised to export beef to the EU), sugar (37% used in 2018) and wine (85% used for sparkling wine and 62% for fresh wine in 2018).

2.3 Trade in Services and Foreign Direct investment (FDIs)

In 2017, Bosnia and Herzegovina's exports of services to the EU dropped by nearly 11% since 2016 causing it to lose its positive balance with the EU. Overall total bilateral trade in services dropped by 5% from €2.2 billion to **€2.1 billion**.

Nearly 63% of the country's stock in FDI is originating from EU countries with total stocks amounting to €2.1 billion. Most of the investment is concentrated in the financial sector, retail and tourism. The biggest EU investors in 2017 were Austria (24%), followed by Croatia (13%) and Slovenia (13%). Recently, inflows increasingly consisted of reinvested earnings while the net EU outflows show a divestment of up to €0.9 billion. The legal framework provides in principle favourable treatment and protection guarantees for FDI. There are no restrictions on FDI entry and few limitations on foreign ownership; however, the low level of FDI flows (the lowest in the Western Balkans) reflects the reality of the country's poor and fragmented business environment.

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 latest meeting took place on 18 October 2018, during which the 13% growth of the bilateral trade in 2017 was welcome, particularly as bilateral trade for the first time reached the €10 billion threshold. 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.
- ✓ **Business environment**: the EU urged the country to address key issues faced by businesses: tackling infrastructure bottlenecks; improving the complex and inefficient

administrative structures, in particular to unify the fragmented economic space, and also curbing the high political and regulatory uncertainty.

Commission took note of Bosnia and Herzegovina's concerns regarding the EU steel provisional safeguard measures and reiterated that the key objective was to avoid any disruption of the traditional trade flows. It indicated that bilateral consultations in the framework of the SAA would be held before the end of 2018.

4. Specific areas of importance

The **business environment** is a key area of importance, in particular:

- ✓ **Market entry and exit regulations** are lengthy and cumbersome, in particular, as the high degree of regional fragmentation leads to a high number of different rules and different interpretations.
- ✓ The large size of the **informal economy** - estimated at 25% of GDP - distorts competition and has a negative impact on the business environment.
- ✓ The **institutional** and **regulatory environment** is unstable and unpredictable. Contract enforcement is a very time consuming procedure and settling commercial disputes remains difficult, partly due to the missing possibilities of alternative dispute resolution methods but also due to a lack of courts specialised on commercial disputes.
- ✓ **Public procurement** procedures are complex and prone to corruption.
- ✓ Lack of adequate enforcement of **State aid** control.

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 and the informal economy 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. In line with SAA obligations, enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control.

Furthermore, in November 2018, Kosovo imposed a 100% import tariff for goods originating from Serbia and Bosnia and Herzegovina, indirectly affecting EU businesses operating in Bosnia and Herzegovina and trading in the region. These measures are politically motivated and the EU has repeatedly called on their termination.

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. Despite the 100% tariffs imposed by Kosovo, which have recently undermined regional cooperation efforts, a big milestone was reached on 4 April 2019 when Ministers of Telecommunications from the Western Balkans signed a Regional Roaming Agreement. This Agreement envisages a roaming-free region across the Western Balkans in 2021, also paving the way for further reductions of the roaming costs between the Western Balkans economies and the European Union.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Bosnia-Herzegovina (mio €)					
Imports	3.330	3.493	3.782	4.256	4.629
Exports	5.024	5.077	5.254	5.921	6.083
Balance	1.694	1.584	1.473	1.665	1.454
Share Bosnia-Herzegovina in EU28 trade with Extra-EU28					
Imports	0,2%	0,2%	0,2%	0,2%	0,2%
Exports	0,3%	0,3%	0,3%	0,3%	0,3%
Total (I+E)	0,2%	0,2%	0,3%	0,3%	0,3%
Share EU28 in trade Bosnia-Herzegovina with world					
Imports	58,7%	60,7%	61,7%	61,2%	60,6%
Exports	73,4%	73,3%	71,5%	71,2%	72,9%
Total (I+E)	63,8%	65,1%	65,3%	64,9%	65,3%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Bosnia-Herzegovina: IMF Dots

Total merchandise trade EU28 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2017	2018	Growth mio €	Growth annual %
Imports	4.256	4.629	373	8,8%
Exports	5.921	6.083	161	2,7%
Balance	1.665	1.454	-211	
Total trade	10.178	10.712	534	5,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2017	2018	Growth mio €	Growth annual %
Imports	203	208	5	2,6%
Exports	829	851	22	2,6%
Balance	627	643	16	
Total trade	1.032	1.059	27	2,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2017	2018	Growth mio €	Growth annual %
EU28 imports	4.054	4.421	367	9,1%
EU28 exports	5.092	5.232	140	2,7%
Balance	1.038	811	-228	
Total trade	9.146	9.653	507	5,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Bosnia-Herzegovina (mio €)

Bosnia-Herzegovina	2016	2017	Growth mio €	Growth annual %
Imports	1.138	1.014	-124	-10,9%
Exports	1.099	1.108	9	0,8%
Balance	-39	94	133	

Total trade	2.237	2.122	-115	-5,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Bosnia-Herzegovina (mio €)

	2013	2014	2015	2016	2017
Imports	835	901	895	1.138	1.014
Exports	1.034	980	945	1.099	1.108
Balance	200	78	51	-39	94
Total trade	1.869	1.881	1.840	2.237	2.122

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Bosnia-Herzegovina (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	64	102	174	89	81
Outward	3.059	2.455	3.395	3.410	2.161
FDI Flows					
Inward	30	7	38	64	60
Outward	70	-414	465	574	-941

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Fill rates of Bosnia-Herzegovina TRQs (all TRQs are duty free).

Agricultural TRQs	***Product codes***	**Size of the TRQ (tonnes)**		**TRQ usage (2017)**	**TRQ usage (2018)**
		As of 1.1.2017	**As of 1.1.2018**		
Beef	*0102 10 10*	2200	2200	11%	9%
	0102 29 61	1935	1935	51%	33%
	0102 29 91	190	190	15%	21%
	0102 90 49	2600	2600	8%	32%
	0202 30 90	4000	4000	56%	51%
Pork	*0103 91 90*	700	700	90%	91%
	0103 92 11	575	575	0%	
	0103 92 19	1755	1755	20%	33%
	0103 92 90	195	195	29%	0%
	0203 19 15	1200	1200	56%	73%
	0203 22 11	300	300	0%	0%
	0203 29 55	2000	2000	80%	80%
	0209 00 11	100	100	82%	71%
	0210 19 81	600	600	68%	71%
Lamb	*0104 10 30*	450	450	110%	
Poultry	*0105 94 00*	1455	1455	0%	
	0207 12 90	80	80	10%	
	0207 13 10	90	90	0%	
	0207 13 30	55	55	0%	
	0207 13 60	320	320	0%	
	0207 13 99	25	25	0%	
	0207 14 20	30	30	0%	157%
	ex 0207 14 10	6000	6000	78%	72%
	0207 14 60	130	130	0%	

	0207 14 99	50	50	58%	52%
Fish	*0301 93 00*	75	75		100%
Milk and cream	*0401 20 11*	5432	9506	65%	51%
	0401 20 91	720	1440	26%	18%
	0401 40 10	80	80	220%	100%
	0401 50 11	30	30	347%	100%
	0402 21 18	25	25	40%	30%
	0403 10 11	1515	3030	134%	70%
	0403 10 13	1520	3040	28%	15%
	0403 10 91	480	480	176%	71%
	0403 10 93	130	130	98%	76%
	0403 10 99	25	25	124%	61%
	0403 90 51	500	500	41%	48%
	0403 90 53	290	290	264%	100%
	0403 90 59	1762,5	3525	97%	39%
	0403 90 91	530	530	254%	71%
	0403 90 93	55	55	172%	88%
Butter	*0405 10 11*	160	160	494%	88%
	0405 10 19	200	200	24%	45%
Cheese	*0406 10 30* *0406 10 50*	355	355	347%	94%
	0406 10 80	165	165	85%	53%
Honey	*0409 00 00*	165	165	71%	50%
Potatoes	*0701 90 50*	50	50	1300%	0%
	0701 90 90	1265	1265	75%	56%
Cabbage	*0704 90 10*	280	280	26%	0%
Carrots and turnips	*0706 10 00*	50	50	542%	0%
Grapes	*0806 10 10*	45	45	4637%	15%
Cherries	*0809 21 00*	410	410	10%	67%
	0811 90 75	70	70	141%	100%
Sausages	*1601 00 91*	285	285	107%	74%
	1601 00 99	1692,5	3385	61%	41%
	1602 10 10	75	75	7%	0%
	1602 20 90	140	140	86%	59%
	1602 31 19	40	40	8%	37%
	1602 32 11	130	130	0%	
	1602 32 19	30	30	303%	83%
	1602 32 30	170	170	78%	41%
	1602 32 90	230	230	2%	0%
	1602 41 10	360	360	21%	13%
	1602 49 15	150	150	0%	0%
	1602 49 30	445	445	93%	66%
	1602 49 50	60	60	0%	
	1602 50 31	70	70	21%	28%

	1602 50 95	295	295	56%	24%
Sugar	*1701 91 00*	55	55	360%	94%
	1701 99 10	3470	3470	56%	74%
Biscuits	*1905 31 19*	365	365	92%	18%
	1905 31 99	600	600	73%	46%
	1905 32 19	300	300	49%	47%
	1905 90 45	35	35	811%	59%
Vegetables, fruits and nuts	*2001 10 00*	265	265	9%	19%
	2001 90 70	70	70	1%	6%
	2005 99 50	245	245	52%	30%
	2005 99 60	40	40	98%	5%
Wine (hl)	*ex 2204 10* *ex 2204 21*	13765	19530	110%	85%
Spirits	*ex 2208 20 29*	85	85	6%	
Tobacco	*2402 20 90*	3200	3200	30%	24%

Source: Bosnia and Herzegovina authorities

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE STABILISATION AND ASSOCIATION AGREEMENT BETWEEN THE EU AND NORTH MACEDONIA

1. INTRODUCTION

On 9 April 2001, the EU and North Macedonia signed a Stabilisation and Association Agreement (SAA). The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans countries 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 North Macedonia was completed over a period of ten years. The Agreement covers products in all Chapters of the Harmonised System.

Regarding agricultural products the agreement is largely asymmetrical. EU agricultural imports from North Macedonia are almost completely liberalized (with very few exceptions). On the other hand, EU agricultural exports to North Macedonia are subject to tariffs and Tariff Rate Quotas (TRQs).

The Agreement also includes provisions concerning competition matters, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the full entry into force of SAA, a number of additional disciplines are being implemented concerning, notably, government procurement, legislative approximation in many areas including standardisation, as well as provisions regarding services and establishment.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

Total bilateral trade between the EU and North Macedonia increased by 14% between 2017 and 2018 reaching a total amount of **€10.5 billion**. This represents a significant increase of 128% in the last ten years. The EU remains North Macedonia's first trading partner accounting for 82% of total exports and 62% of total imports of goods. More specifically, Bulgaria, Germany, Greece and Hungary are responsible for 71% of the EU's imports from North Macedonia and for 51% of the EU's exports to North Macedonia. The United Kingdom accounts for less than 2% of the EU's imports from North Macedonia but makes up 17% of total EU exports to the country, behind Germany (22%). The main imported products from North Macedonia are machinery and appliances; products of the chemical or allied industries and mineral products. The EU mainly exports machinery and appliances; pearls, precious metals and articles thereof and mineral products. The overall trade balance is in favour of the EU, however, it is gradually decreasing: from a peak of €1.3 billion in 2012 it is now around €0.6 billion.

2.2 Trade in agricultural goods

In 2018, trade in agricultural products increased by 5% reaching a total of **€700 million**, representing 6% of the total bilateral trade. Trade in agricultural products has gradually decreased since the application of the trade agreement when it represented nearly 12% of the total bilateral trade. The individual share of agricultural exports over total exports in 2018 was about 6% on both sides. Tobacco, vegetables, wine and preparations of cereals, flour, starch were the EU's key import products. The EU exported primarily meat followed by food preparations to North Macedonia.

For a number of agricultural products, EU exports to North Macedonia are subject to Tariff rate quotas (TRQs), either duty-free or at a reduced customs duty rate. No information was provided by North Macedonia on the use of the quotas. The EU grants three agricultural TRQs to North Macedonia (wine, beef and sugar) which were almost fully used for wine but unused for sugar and beef by exporters from North Macedonia in 2018.

2.3 Trade in Services and FDI

In 2017, total bilateral trade in services dropped by 8% from €2.1 billion to **€1.9 billion**. While the services sector accounts for over half of the country's employment and over 60% of GDP, it only represents 13% of the value of North Macedonia's export basket to the EU and has remained stable over the past two years at around €750 million. The main services sectors exported by North Macedonia are tourism and transport, followed by services to manufacturing companies, telecommunications and computer and other information services. On the other hand, in 2017, the EU's exports of services to North Macedonia contracted by more than 12% levelling at €1.2 billion, which represents 18% of the EU's total trade in goods and services with the country.

In the past two years, EU firms increased their share in the country's stock of foreign investment from 79% in 2016 to 82% in 2017 reaching a combined total stock of **€2.5 billion**. However, in 2017, the country experienced a slump in investment spending (-€2 million) impacted by a decline in confidence, resulting from the prolonged political crisis. The large informal economy and challenges in the labour market, including insufficiently high managerial skills negatively affect private investment behaviour.

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 13 November 2018, during which the continuing growth of the bilateral trade was positively noted as well as the very high level of utilisation of quotas. Information was exchanged on the legislative alignment to the external trade acquis, on the administrative capacity for various trade competencies and on relevant WTO matters. The country's overall smooth implementation of the trade agreement was again welcome as well as its good co-operation in the context of WTO-related activities.

Commission took note of North Macedonia's concerns regarding the EU steel provisional safeguard measures and reiterated that the key objective was to avoid any disruption of the traditional trade flows. It indicated that bilateral consultations in the framework of the SAA would be held before the end of 2018.

4. SPECIFIC AREAS OF IMPORTANCE

The business environment is a key area of importance. Challenges for doing business in North 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. In addition, the size of the informal economy, -estimated at about 17% of total output in 2016- which creates unfair competition from unregistered companies and the entrenched corruption are defined by companies as major obstacles to doing business.

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 2019-2021 Economic Reform Programme, the government rolled over the measure on trade facilitation aimed at simplifying inspections and clearance procedures, which has the potential to improve competitiveness. Actions include the speeding up of 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.

In addition, the new Public Procurement Law, enacted early 2019, is expected to increase transparency and predictability on the market. By publishing public procurement plans electronically and in advance, the number of bidders per tender is expected to rise allowing for better quality and increasing competition. Finally, enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control, including transparency of aid granted.

6. CONCLUSIONS

North Macedonia and the EU are very close and growing trade partners having more than doubled their total trade in the last ten years. The EU is the country’s main trading partner, accounting for 82% of its total exports and 62% of its total imports of goods. While the trade agreement is generally implemented smoothly by North 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, and the possible opening of EU accession negotiations in the summer 2019, are expected to give further impetus to major reforms and consequently have a positive impact on the investment and business climate in North 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 to, has the potential to generate untapped growth. A big milestone was in fact reached on 4 April 2019 when Ministers of Telecommunications from the Western Balkans signed a Regional Roaming Agreement that envisages a roaming-free region across the Western Balkans in 2021, also paving the way for further reductions of the roaming costs between the Western Balkans economies and the European Union.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with North Macedonia (mio €)					
Imports	3.019	3.365	3.722	4.251	4.928
Exports	3.818	4.114	4.450	4.970	5.564
Balance	800	749	727	719	635
Share North Macedonia in EU28 trade with Extra-EU28					
Imports	0,2%	0,2%	0,2%	0,2%	0,2%
Exports	0,2%	0,2%	0,3%	0,3%	0,3%
Total (I+E)	0,2%	0,2%	0,2%	0,2%	0,3%
Share EU28 in trade North Macedonia with world					
Imports	63,1%	61,7%	62,0%	62,9%	62,4%
Exports	75,5%	75,7%	79,9%	81,2%	82,3%
Total (I+E)	68,1%	67,5%	69,4%	70,6%	71,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade North Macedonia: IMF Dots

Total merchandise trade EU28 with North Macedonia (mio €)

North Macedonia	2017	2018	Growth mio €	Growth annual %
Imports	4.251	4.928	677	15,9%
Exports	4.970	5.564	594	11,9%
Balance	719	635	-83	
Total trade	9.221	10.492	1.271	13,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with North Macedonia (mio €)

North Macedonia	2017	2018	Growth mio €	Growth annual %
Imports	276	284	8	2,9%
Exports	369	395	26	7,1%
Balance	93	112	18	
Total trade	645	679	34	5,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with North Macedonia (mio €)

North Macedonia	2017	2018	Growth mio €	Growth annual %
EU28 imports	3.975	4.644	669	16,8%
EU28 exports	4.601	5.168	567	12,3%
Balance	625	524	-102	
Total trade	8.576	9.813	1.236	14,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with North Macedonia (mio €)

North Macedonia	2016	2017	Growth mio €	Growth annual %
Imports	754	747	-6	-0,8%
Exports	1.353	1.186	-167	-12,4%
Balance	599	438	-161	
Total trade	2.107	1.933	-174	-8,2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with North Macedonia (mio €)

	2013	2014	2015	2016	2017
Imports	507	567	608	754	747
Exports	739	857	1.008	1.353	1.186
Balance	232	290	400	599	438
Total trade	1.246	1.424	1.616	2.107	1.933

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with North Macedonia (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	-154	-51	-21	-37	-40

Outward	1.967	2.050	2.636	2.468	2.449
FDI Flows					
Inward	-0	92	4	-24	16
Outward	232	112	110	206	-2

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-KOSOVO[80] STABILISATION AND ASSOCIATION AGREEMENT

1. INTRODUCTION

On 27 October 2015, the EU and Kosovo signed a Stabilisation and Association Agreement (SAA). The SAA is the prime instrument of the EU's overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans partners, including Kosovo, have a European perspective.

The SAA - including the trade-related part - entered into force on 1 April 2016 and foresees:

- Upgrading the existing trade relations by gradual establishment of a free trade area over a period lasting a maximum of 10 years.
- Almost unrestricted market access to the EU for 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

Total bilateral trade between the EU and Kosovo increased by 15% between 2017 and 2018 reaching a total amount of **€1.1 billion**. Since the implementation of the trade agreement in 2016, total bilateral trade has increased by 32% but only to the advantage of the EU as Kosovo's trade with the EU was lower in 2018 (€101 million) than in 2015 (€104 million). The EU is Kosovo's first trading partner accounting for 31% of total exports and 43% of total imports of goods. More specifically, Germany, the Netherlands and Poland absorb 53% of the EU's imports from Kosovo while Germany, Slovenia, Italy and Croatia are responsible for 54% of the EU's exports to Kosovo. The main imported products from Kosovo are plastics, rubber and articles thereof; vegetable products and mineral products. The EU mainly exports machinery and appliances; foodstuffs, beverages, tobacco and transport equipment. The

[80] The designation is without prejudice to position on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of independence.

overall trade balance is overwhelmingly in favour of the EU, and further increasing from €0.8 billion in 2016 to €0.9 billion in 2018.

2.2 Trade in agricultural goods

In 2018, 25% of all EU's imports from Kosovo were agricultural products versus 24% of all EU's exports to Kosovo. While the EU exports increased by 9%, imports from Kosovo remained unchanged from the previous year. Fruits and non-edible products such as raw hides, skins and fur-skins were the EU's key import products from Kosovo, on the other hand the EU exported primarily meat and meat preparations, dairy products, cigarettes and beverages.

The EU grants two tariff rate quotas (TRQs) to Kosovo (wine and beef) which in the case of beef was not used by Kosovo's exporters as the country is not yet authorised to export beef to the EU for SPS reasons; while in the wine quota was taken up by 57% for still wine but almost unused for sparkling wine.

2.4 Trade in Services and Foreign Direct investment (FDIs)

The service sector continues to dominate the economy in terms of GDP and it is the fastest growing export sector for Kosovo. Export of services are dominated by travel services to diaspora, but the role of IT and other business services increased, reaching almost 10% of total service exports in 2018.

The EU remains the main investor in Kosovo. The EU share stood at 36% of net FDI stock in the third quarter of 2018. Germany, which has a large Kosovar diaspora - accounted for 11% of the total. In terms of FDI flows, the share of the EU was at 47% of the total inflow in 2018, followed by 30% from Switzerland.

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 14 June 2018, during which trading trends were discussed as well specific issues such as the need for Kosovo to adopt legislation taking into account losses during the transportation of goods, in particular related to the evaporation of petroleum.

4. Specific areas of importance

The business environment is struggling with a weak rule of law and corruption, a lack of transparency of public procurement procedures, slow and inconsistent contract enforcement, and a widespread informal economy.

5. Main open issues and follow-up actions

The 21 November 2018 decision by Kosovo to impose **100% import tariffs** for goods originating in Serbia and Bosnia and Herzegovina is indirectly affecting EU businesses established in these two countries and trading with Kosovo. These tariffs are in violation of the Central European Free Trade Agreement (CEFTA) and of the spirit of the Stabilisation and Association Agreement between the European Union and Kosovo. The EU has been

calling on Kosovo to urgently lift these measures, while also proposing its support to mediate in the resolution of the regional trade issues.
On 9 October 2018, Kosovo government adopted a decision, which introduced a **double excise tax regime for cigarettes**, differentiating between domestically produced and imported products. This new excise regime is in clear violation of Article 39 of the SAA prohibiting fiscal discrimination and is being addressed in the different SAA subcommittee structures with a call on Kosovo to bring the legislation in line with the SAA.

Enforcement of competition rules also needs to be enhanced, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control.

Finally, the high administrative costs linked to procedural, quality, logistical and **border barriers** are affecting EU businesses doing business in Kosovo and are closely monitored and followed up through the SAA multidisciplinary subcommittee structures.

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 30% 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. Despite the 100% tariffs imposed by Kosovo, which have recently undermined regional cooperation efforts, a big milestone was reached on 4 April 2019 when Ministers of Telecommunications from the Western Balkans signed a Regional Roaming Agreement. This Agreement envisages a roaming-free region across the Western Balkans in 2021, also paving the way for further reductions of the roaming costs between the Western Balkans economies and the European Union.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Kosovo (mio €)					
Imports	96	104	72	89	101
Exports	728	764	854	906	1.044
Balance	632	660	782	818	944
Share Kosovo in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,1%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Kosovo with world					
Imports	43,4%	43,5%	43,1%	43,1%	43,0%
Exports	25,0%	24,8%	22,6%	25,0%	30,6%
Total (I+E)	41,3%	41,4%	41,0%	41,1%	41,8%

25-mars-19

Source Trade G2 Statistics/ISDB
Trade EU28: Eurostat COMEXT; Trade Kosovo: IMF Dots

Total merchandise trade EU28 with Kosovo (mio €)

Kosovo	2017	2018	Growth

			mio €	annual %
Imports	89	101	12	13,0%
Exports	906	1.044	138	15,2%
Balance	818	944	126	
Total trade	995	1.145	149	15,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Kosovo (mio €)

Kosovo	2017	2018	Growth	
			mio €	annual %
Imports	25	25	0	-0,8%
Exports	233	254	21	9,2%
Balance	207	229	22	
Total trade	258	279	21	8,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Kosovo (mio €)

Kosovo	2017	2018	Growth	
			mio €	annual %
EU28 imports	63	75	12	18,6%
EU28 exports	674	790	116	17,3%
Balance	610	715	104	
Total trade	737	865	128	17,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Kosovo (mio €)

Kosovo	2016	2017	Growth	
			mio €	annual %
Imports				#DIV/0!
Exports				#DIV/0!
Balance				
Total trade				#DIV/0!

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Kosovo (mio €)

	2013	2014	2015	2016	2017
Imports					
Exports					
Balance					
Total trade					

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Kosovo (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward			11	2	0
Outward			341	519	492
	FDI Flows				
Inward			2	-7	4
Outward			-23	-1	-2

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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. 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

In 2018, total bilateral trade between the EU and Montenegro increased by 13% reaching a total amount of nearly **€1.4 billion**, for the first time matching the total trade pre-dating the trade agreement in 2008. The overall stagnation of the bilateral trade can be partially explained by the fact that the structure of Montenegrin exports in the last ten years has substantially changed in favour of exports of services, which increased to over 70% of total exports of goods and services in 2017.

The EU is Montenegro's main trading partner, accounting for 45% of its total exports and 48% of its total imports of goods. More specifically, Belgium, Germany, Hungary, Poland and Slovenia absorb 64% of the EU's imports from Montenegro while Croatia, Germany, Greece, Italy and Slovenia are also responsible for 64% of the EU's exports to Montenegro. The main imported products from Montenegro are base metals and articles thereof, transport equipment, mineral products and machinery and appliances. The EU mainly exports mineral products, transport equipment and machinery and appliances. The overall trade balance is overwhelmingly in favour of the EU, exceeding €1 billion in 2018.

2.2 Trade in Agricultural Goods

Trade in agricultural products represents around 15% of the total bilateral trade and has remained stable over the last five years. In 2018, only 4% of all EU's imports from Montenegro were agricultural products versus 17% of all EU's exports to Montenegro. The EU imported mainly fruits and vegetables from Montenegro and exported meat and food preparations to Montenegro.

For a number of agricultural products (poultry, cheese, meat products, waters and wine) EU exports to Montenegro are subject to tariff rate quotas (TRQs), either duty-free or at a reduced customs duty rate. All of these quotas - except those for certain fish products, namely trout, sea bream as well as prepared or preserved anchovies – were fully or nearly fully used by EU exporters. The EU also grants two agricultural TRQs to Montenegro (beef and wine). In 2018, the beef quota was not used by Montenegro's exporters and the wine quota was used at 19%.

2.3 Trade in Services and Foreign Direct investment (FDIs)

In 2017, services represented over 34% of the total bilateral trade of goods and services with a share of 69% for EU imports and a much more modest 19% share for EU exports. This large imbalance allows Montenegro to run a surplus in its services trade with the EU, mainly focussed on the travel and hospitality area.

Financial integration with the EU remains substantial, as the EU accounted for 86% of capital in local banks and 46% of total FDI inflows during the first nine months of 2018. The total EU FDI stocks in Montenegro exceeded €1.5 billion by end of 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 meeting of the Sub-committee on Trade, Industry, Customs and Taxation took place on 23 October 2018, during which the further recovery of the 2017 bilateral trade was positively noted, highlighting the benefits from the national policy with regard to services and sustainable tourism. The Commission welcomed the absence of trade irritants with Montenegro as well as efforts to improve the business environment, in particular its plans to cut border clearance time by 50% and related costs by 20%.

4. Specific areas of importance

The business environment is a key area of importance, in particular unfair competition from the informal economy and deficiencies of the regulatory environment. Businesses are negatively affected by inconsistent and arbitrary law enforcement as well as by inefficiencies and weak capacity in the public administration. In line with SAA obligations, enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control, including transparency of aid granted. Public procurement is another area of concern. Under the SAA (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.

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. They 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. A big milestone was in fact reached on 4 April 2019 when Ministers of Telecommunications from the Western Balkans signed a Regional Roaming Agreement that envisages a roaming-free region across the Western Balkans in 2021, also paving the way for further reductions of the roaming costs between the Western Balkans economies and the European Union.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Montenegro (mio €)					
Imports	251	144	151	166	189
Exports	973	877	994	1.067	1.207
Balance	722	733	843	902	1.017
Share Montenegro in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,1%	0,0%	0,1%	0,1%	0,1%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Montenegro with world					
Imports	46,5%	41,2%	48,2%	47,4%	48,3%
Exports	36,1%	35,8%	37,7%	34,5%	44,7%
Total (I+E)	44,8%	40,4%	46,8%	45,6%	47,8%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Montenegro: IMF Dots

Total merchandise trade EU28 with Montenegro (mio €)

Montenegro	2017	2018	Growth mio €	Growth annual %
Imports	166	189	24	14,4%
Exports	1.067	1.207	139	13,1%
Balance	902	1.017	116	
Total trade	1.233	1.396	163	13,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Montenegro (mio €)

Montenegro	2017	2018	Growth mio €	Growth annual

				%
Imports	6	7	2	34,1%
Exports	184	200	16	8,7%
Balance	178	192	14	
Total trade	189	207	18	9,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Montenegro (mio €)

Montenegro	2017	2018	Growth mio €	annual %
EU28 imports	160	182	22	13,7%
EU28 exports	884	1.007	123	14,0%
Balance	724	825	102	
Total trade	1.044	1.189	145	13,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Montenegro (mio €)

Montenegro	2016	2017	Growth mio €	annual %
Imports	264	377	113	42,7%
Exports	214	256	41	19,3%
Balance	-50	-122	-72	
Total trade	479	633	154	32,3%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Montenegro (mio €)

	2013	2014	2015	2016	2017
Imports	218	231	216	264	377
Exports	217	266	203	214	256
Balance	-1	36	-13	-50	-122
Total trade	434	497	418	479	633

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Montenegro (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	-32	-3	99	5	14
Outward	1.799	1.663	2.926	1.512	1.544
	FDI Flows				
Inward	1	-29	82	-72	8
Outward	196	128	129	160	188

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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 EU Member States.

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.

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 and State aid, investment and related payments, a high level of protection of intellectual property rights and strengthened co-operation in customs matters. Since the entry into force of the full SAA in 2013, a number of other legislation approximations with impact on trade were put in place in the fields of public procurement, standardisation and the right of establishment.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

Total bilateral trade between the EU and Serbia increased by 10% between 2017 and 2018 reaching a total amount of **€26 billion**. This represents a significant increase of 110% since the start of implementation of the trade agreement. The EU remains Serbia's first trading partner accounting for 71% of total exports and 61% of total imports of goods. More specifically, Germany, Hungary, Italy, and Slovenia are responsible for 50% of the EU's imports and exports from and to Serbia. The main imported products are machinery and appliances; base metals and articles thereof; plastics, rubber and articles thereof; and transport equipment. The EU mainly exports machinery and appliances; products of the chemical or allied industries; base metals and articles thereof; and transport equipment. The overall trade balance is in favour of the EU, it increased by 10% in 2018 reaching €3.7 billion.

2.2 Trade in agricultural goods

Serbia has traditionally recorded a surplus in its agricultural trade with the EU, however, in 2018, due to a bad agricultural season for Serbia in the previous year, the balance turned in favour of the EU who enjoyed a small surplus of €34 million. Trade in agricultural products represents around 9% of the total bilateral trade. In 2018, Serbia's agricultural exports to the

EU dropped by nearly 5% but still represented over 10% of all its exports to the EU; while the EU's agricultural exports to Serbia increased by nearly 3% and represented 8% of the EU's total exports to Serbia. The EU imported mainly fruits & vegetables, cereals and vegetable oils (other than palm and olive oils) from Serbia, while its main export products to Serbia were meat and food preparations.

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 quotas were fully utilised or almost fully utilised (wine quota used at 92%) by EU exporters. Whereas quotas for wheat and cigars were underutilised at 43% and 33% respectively and the maize and fruit juices quotas remained completely unused by EU exporters in 2018.

The EU grants tariff quota to Serbia for beef, sugar and wine. Only 16.5% of the sugar quota and 5% of the beef quota were used by Serbian exporters in 2018, while the utilisation rate for sparkling wine was at 6.5% and for fresh wine only over 2%.

2.3 Trade in Services and Foreign Direct investment (FDIs)

In 2017, total trade in services represented 16% of the total bilateral trade of goods and services with an equal share between imports and exports. Overall, the EU records a surplus in its trade in services with Serbia, on average around €0.5 billion over the last 5 years.

Serbia's financial system is dominated by commercial banks, and banks with majority ownership from EU countries hold more than 70% of all banking system assets.

The EU is also by far Serbia's biggest investment partner, accounting for more than three quarters of net foreign direct investment inflows over the past eight years – amounting to over €13 billion in total.

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 latest meeting took place on 17 October 2018, during which the Commission expressed its satisfaction that in May 2018, after a series of bilateral consultations over several months, Serbia lifted its restrictions on the issuing of export licences for metal waste. In this context, the Commission highlighted the importance of respecting Article 36(2) of the SAA - standstill clause - to ensure the necessary legal predictability for investors in the country.

During the discussions, the Commission identified as a main obstacle to trade the unpredictable technical and phyto-sanitary controls. It asked Serbia for explanations how these controls are conducted and asked several questions on the draft law on sanitary inspections.

The Commission also pleaded that more administrative capacity be deployed in the Ministry of trade in view of growing challenges – WTO accession, Regional Economic Area agenda, increasing volumes of trade. In this regard, the Commission expressed concerns about the slow pace of Serbia's accession negotiations to WTO.

Furthermore, it was noted with regret that Serbia continues to apply a discriminatory excise on grain-based spirits, which favours fruit based spirits at the expense of grain-based spirits. Serbia was asked for a date when this excise could be changed. In reply, Serbia announced that it was studying effects of such a change, but did not commit to any date.

Lastly, on Serbia's request, the Commission explained the ongoing procedures regarding temporary safeguards on steel and announced that bilateral consultations with Serbia would be organised by the end of 2018 in line with the SAA requirements.

4. SPECIFIC AREAS OF IMPORTANCE

Despite an overall improvement of the business environment, which had led Serbia to improve its standing in various international business rankings, further efforts are required to improve the predictability of the business environment, with the emphasis on involving business more closely into the process of regulation. The institutional and regulatory environment remains weak. Business-related laws continue to be adopted under urgent procedure without the necessary consultation of interested groups, reducing predictability and quality of legislation. Delays in the adoption of secondary legislation continue hampering the implementation of adopted laws. In addition, fair competition is negatively affected by the large informal economy.

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 fiscal discrimination on alcohol (article 37); restrictions to free movement of capital - in particular restrictions to the acquisition by foreigners, including EU citizens, of agricultural land - (article 63) and the respect for the transparency and non-discrimination principals in public procurement procedures (article 73). In line with SAA obligations, enforcement of competition rules needs to be enhanced, and significant efforts are needed with regards to adoption of legislation and enforcement in the field of state aid control, including transparency of aid granted. In particular, Serbia should ensure that intergovernmental agreements concluded with third countries and their implementation do not unduly restrict competition, comply with the basic principles of public procurement, such as transparency, equal treatment and non-discrimination, and are in line with the EU *acquis.*

All these pending issues were raised in the relevant EU-Serbia Sub-committee meetings held or planned in 2019.

Lastly, in November 2018, Kosovo imposed a 100% import tariff for goods originating from Serbia (and Bosnia and Herzegovina), indirectly affecting EU businesses operating in Serbia and trading in the region. These measures are politically motivated and the EU has repeatedly called for their termination.

6. CONCLUSIONS

Serbia and the EU have a very close and growing trade partnership, which increased their total trade by 110% since the entry into force of the trade agreement end of 2009. The EU is Serbia's first trading partner accounting for 71% of its total exports and 61% of its total imports of goods. The EU continued to be the main source of foreign investment too, with total FDI flows reaching €1.2 billion in 2017.

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. Despite the 100% tariffs imposed by Kosovo, which have recently undermined regional cooperation efforts, a big milestone was reached on 4 April 2019 when Ministers of Telecommunications from the Western Balkans signed a Regional Roaming Agreement. This Agreement envisages a roaming-free region across the Western Balkans in 2021, also paving the way for further reductions of the roaming costs between the Western Balkans economies and the European Union.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Serbia (mio €)					
Imports	7.109	7.880	8.721	9.998	11.007
Exports	10.357	11.145	11.668	13.390	14.742
Balance	3.247	3.265	2.947	3.392	3.735
Share Serbia in EU28 trade with Extra-EU28					
Imports	0,4%	0,5%	0,5%	0,5%	0,6%
Exports	0,6%	0,6%	0,7%	0,7%	0,8%
Total (I+E)	0,5%	0,5%	0,6%	0,6%	0,7%
Share EU28 in trade Serbia with world					
Imports	63,5%	62,5%	61,0%	62,3%	60,0%
Exports	64,7%	65,8%	66,1%	67,6%	67,0%
Total (I+E)	64,0%	63,9%	63,3%	64,5%	63,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Serbia: IMF Dots

Total merchandise trade EU28 with Serbia (mio €)

Serbia	2017	2018	Growth mio €	Growth annual %
Imports	9.998	11.007	1.008	10,1%
Exports	13.390	14.742	1.352	10,1%
Balance	3.392	3.735	343	
Total trade	23.389	25.749	2.360	10,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Serbia (mio €)

Serbia	2017	2018	Growth mio €	Growth annual %
Imports	1.190	1.133	-58	-4,8%
Exports	1.138	1.167	29	2,6%
Balance	-53	34	87	

Total trade	2.328	2.299	-29	-1,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Serbia (mio €)

Serbia	2017	2018	Growth mio €	annual %
EU28 imports	8.808	9.874	1.066	12,1%
EU28 exports	12.253	13.575	1.322	10,8%
Balance	3.444	3.701	257	
Total trade	21.061	23.449	2.388	11,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Serbia (mio €)

Serbia	2016	2017	Growth mio €	annual %
Imports	1.781	1.966	185	10,4%
Exports	2.284	2.530	246	10,8%
Balance	503	563	60	
Total trade	4.065	4.496	431	10,6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Serbia (mio €)

	2013	2014	2015	2016	2017
Imports	1.583	1.820	1.990	1.781	1.966
Exports	2.300	2.507	2.315	2.284	2.530
Balance	717	687	325	503	563
Total trade	3.882	4.326	4.304	4.065	4.496

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Serbia (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	-118	1	142	188	267
Outward	12.501	12.564	12.883	12.486	13.162
	FDI Flows				
Inward	6	185	72	50	38
Outward	577	151	366	957	1.194

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FIRST GENERATION FREE TRADE AGREEMENTS WITH LATIN AMERICAN COUNTRIES

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-CHILE ASSOCIATION AGREEMENT

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 its impact. This study was concluded in 2012. Another study conducted in 2017 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 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. 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) comprehensive investment liberalisation and protection disciplines, (6) improved public procurement rules and coverage in terms of entities, (7) improved rules on intellectual property rights, including the protection of GIs on foodstuffs, (8) Trade and Sustainable Development, (9) competition and subsidies disciplines and (10) for the first time trade and gender equality, which is a pilot case for the EU with the aim of identifying and addressing those barriers faced by women to benefit from trade opportunities, building on sustainable development goals and reaffirming commitments of international conventions.

2. EVOLUTION OF TRADE

Bilateral merchandise trade between 2014 and 2018 increased 15%. Overall, the rise is substantially sharper for EU exports, which increased 35% over the period, compared to a 2% decrease in EU imports from Chile, mainly due to copper price fluctuations. Chile's share in total EU trade has remained stable since 2014, at around 0.5% of total EU trade. In 2018 EU-Chile bilateral trade grew by 8% in value compared to 2017, reaching €18.3 billion, the EU had a positive trade balance of around €1.5 billion. This is the most important trade surplus for the EU with Chile since the signing of the Agreement. However, Chile still has an accumulated trade surplus of €41.8 billion (2003-2018).

In 2018, the EU was Chile's third trade partner representing 13% of trade (behind China and the US).

2.1 Trade in Goods

In 2018, EU-Chile bilateral trade grew by 8% in value compared to 2017, reaching €18.3 billion. The EU experienced a trade surplus worth €1.5 billion. While EU exports increased 13% year-on-year, EU imports grew by 2%. The largest trade surpluses of the EU are in machinery and motor vehicles.

EU exports concentrate in three HS sections:

- Machinery and appliances, which increased 14% from 2017 reaching €3.2 billion.
- Transport equipment EU exports reached €2.2 billion, increasing more than 27% from 2017.
- Products of the chemical or allied industries, which in 2018 reached €1.2 billion, increasing 9% from 2017.

Chilean exports concentrate in two HS sections:

- Mineral products, whose value decreased 6.7% to €1.8 billion from 2017 to 2018, having increased by almost 40% in the previous year.
- Base metals and articles thereof, whose value decreased almost 22% between 2017 and 2018, to €1.3 billion.

2.2 Trade in agricultural products

In 2018, EU-Chile bilateral trade grew by 6% in value compared to 2017, reaching €3.3 billion. The EU experienced a trade deficit worth €1.7 billion. While EU exports increased 8.6% year-on-year, EU imports grew by 5.6%. The largest trade deficits of the EU are in fruit and vegetables and beverages (wine). Exports of agricultural products represented 30% of Chile's exports to the EU and are overwhelmingly dominated by fruit (notably coutner-season temperate fruit) and wines, which represent respectively 40% and 24% of Chile agro-food exports to the EU. EU agricultural exports only represented 8% of the EU's exports to Chile. Chilean exports to the EU were concentrated in two main categories:

- Vegetable products, which reached a value of €1.6 billion, increasing almost 3% from 2017.
- Foodstuffs, beverages and tobacco, whose value increased 5% from 2017, reaching a value of € 0.9 billion out of which more than €500 million of wine.

Regarding Tariff Rates Quotas, Chile used 100% of its TRQ for poultry meat (18,000 tonnes), 27% of its TRQ for sheep meat (8,000 tonnes), 24% of its TRQ for pig meat (8,750 tonnes), 7% of the sheep meat TRQ (8,000 tonnes). The rest of the TRQs were either not used at all (cheese and curd, cereal grains, mushrooms, cherries and swine products) or very little used (garlic – 0.25%). The EU also used 100% its cheese TRQs.

2.3 Trade in Services and Foreign Direct investment (FDIs)

Bilateral trade in services in 2017 stood at €6.4 billion (€4.5 billion in exports and €1.9 billion in imports), compared to €5.7 billion in 2016. Between 2013 and 2017, EU exports of services increased 47%, while EU imports increased 18%.

The EU remains Chile's first FDI provider, with outward FDI stocks worth €51.8 billion in 2017 but EU FDI flows in 2016 (€4 billion) represented half the outward flows registered in 2014. In addition, EU outward FDI flows in 2017 were negative (€1.2 billion). This is the first time since 2013 that EU outward FDI flows are negative, although the same result is observable for the US in 2017 (€1.6 billion).

The decrease in outflows is largely due to the evolution in the mining industry, which has historically represented over 45% of total FDI in Chile. In quantities, mining production in 2017 dropped for the second consecutive year. Mining output in 2017, compared to 2016, contributed negatively to the Chilean GDP with -2%, and with -1.6% for copper alone.

With 2016 data, in 2017 Chile remained the third recipient of FDI in Latin America overall, after Mexico and Brazil, according to UNTACD. However, with 2017 data, in the 2018 report Chile is not among the top 5 host regional economies[81] .

Since 1998, Chile has been the World Economic Forum's most competitive nation in the Latin American region (in 2018 it ranked 32 of 138 globally)[82] . Chile also used to be regional leader on the World Bank Doing Business Report (DB) but it is now second after Mexico. In 2019 Chile ranks 56 of 190 on DB and 71.81 on the distance to frontier (DTF) measure (Mexico ranks 54 and 72.09 respectively)[83].

3. Annual Trade Coordinators Meeting and Trade-related Sub-committees

Both sides have invested the necessary resources in the institutional work under the Agreement. Consequently, the meetings under the Agreement have been very regular since it came into force, the 15th EU-Chile Association Committee was held in Brussels on 22 June 2018. The Trade Coordinators meeting and Subcommittees on trade related matters were so far organised practically every year. The Joint Committee on Trade in Wine and Spirits/Aromatised drinks met in 2018 but there was no Trade Coordinators meeting of the EU-Chile Association Agreement in 2018 mainly due to the on-going negotiations for the modernisation of the Agreement.

The Joint Committee on Trade in Wine and Spirits/Aromatised drinks

During the Joint Committee on Trade in Wine and Spirits/Aromatised drinks the EU and Chile continued to discuss the textual modifications of the wine and spirits agreement and the update of the list of EU GIs

4. Progress made, Main open issues and follow-up actions

The market access procedure derived from the SPS provisions of the Agreement has been beneficial for Member States. Chile applies the same import requirements to the entire EU. In addition, the market access procedure has been simplified, once the market is open for a commodity from one or more Member States and another Member State wants to export for the first time, Chile evaluates the information already provided by the Commission in the context of the first approval. Further information is only needed when Chile has doubts on specific aspects. Chile rarely requires to carry out on-the-spot verifications of the information provided. In such cases, Chile visits selected EU Member States and extends the conclusions to the entire European Union. For certain commodities such as gelatine, collagen, egg

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[81] UNCTAD, World Investment Report 2018 https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf page 50. Top 5 economies in hosting FDI flows in 2017 in Latin America were Brasil, México, Colombia, Argentina and Peru. However, Chile was top economy on FDI outflows in 2017.

[82] https://www.weforum.org/reports/the-global-competitveness-report-2018

[83] http://www.doingbusiness.org/en/data/exploreeconomies/chile#

products, prepared meals and meat extract; all interested Member States are authorised. Chile approves the EU exporting establishments with a pre-listing procedure in a very short timeframe (within days).

In 2018, Chile opened its dairy market for four additional Member States (20 Member States authorised now), two additional Member States for beef (total authorised 10), one for pork (total 12 Member States), four for meat products (total 12 Member States), one for bovine semen (total 14 Member States) and one more for casing (total 10 Member States). Chile also harmonised the certificate for hatching eggs and egg products.

However, similar progress has not yet been achieved for the export of EU fruits and vegetables to Chile in 2018, but work continues to allow the export of EU apples to Chile.

The 2002 Wine and Spirits Agreements were amended for the last time in 2009. Therefore, they need to be up-dated to add the new wine and spirits geographical indications that have been protected in the EU and Chile since then. This process continues to be dependent on the lengthy Chilean internal assessment procedures.

In 2018, the longstanding swordfish issue was resolved. After Chile joined the IATTC (Inter-American Tropical Tuna Commission) as a cooperating non-contracting party in July 2017 there were no longer any restrictions on EU swordfish vessels to access Chilean ports. In January 2018, Chile further specified that EU vessels are required to comply with certain administrative requirements, including the provision of VMS (vessel monitoring system) data. These conditions are applied in a non-discriminatory manner to all vessel disembarking swordfish in Chile and are in line with the FAO Agreement on Port State Measures.

On 1 January 2018, the EU-Chile Agreement on Mutual Recognition of Organic Products entered into force.

5. CONCLUSIONS AND OUTLOOK

The EU and Chile decided to replace the existing EU-Chile trade agreement with a completely new and ambitious framework for bilateral trade and investment. This process is under way and four rounds of negotiations have already taken place. The latest one took place in Santiago in April 2019 and the next round is scheduled for July 2019.

Current work on the implementation of the current agreement continues. The various trade related sub-committees and the Trade Coordinators Meeting did not meet in 2018 (except for the Joint Committee on Trade in Wine and Spirits/Aromatised drinks) but the dialogue with Chile remains fluid.

6. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Chile (mio €)					
Imports	8.626	8.199	7.338	8.178	8.439
Exports	7.391	8.353	8.590	8.786	9.977
Balance	-1.235	154	1.252	607	1.539
Share Chile in EU28 trade with Extra-EU28					
Imports	0,5%	0,5%	0,4%	0,4%	0,4%
Exports	0,4%	0,5%	0,5%	0,5%	0,5%

Total (I+E)	0,5%	0,5%	0,5%	0,5%	0,5%
Share EU28 in trade Chile with world					
Imports	15,3%	15,6%	17,1%	15,1%	14,9%
Exports	14,4%	13,2%	12,9%	12,8%	11,6%
Total (I+E)	14,9%	14,4%	15,0%	13,9%	13,2%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Chile: IMF Dots

Total merchandise trade EU28 with Chile (mio €)

Chile	2017	2018	Growth mio €	Growth annual %
Imports	8.178	8.439	260	3,2%
Exports	8.786	9.977	1.192	13,6%
Balance	607	1.539	931	
Total trade	16.964	18.416	1.452	8,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Chile (mio €)

Chile	2017	2018	Growth mio €	Growth annual %
Imports	2.372	2.505	133	5,6%
Exports	714	776	62	8,6%
Balance	-1.657	-1.729	-72	
Total trade	3.086	3.281	195	6,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Chile (mio €)

Chile	2017	2018	Growth mio €	Growth annual %
EU28 imports	5.807	5.934	127	2,2%
EU28 exports	8.071	9.201	1.130	14,0%
Balance	2.265	3.267	1.003	
Total trade	13.878	15.135	1.257	9,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Chile (mio €)

Chile	2016	2017	Growth mio €	Growth annual %
Imports	1.843	1.878	34	1,9%
Exports	3.892	4.541	650	16,7%
Balance	2.048	2.664	615	
Total trade	5.735	6.419	684	11,9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Chile (mio €)

	2013	2014	2015	2016	2017
Imports	1.586	1.684	1.909	1.843	1.878
Exports	3.080	3.414	3.735	3.892	4.541
Balance	1.494	1.729	1.826	2.048	2.664
Total trade	4.666	5.098	5.644	5.735	6.419

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Chile (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	998	1.710	1.961	1.794	1.860
Outward	29.174	42.760	47.937	55.830	51.863
FDI Flows					
Inward	845	466	-705	223	-170
Outward	5.759	8.208	2.139	4.000	-1.185

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-MEXICO ASSOCIATION AGREEMENT

1. INTRODUCTION

Mexico is the second biggest trading partner of the EU in Latin America, after Brazil. In 1997 Mexico was the first country in Latin America to sign an **Economic Partnership, Political Coordination and Cooperation Agreement** with the EU ('Global Agreement'), which came into force in 2000. Its trade provisions were later developed into a comprehensive Free Trade Agreement that entered into force in October 2000 for goods and 2001 for services (hereinafter called 'the FTA').

Over the close to twenty years of its operation, this ambitious agreement has yielded very positive results for both parties. Bilateral goods trade between the EU and Mexico has more than tripled with exports from the EU to Mexico growing slightly faster than exports from Mexico to the EU. Bilateral trade in services has also significantly expanded and the EU remains the main investor in Mexico, after the US.

In order to adapt the Global Agreement to the new realities of global trade and investment, negotiations on its modernisation were launched in 2016. On 21 April 2018, after nine rounds of negotiations, an 'agreement in principle' was reached outlining the numerous improvements to the legal framework of EU-Mexico bilateral trade relations. This modernisation will bring the trade and investment framework into the 21st century on a basis of reciprocity and promote new opportunities for business, while including strong and clear commitments on human rights, sustainable development and the fight against corruption. The trade part of the agreement is broadly described in section 5.

2. EVOLUTION OF TRADE

2.2 Trade in goods

In 2018, bilateral trade in goods between the EU and Mexico totalled €65.4 billion, increasing by 5.8% compared to 2017 and tripling trade if compared to 2000 (€21.7 billion). Differently from the trend in 2017, EU exports to Mexico (€39.4 billion) grew faster than Mexican exports to the EU (€26 billion), that is, 8.8% and 3.9%, respectively.

The EU continues to register a trade surplus with Mexico, slightly decreasing from €14 to €13.4 billion in 2018. In 2018, the EU remains Mexico's second largest export market, with a share of 6% of total exports and totalling €26 billion.

The structure of Mexico's trade with the EU maintains a coherent pattern with the respective share of the bilateral trade increasing at similar rates over the years resulting in a rather stable trade balance. Moreover, as explained below, bilateral trade is concentrated in a number of sectors.

Imports into the EU from Mexico: Mexican goods imported into the EU totalled €26 billion and import increases were observed across most sectors, following the same trend as in 2017. The largest export categories of products imported from Mexico to the EU were:

- transport equipment (€6.4 billion – 24.5% of EU imports from Mexico);
- machinery and appliances (€6.3 billion – 24.3% of EU imports from Mexico);
- mineral products (€4.8 billion – 18.7% of EU imports from Mexico);
- optical/photographic instruments (€3billion – 11.9% of EU imports from Mexico 11.9%).

EU Exports to Mexico: European exports to Mexico totalled €39.4 billion, with increase in exports widespread throughout the different sectors. The main export categories remain the same in comparison to previous years, namely:

- machinery and appliances (€13.5 billion – 34.3% of EU exports to Mexico);
- transport equipment (€7 billion – 17.9% of EU exports to Mexico);
- products of the chemical or allied industries (€5.3 billion – 13.5% of EU exports to Mexico);
- base metals (€3.4 billion – 8.7% of EU exports to Mexico).

2.2 Trade in agricultural goods

Trade in agricultural and fisheries products totalled €2.8 billion, consisting of €1.3 billion EU imports from Mexico and €1.5 billion EU exports to Mexico.

EU imports of agricultural and fisheries products from Mexico were stable and were dominated by:

- Beverages and spirits at €353 million increased by 13.9%, now representing 27% of EU imports of agricultural and fisheries products from Mexico;
- Fruits and nuts at €294 million, or 22% of EU imports of agricultural and fisheries products from Mexico;
- Fish and crustaceans at €73 million increasing by 97% compared to 2017, now representing 13% of EU imports of agricultural and fisheries products from Mexico.

EU exports to Mexico of agricultural products increased by 4.2% in 2018, and were dominated by:

- Beverages and spirits at €443 million increased by 10.6% in 2018, now representing 29% of EU exports of agricultural products to Mexico;
- Oil seeds & oleaginous fruit at €137 million, or 9% of EU exports of agricultural products to Mexico;
- Miscellaneous edible preparations at €102 million, or 7% of EU exports of agricultural products to Mexico.

Three of the tariff rate quotas (TRQs) opened under the agreement by the EU for imports from Mexico were filled completely, namely those for bananas, asparagus and orange juice. For both frozen orange juice and for natural honey, the fill rate was around two thirds. Precise numbers are not given for these quotas, since the quota years do not coincide with the calendar year. For egg albumin, the fill rate was 11% for the quota year 2017-2018. For other quotas, the fill rate was below 3%.

2.3 Trade in services and Foreign Direct investment (FDIs)

In terms of services, EU imports from Mexico are dominated by travel services, and transport services. EU services exports to Mexico consist mainly of business services, transport services, travel services and telecommunications, computer and information services. Latest statistics in trade in services show that Trade in services increased from €15.7 billion in 2016 to €16.9 billion in 2017 (+7.4%), in fact growing faster than trade in goods (+5.8%). The EU has a trade surplus with Mexico that has slightly decreased in 2017 (latest data available) as the EU registered a €4.9 billion surplus with Mexico in 2017 compared to €5.3 billion in 2016.

As for **foreign direct investment,** according to Eurostat statistics, the Mexican investment stock to the EU accounts for €48.4 billion and EU investment stock to Mexico accounts for €154.5 billion in 2017. This positions the EU as the second largest investor in Mexico behind the US.

According to report on investment of the Mexican Ministry of Economy[84], the EU contributed to 28.3% (€7.6 billion) of the total FDI flows in 2017. Over 60% of the EU's contribution came from two Member States (Spain and Germany).

3. Issues addressed in the Joint Committee meetings

In 2018, the EU and Mexico focussed their efforts in advancing in the negotiations for modernising the existing Global Agreement. No joint committee meeting was held in 2018 but the EU and Mexico were also able to address some existing trade irritants in the regular negotiation meetings. A meeting of the Joint Committee has been scheduled for 2019.

4. Progress made, main open issues and follow-up actions

This section presents the evolution of the barriers registered under the EU market access database[85]. The Commission continued to monitor trade barriers and address bilateral issues with Mexican authorities as appropriate.

On **SPS matters**, during 2018 regular exchanges/meetings took place between the EU and Mexico to progress on pending market access issues. Since 2018, Mexico started to forgo to apply costly pre-shipment inspections in the country of origin to be paid by the industry (preclearance) to new Member States authorisation.

In relation to imports of meat and meat products, Mexico applies a burdensome application procedure. When market access is granted for a limited number of approved establishments,

[84] "Inversion Extranjera Directa en Mexico y en el Mundo" 4 June 2018 Secretaria de Economia
[85] See: http://madb.europa.eu/madb/barriers_crossTables.htm?isSps=false

further on-the-spot inspections have to be carried out by Mexico for each new establishment with the costs of this procedure to be covered by the EU establishments visited. In 2018, the EU has continued to carry out regular meetings with the competent Mexican authorities, SENASICA, in order to speed up the approval of pending applications by Member States. This method has proved successful with many applications approved, some of which were longstanding. These applications related to some key EU exports such as pork (The Netherlands was added to the list of Member States already authorised, and additional establishments were approved for already authorised Member States). However, some authorized Member States still do not export due to strict requirement on post-mortem inspection or non-application of regionalisation on African Swine Disease by Mexico. Also in 2018, some EU Member States were granted market access for some products such as fruit, dairy, and other animal products.

5. CONCLUSIONS AND OUTLOOK

In 2018, EU trade relations with Mexico confirmed their positive trends with both goods and services showing an upward trend.

In 2018, the EU and Mexico focussed on concluding the negotiations for modernising the Global Agreement and reached an 'agreement in principle' on 21 April 2018 on the trade part.[86]. The rest of the year was used to finalise the technical details of the deal. The EU and Mexico have started the process for legal revision of the political, cooperation and trade parts of the modernised Agreement.

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 ambitious FTAs signed by the EU. As a result, the modernised Agreement will bring improvements across the board of EU-Mexico trade and investment relations, notably as regards:

- **Goods:** the EU has obtained significant market access on key EU exports (e.g. pork, poultry, Processed Agricultural Products and dairy products, the latter benefitting from large TRQs), resulting in the eventual liberalisation of 99% of tariff lines.
- **Services**: Mexico committed to open up its services market with comprehensive and ambitious concessions, including on Maritime Transport, Financial Services and Telecommunication, thereby making it easier for EU companies to make business in Mexico.
- **Investment protection**: Mexico has agreed that investor-State disputes are adjudicated under an Investment Court System and to the substantive rules for protection and to replace the existing 16 bilateral investment traties with EU Member States by the agreement with the EU.
- **Energy:** Mexico has accepted commitments in several chapters (Energy and Raw Material, Services, Investment, State owned enterprise) which will give the EU important market access.
- **SPS:** the agreed texts established a high level of cooperation between the Mexican and EU administrations, in particular regarding pre-listing, pre-clearance and regionalisation, in reducing the number of audits and the timeframe to process an application and will shift the burden of cost to the auditing Party.

[86] http://trade.ec.europa.eu/doclib/docs/2018/april/tradoc_156791.pdf

- **Public Procurement:** the outcome is also very ambitious and include commitments at sub central level, the details of which are still being finalised.
- **Competition, subsidies and State owned Enterprises (SOEs):** Mexico has to ensure that companies have to respect competition principles. It also agreed to provisions enhancing the level playing field between private companies and SOEs, as well as between all companies when it comes to subsidies, in particular through more transparency.
- **Geographical Indications (GIs)**: Mexico has agreed to protect the shortlist of 340 EU GIs with a high level of protection, and to incorporate the Spirits Agreement under the modernised Agreement with the same level of protection for EU spirits GIS therein recognised, that includes allusions and evocations. Enforcement is provided by administrative and judicial measures, at the request of an interested party and ex officio.
- **Trade and Sustainable Development (TSD):** the modernised FTA will contain a fully-fledged TSD Chapter in which Mexico committed to effectively implement labour and environmental standards and agreements.
- **Anti-corruption**: for the first time ever in an EU agreement there will be a protocol on anti-corruption to fight against bribery and money laundering in trade and investment, including a mechanism for the resolution of disputes.
- **Civil society mechanism:** the civil society consultation mechanism, which previously was limited to the TSD chapter will be extended to the whole agreement. 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.

6. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Mexico (mio €)					
Imports	17.978	19.487	20.744	23.896	26.002
Exports	28.439	33.620	33.867	37.916	39.384
Balance	10.461	14.133	13.123	14.020	13.381
Share Mexico in EU28 trade with Extra-EU28					
Imports	1,1%	1,1%	1,2%	1,3%	1,3%
Exports	1,7%	1,9%	1,9%	2,0%	2,0%
Total (I+E)	1,4%	1,5%	1,6%	1,7%	1,7%
Share EU28 in trade Mexico with world					
Imports	11,1%	11,1%	11,0%	11,6%	11,4%
Exports	5,1%	4,8%	5,1%	5,7%	5,6%
Total (I+E)	8,2%	8,1%	8,2%	8,8%	8,6%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Mexico: IMF Dots

Total merchandise trade EU28 with Mexico (mio €)

Mexico	2017	2018	Growth mio €	Growth annual %
Imports	23.896	26.002	2.106	8,8%
Exports	37.916	39.384	1.468	3,9%
Balance	14.020	13.381	-639	
Total trade	61.812	65.386	3.574	5,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Mexico (mio €)

Mexico	2017	2018	Growth mio €	Growth annual

				%
Imports	1.305	1.312	7	0,6%
Exports	1.446	1.507	61	4,2%
Balance	141	195	54	
Total trade	2.751	2.820	69	2,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Mexico (mio €)

Mexico	2017	2018	Growth mio €	Growth annual %
EU28 imports	22.591	24.690	2.099	9,3%
EU28 exports	36.470	37.876	1.406	3,9%
Balance	13.878	13.186	-693	
Total trade	59.061	62.566	3.505	5,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Mexico (mio €)

Mexico	2016	2017	Growth mio €	Growth annual %
Imports	5.196	5.935	739	14,2%
Exports	10.498	10.920	423	4,0%
Balance	5.302	4.985	-316	
Total trade	15.694	16.855	1.162	7,4%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Mexico (mio €)

	2013	2014	2015	2016	2017
Imports	3.749	4.032	4.954	5.196	5.935
Exports	7.884	8.282	9.730	10.498	10.920
Balance	4.135	4.250	4.775	5.302	4.985
Total trade	11.634	12.315	14.684	15.694	16.855

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Mexico (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	25.119	31.002	32.166	36.091	48.367
Outward	110.424	135.168	162.287	142.830	154.483
	FDI Flows				
Inward	1.834	7.569	3.498	9.072	1.800
Outward	22.873	24.441	16.728	-10.703	12.957

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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 concerns goods only and is one of the oldest trade agreements signed by the EU.

Although 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, which means that agricultural and fisheries products are not in free circulation between the EU and Norway and quotas exist in a number of areas. Processed agricultural products are covered by a dedicated protocol to the EEA agreement but are not in free circulation neither.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

The EU remains the first import and export partner for Norway, capturing 74% of the latter's trade. Norway is the 6th trading partner for goods of the EU. Norway's trade with the EU shows a surplus that has doubled in value terms from 2016 to 2018. The Member States that import the most from Norway are the United Kingdom, followed by the Netherlands, Germany and Sweden. The greatest exporters to Norway are Sweden, Germany and Denmark. Mineral products represents more than half of EU imports from Norway, with an increase of 14% between 2017 and 2018. The largest share of exports in value are represented by "machinery and mechanical appliances", followed by "motor vehicles" and "electrical machinery and equipment". Trade is dynamic and continues its expansion both ways. Exports to Norway increased by 6% between 2017 and 2018 while imports increased by 13%.

2.2 Trade in agricultural goods

Trade in agricultural goods clearly presents a surplus for the EU that exports eight times the value of the agricultural goods it imports from Norway. The EU exports for more than €4.5 billion agricultural products to Norway – a level that has been stable in the last three years – and imports for half a billion euros.

Agriculture is not covered by the EEA agreement, which however 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. Signed on

4 December 2017, this **agreement**[87] **entered into force on 1 October 2018**. The concessions consist of 36 fully liberalised tariff lines and tariff rate quotas (TRQs) to be opened by both sides, opening new trade opportunities for EU and Norwegian exporters of agricultural products.

Overall, trade in agricultural products is partially liberalised on both sides.

In general, Norway makes little use of the agri-food TRQs granted by the EU. Out of 28 TRQs in operation prior to 1 October 2018, 14 are completely or largely unused (below 3%). Only four TRQs are fully or nearly fully used (feedingstuff for fish, potatoe slices, sheep or goat meat and waters with sugar, without milk) followed by boneless sheep meat, (used at 75%), chocolate and other food preparations containing cocoa (used at 67%) and dog or cat put up for retail sale (used at 53%).

The EU makes good use of the Norwegian TRQs, but with large discrepancies with TRQs used above 90% (16 out of 40 TRQs) and a few TRQs not been used at all or barely used (fruit and nuts, meat and edible offal - bovine and poultry). Data on TRQ fill rates provided by Norwegian authorities are included in Section 7 "Statistics".

2.3 Trade in Services and Foreign Direct investment (FDIs)

With approximately €44 billion of services exchanges between the parties in 2017 (€16 billion of services imported and €29 billion exported), Norway and the EU are very important trading partners when it comes to services. Norway is in fact the 6th trading partner of the EU for services. The balance for trade in services between Norway and the EU is positive for the EU – and rather stable over the last years.

FDI between the EU and Norway are at a high level – and rather balanced - on both sides: Norwegian FDI stock in the EU in 2017 represents €94 billion while EU investment in Norway is worth €90 billion.

3. Issues addressed in the EEA and FTA Joint committees

In practice, since the signing of the EEA agreement, the bilateral FTA has been less active and no FTA Joint Committee meetings have been called in the last years. Joint committee decisions, often of technical nature and limited in number, are taken by written procedure. Bilateral trade issues such as trade irritants are discussed on a case-by-case basis, at technical and political level.

The EEA Joint Committee, where the European External Action Service represents the EU side, meets six to eight times per year[88]. Four subcommittees assist the Joint Committee[89]. 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.

87 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

88 https://eeas.europa.eu/diplomatic-network/european-economic-area-eea/348/european-economic-area-eea_en

89 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

At the occasion of the 25th anniversary of the entry into force of the EEA agreement on 1 January 2019, the EEA Council confirmed its “support for the EEA agreement as the continued basis for future relations between the EU and EEA EFTA States”.

On a more specific and trade-related issue, the EEA Council “acknowledged the importance of predictable trade conditions for economic operators within the EEA. In this regard, the EEA Council welcomed the exemption of Iceland, Liechtenstein and Norway from the EU’s provisional safeguard measures concerning imports of a number of steel products, which came into effect on 19 July 2018”[90].

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 the bilateral trade relations. Norwegian companies participate in the Single Market almost under the same conditions as Member States, and vice-versa. The same rules apply to ensure a level-playing field, such as technical requirements of certain products or competition rules. EU Internal Market rules are dynamically integrated into Norwegian law through the EEA agreement. This creates a stable and predictable environment. Norway has a say in the EEA decision-shaping process, albeit without a vote on the final decision. A relatively high number of legal acts pending incorporation into the EEA Agreement has created the so-called "backlog" in this dynamic approximation. A joint effort of both the EU and the EEA EFTA States resulted in historical reduction of the backlog by 234 acts in March 2019, especially in the area of financial services, where the backlog was particularly high.

As Norway is not part of the EU Customs Union neither linked with the EU by a customs union, customs procedures apply to goods exchanged between EU Member States and Norway. Norway is free to negotiate its own trade agreements and is not bound by the European Common Customs Tariff. If goods originating in third countries are imported in Norway before being re-exported to the EU, the customs procedure in place between Norway and the EU will ensure that the duties applicable to the end-destination are being levied.

5. 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 to a certain extent by Protocol 2 to the FTA[91]. Protocol 3 of the EEA foresees the possibility to levy customs duties based on the cost of the basic agricultural products in the EU and in Norway. In practice, EU exports of processed agricultural products are hindered by high customs tariffs and this has been a long-standing trade barrier.

In 2018, the EEA Council encouraged EEA members to continue the dialogue on the review of the trade regime for processed agricultural products within the framework of Article 2(2) and Article 6 of Protocol 3 to the EEA Agreement, in order to further promote trade in this area[92]. The EU expects the discussions with Norway, stalled in 2014, to resume.

[90] https://www.consilium.europa.eu/fr/press/press-releases/2018/11/20/conclusions-of-the-50th-meeting-of-the-eea-council/pdf
[91] which still offers a more preferential treatment than the EEA for a few products
[92] https://www.consilium.europa.eu/fr/press/press-releases/2018/11/20/conclusions-of-the-50th-meeting-of-the-eea-council/pdf

Geographical Indications

The EU-Norway committed themselves to encourage trade in agricultural products with Geographical Indications (GIs). The GIs negotiations were launched in 2013 and suspended at the request of the Norwegian side in April 2016. The Council of the European Union in its Conclusions of December 2018 calls on Norway to "resume the negotiations on the protection of geographical indications, which is an important element of international trade in agricultural products and foodstuffs[93]". 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 latest Article 19 agreement between the EU and Norway, which entered into force in October 2018 as mentioned above.

6. CONCLUSIONS AND OUTLOOK

Politically, Norway and the EU are close allies. Norway notably actively aligns itself with EU foreign policy instruments, including the EU's sanction policy towards Russia, and is also subject to the Russian agricultural ban. In multilateral trade fora, notably the WTO, the EU and Norway very often defend the same position.

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 trade in basic and processed agricultural products, where the EU hopes to see progress in the coming months.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Norway (mio €)					
Imports	85.107	74.156	63.336	73.757	83.837
Exports	50.199	48.782	48.322	50.659	53.867
Balance	-34.908	-25.374	-15.014	-23.099	-29.970
Share Norway in EU28 trade with Extra-EU28					
Imports	5,0%	4,3%	3,7%	4,0%	4,2%
Exports	2,9%	2,7%	2,8%	2,7%	2,8%
Total (I+E)	4,0%	3,5%	3,2%	3,3%	3,5%
Share EU28 in trade Norway with world					
Imports	64,9%	63,6%	63,5%	61,4%	63,6%
Exports	83,0%	81,0%	79,1%	80,9%	81,8%
Total (I+E)	76,1%	73,8%	72,1%	72,3%	74,2%

Source Trade G2 Statistics/ISDB
Trade EU28: Eurostat COMEXT; Trade Norway: IMF Dots
25-mars-19

Total merchandise trade EU28 with Norway (mio €)

Norway	2017	2018	Growth mio €	Growth annual %
Imports	73.757	83.837	10.080	13,7%
Exports	50.659	53.867	3.208	6,3%

[93] https://www.consilium.europa.eu/en/press/press-releases/2018/12/11/council-conclusions-on-a-homogeneous-extended-single-market-and-eu-relations-with-non-eu-western-european-countries/

Balance	-23.099	-29.970	-6.872	
Total trade	124.416	137.704	13.288	10,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Norway (mio €)

Norway	2017	2018	Growth mio €	Growth annual %
Imports	575	579	4	0,7%
Exports	4.474	4.496	22	0,5%
Balance	3.899	3.917	18	
Total trade	5.049	5.075	26	0,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Norway (mio €)

Norway	2017	2018	Growth mio €	Growth annual %
EU28 imports	73.182	83.258	10.076	13,8%
EU28 exports	46.185	49.371	3.186	6,9%
Balance	-26.997	-33.888	-6.890	
Total trade	119.367	132.629	13.262	11,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Norway (mio €)

Norway	2016	2017	Growth mio €	Growth annual %
Imports	15.868	15.553	-315	-2,0%
Exports	28.497	28.720	223	0,8%
Balance	12.629	13.167	538	
Total trade	44.364	44.273	-91	-0,2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Norway (mio €)

	2013	2014	2015	2016	2017
Imports	14.396	16.526	16.046	15.868	15.553
Exports	27.050	28.131	30.479	28.497	28.720
Balance	12.653	11.605	14.434	12.629	13.167
Total trade	41.446	44.657	46.525	44.364	44.273

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Norway (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	68.282	73.807	89.838	103.251	94.452
Outward	72.212	81.414	90.716	102.962	90.293
	FDI Flows				
Inward	938	4.964	3.361	1.868	2.794
Outward	9.202	5.052	8.114	4.022	4.478

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Fill rates of Norwegian TRQs (*Source Norwegian authorities)*

Norwegian customs tariff 2012	Description of products	Quota volume 2018	Fill rate 2018	Fill rate 2017
02.01	**Meat of bovine animals, fresh or chilled.**	1300	93%	100%
02.01.1000	- Carcasses and half-carcasses			
	- Other cuts with bone in :			
02.01.2001	- - "Compensated quarters", i.e. forequarters and the hindquarters of the same animal are presented at the same time			
02.01.2002	- - Other forequarters			
02.01.2003	- - Other hindquarters			
02.01.2004	- - So-called "Pistola cuts"			
02.02	**Meat of bovine animals, frozen.**			

02.02.1000 02.02.2001 02.02.2002 02.02.2003 02.02.2004	- Carcasses and half-carcasses - Other cuts with bone in : - - "Compensated quarters", i.e. forequarters and the hindquarters of the same animal are presented at the same time - - Other forequarters - - Other hindquarters - - So-called "Pistola cuts"			
02.03 02.03.1101 02.03.2101	**Meat of swine, fresh, chilled or frozen.** - Fresh or chilled : - - Carcasses and half-carcasses : - - - Of domestic swine - Frozen : - - Carcasses and half-carcasses : - - - Of domestic swine	600	83%	98%
02.03 02-03-1904	**Meat of swine, fresh, chilled or frozen.** - Fresh or chilled : - - Other: - - - Of domestic swine : - - - - Bellies (streaky) and cuts thereof : - - - - - With bone in	75	99%	
02.06 02.06.4100	**Edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies, fresh, chilled or frozen.** - Of swine, frozen : - - Livers	350	0%	0%
02.07 02.07.1100 02.07.1200 02.07.2400 02.07.2500	**Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen.** - Of fowls of the species Gallus domesticus : - - Not cut in pieces, fresh or chilled - - Not cut in pieces, frozen - Of turkeys : - - Not cut in pieces, fresh or chilled - - Not cut in pieces, frozen	837,5	63%	62%
02.07 02.07.4401	**Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen.** - Of ducks : - - Other, fresh or chilled : - - - Breasts and cuts thereof	125	3%	8%
02.10 02.10.1101	**Meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat or meat offal.** - Meat of swine: - - Hams, shoulders and cuts thereof, with bone in : - - - Containing 15 % or more by weight of bones	450	96%	99%
04.06 04.06.1001 04.06.1009 04.06.2000 04.06.3000 04.06.4001 04.06.4005 04.06.4008 04.06.4009 04.06.9030	**Cheese and curd.** - Fresh (unripened or uncured) cheese, including whey cheese and curd : - - Whey cheese - - Other - Grated or powdered cheese, of all kinds - Processed cheese, not grated or powdered - Blue-veined cheese and other cheese containing veins produced by Penicillium roqueforti : - - Roquefort - - Gorgonzola - - Other : - - - Unpasteurized - - - Other - Other cheese : - - Feta and similar cheeses	7500	98%	100%

04.06.9082 04.06.9084 04.06.9089 04.06.9091 04.06.9099	- - White-veined cheese : - - - Camembert - - - Brie - - - Other - - Other : - - - Unpasteurized - - - Other			
04.07 04.07.1100 04.07.2100 ex 04.07.9000	**Birds' eggs in shell, fresh preserved or cooked.** - Fertilised eggs for incubation : - - Of fowls of the species Gallus domesticus - Other fresh eggs : - - Of fowls of the species Gallus domesticus - Other	290	57%	65%
05.11 05.11.9911	**Animal products not elsewhere specified or included; dead animals of Chapter 1 or 3, unfit for human consumption.** - Other : - - Other : - - - Blood powder, unfit for human consumption : - - - - For feed purpose	350 Duty free access granted 01.10.2018	0%	0%
06.02 06.02.1021 06.02.1024	**Other live plants (including their roots), cuttings and slips; mushroom spawn.** - Unrootened cuttings and slips : - - Cuttings for nursery or horticultural purposes, except of green plants from 15 December - 30 April : - - - Begonia, all sorts, Campanula isophylla, Euphorbia pulcherrima, Poinsettia pulcherrima, Fuchsia, Hibiscus, Kalanchoe and Petunia-hanging (Petunia hybrida, Petunia atkinsiana) - - - Pelargonium	2 million Duty free access granted 01.10.2018	100%	100%
06.02 ex 06.02.9043 06.02.9044	**Other live plants (including their roots), cuttings and slips; mushroom spawn.** - Other : - - With balled roots or other culture media : - - - Other pot plants or bedding plants : - - - - Pot plants or bedding plants, in flower : - - - - - Begonia x cheimantha, Begonia x semperflorens, Begonia x tuberhybrida, Bidens, Brachycome, Callistephus, Cyclamen persicum, Dahlia, Dianthus, Fuchsia, Gerbera, Hydrangea macrophylla, Impatiens, Lobelia, Lobularia, Petunia (all species), Scaevola, Senecio cineraria, Senecio bicolor, Tagetes, Tropaeolum, Verbena, Viola and Zinnia, also when imported as part of mixed groups of plants - - - - - Achimenes, Aster novi-belgii, Calceolaria herbeohybrida, Capsicum annum, Catharanthus roseus, Vinca rosea, Dipladenia, Nematanthus, Hypocyrta, Osteospermum, Schlumbergera, Senecio x hybridus, Cineraria, Sinningia speciosa, Gloxinia, Solanum and Streptocarpus, also when imported as part of mixed groups of plants	11 million	89%	99%
06.02	**Other live plants (including their roots), cuttings and slips; mushroom spawn.** - Other : - - With balled roots or other culture media : - - - Other pot plants or bedding plants : - - - - Green pot plants from 1 May to 14 December :	4,75 million	90%	100%

06.02.9031	- - - - - Condiaeum, Croton, Dieffenbacchia, Epipremnum, Scindapsus aureum, Hedera, Nephrolepis, Peperomia obtusifolia, Peperomia rotundifolia, Schefflera, Soleirolia and Helxine, also when imported as part of mixed groups of plants			
06.02 06.02.9091	**Other live plants (including their roots), cuttings and slips; mushroom spawn.** - Other : - - Other : - - - Grass in rolls or plates (lawn)	4 million	64%	0%
07.01 07.01.9022	**Potatoes, fresh or chilled.** - Other : - - From 16 July to 14 May : - - - New potatoes imported 1 April - 14 May	2500	12%	19%
07.05 07.05.1112 07.05.1122	**Lettuce (Lactuca sativa) and chicory (Cichorium spp.), fresh or chilled.** - Lettuce : - - Cabbage lettuce (head lettuce) : - - - Iceberg lettuce : - - - - From 1 March to 31 May : - - - - - Whole - - - - From 1 June to 30 November : - - - - - Whole	600	74%	60%
07.05 07.05.1112 07.05.1119	**Lettuce (Lactuca sativa) and chicory (Cichorium spp.), fresh or chilled.** - Lettuce : - - Cabbage lettuce (head lettuce) : - - - Iceberg lettuce : - - - - From 1 March to 31 May : - - - - - Whole - - - - - Other	400	78%	88%
07.12 07.12.9011	**Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared.** - Other vegetables; mixtures of vegetables : - - Potatoes : - - - Whether or not cut or sliced but not further prepared	300	35%	36%
08.08 ex 08.08.1011	**Apples, pears and quinces, fresh.** - Apples : - - From 1 May to 1. August	2000	50%	98%
08.10 08.10.1023 08.10.1024	**Other fruit, fresh.** - Strawberries : - - From 9 June to 31 October : - - - From 9 June to 30 June - - - From 1 July to 9 September	300	72%	77%
08.11 08.11.1000	**Fruit and nuts, uncooked or cooked by steaming or boiling in water, frozen, whether or not containing added sugar or other sweetening matter.** - Strawberries :	2200	97%	95%
08.11 08.11.2091 08.11.2092 08.11.2093	**Fruit and nuts, uncooked or cooked by steaming or boiling in water, frozen, whether or not containing added sugar or other sweetening matter.** - Raspberries, blackberries, mulberries, loganberries, black, white or red currants and gooseberries : - - Other : - - - Raspberries - - - Blackberries, mulberries or loganberries - - - Black currants	950	99%	99%

08.11.2094 08.11.2095	- - - White or red currants - - - Gooseberries			
08.12 08.12.1000	**Fruit and nuts, provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption.** - Cherries	100	0%	0%
10.01 10.01.1900	**Wheat and meslin.** - Durum wheat : - - Other	5000	24%	30%
10.02 ex 10.02.1000	**Rye.** - Autumn rye	1000	24%	27%
10.05 10.05.9010	**Maize (corn).** - Other : - - For feed purpose	11250	97%	100%
11.03 11.03.1310	**Cereal groats, meal and pellets.** - Groats and meal : - - Of maize (corn) : - - - For feed purpose	10000	98%	100%
12.09 12.09.2300	**Seeds, fruit and spores, of a kind used for sowing.** - Seeds of forage plants : - - Fescue seeds	400	95%	89%
12.09 12.09.2300	**Seeds, fruit and spores, of a kind used for sowing.** - Seeds of forage plants : - - Fescue seeds	75	92%	96%
12.09 12.09.2400	**Seeds, fruit and spores, of a kind used for sowing.** - Seeds of forage plants : - - Kentucky blue grass (Poa pratensis L.) seeds	200	74%	77%
12.09 12.09.2400	**Seeds, fruit and spores, of a kind used for sowing.** - Seeds of forage plants : - - Kentucky blue grass (Poa pratensis L.) seeds	50	53%	92%
12.09 12.09.2500	**Seeds, fruit and spores, of a kind used for sowing.** - Seeds of forage plants : - - Rye grass (Lolium multiflorum Lam., Lolium perenne L.) seeds	700	99%	87%
12.14 12.14.9091	**Swedes, mangolds, fodder roots, hay, lucerne (alfalfa), clover, sainfoin, forage kale, lupines, vetches and similar forage products, whether or not in the form of pellets.** - Other : - - Other : - - - Hay	35000	53%	52%
16.01.0000	**Sausages and similar products, of meat, meat offal or blood; food preparations based on these products.**	450	91%	88%
16.02 16.02.4910	**Other prepared or preserved meat, meat offal or blood.** - Of swine : - - Other, including mixtures : - - - "Bacon crisp"	350	32%	30%
16.02 16.02.5001	**Other prepared or preserved meat, meat offal or blood.** - Of bovine animals - - Meatballs, each of a weight of 25 grams or less, diameter 3 cm or less and containing 18% fat or less	200	50%	43%
20.05 20.05.2091	**Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen, other than products of heading 20.06.** - Potatoes : - - Other : - - - Semi-manufactures for the production of snacks	3000	58%	57%

20.09 20.09.7100 20.09.7900	**Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.** - Apple juice : - - Of a Brix value not exceeding 20 - - Other	3300	99%	100%
20.09 20.09.8911 20.09.8919	**Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.** - Unmixted juices of other fruites and vegetables: - - Other : - - - Black currant juice: - - - - Containing added sugar or other sweetening matter - - - - Other			100%
20.09 ex. 20.09.8999	**Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.** - Unmixted juices of other fruites and vegetables: - - Other : - - - Other : - - - - Bilberry concentrate	200 Duty free access granted 01.10.2018	25%	58%

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE EU-SWITZERLAND FREE TRADE AGREEMENT

1. INTRODUCTION

The EU-Swiss trade relations are among the deepest worldwide outside the context of a customs union/internal market. For Switzerland, the EU is by far the most important trading partner. For the EU, Switzerland is the third overall trading partner, number 2 for services.

The cornerstone of EU-Swiss trade relation is the EU-Switzerland **Free Trade Agreement of 1972**[94]. It concerns **goods only** and is one of the oldest trade agreements signed by the EU. It does not contain provisions on services, investment, Intellectual Property Rights (IPR), government procurement or social and environmental values. No dispute settlement mechanism is foreseen beyond the regular annual dialogue 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[95] allows for the provision of services, limited in time.
– The Mutual Recognition Agreement in relation to conformity assessment[96] 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[97], that builds on the WTO Government Procurement Agreement.
– The Agreement on trade in agricultural products[98], which includes sanitary and phytosanitary 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.

In the last two decades, there was no major evolution to this rather complex setting. The gap is growing between the current legal arrangements of EU and Switzerland and the standards of modern and comprehensive FTAs concluded by the EU and Switzerland/EFTA, respectively. A modernisation of the FTA is needed to unlock potential for further bilateral trade.

94 https://eur-lex.europa.eu/legal-content/en/ALL/?uri=OJ:L:1972:300:TOC
95 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22002A0430%2801%29
96 http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_152006.pdf
97 https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:22002A0430(06)
98 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2002.114.01.0132.01.ENG

Between 2014 and 2018, both parties have been 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 as well as State aid rules. The negotiation was concluded in November 2018 and was subject to a public consultation in Switzerland in Spring 2019. The Commission expects the consultation to be swift and hope that its outcome will be positive, as this is necessary to put relations between the EU and Switzerland on a solid institutional footing. A Joint declaration is annexed to the International Framework Agreement, where both parties commit to modernise the trade-related agreements, with negotiations starting in 2020.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

Trade in goods is very dynamic between the EU and Switzerland, amounting to €265 billion in 2018. The EU is Switzerland's main trading partner by far, representing, in 2018, 62% of its exports of goods, and 44% of its imports. Overall, the EU concentrated 53% of Switzerland's trade in goods, followed by the United States (with approximately 10%) and China (with around 8%). Switzerland is the EU's third trading partner, representing 7% of its trade in goods, after the USA (17%) and China (15%). Trade grew by almost 2% between 2017 and 2018, whereby European exports to Switzerland grew by 4% and its imports decreased by almost 2%. The trade balance has been positive for the EU in the last years, and amounted to almost €48 billion in 2018.

71% of EU imports from Switzerland are directed to Germany, France, Italy and the United Kingdom. The biggest exporters to Switzerland are Germany, Italy, the United Kingdom and France, representing 72% of EU exports.

Chemicals and related products represent 39% of EU imports from Switzerland, followed by miscellaneous manufactured articles (20%) and machinery and transport equipment (18%).

EU exports to Switzerland concentrate on the same product categories: machinery and transport equipment (23%); chemicals and related products (22%) and miscellaneous manufactured articles (20%).

2.2. Trade in agricultural goods

With almost €5 billion agri-food products imported in 2018 from Switzerland, representing 4% of the goods imported, and €8 billion exported from the EU to the Swiss market, representing 5% of exported goods, the Swiss and European markets for agricultural products are closely linked.

The EU imports mainly coffee and tea (HS 09), which represent 30% of the agri-food imports, followed by beverages (HS 22) and edible preparations (HS 21). The EU exports mainly beverages (HS 22), fruits & nuts (HS 08) and cereals, flour and starch (HS 19). Between 2017 and 2018, EU agri-food exports to Switzerland grew by 1% whereas EU imports from Switzerland declined by 1%.

In general, Switzerland makes little use of the agri-food tariff rate quotas (TRQs) granted by the EU and the use has been decreasing compared to 2017. Out of 32 TRQs, 27 are completely or largely unused (below 10%). The five quotas that are used most are the one for beef (91% fill rate), potatoes (35%), cherries (21%), hams or domestic swine (20%) and cream and yogurt (15%).

In 2018, the EU fully (100%) utilised 28 out of 50 Swiss agricultural TRQs (including EU key export products such as cured ham & pork products) while the fill rate exceeded 50% for a further 12 of these 50 Swiss TRQs. Five TRQs were utilised between 35-49%, and the remaining five were utilised at a rate below 35%.

2.3. Trade in Services and Foreign Direct investment (FDIs)

Switzerland is the second trading partner of the EU when it comes to services. The value of the services provided by the EU in Switzerland has been on a constant rise in the past five years, reaching €119 billion in 2017, which represent an increase of 2% compared to 2016. The services provided by Switzerland in the EU were worth €72 billion in 2017, which represented a decrease of 23% compared to the previous year. The balance of trade in services is positive for the EU.

The stocks of FDI in the EU held by Switzerland reached in 2017 €802 billion, with an annual average increase of 15% over the past four years. The stocks of FDI of the EU in Switzerland amount to €979 billion in 2017, with an average annual increase of 10%. Switzerland gathers about 13% of the total EU28 stocks invested outside the EU28.

3. ISSUES ADDRESSED IN THE ANNUAL JOINT COMMITTEE MEETING

Two FTA Joint Committee meetings took place in 2018 chaired by the Swiss party.

At the Joint committee meeting of 17 September 2018, the EU presented the on-going investigation on certain steel products and discussed with its Swiss partners how EU safeguard measures should be shaped to be least distortive to bilateral trade, if such measures were deemed necessary to prevent trade distortion worldwide.

At the FTA Joint Committee on 13 November 2018, a wider range of topics were discussed, including the latest price references for processed agricultural products, the Company tax reform and some market access issues.

Joint committees under other bilateral agreements of trade relevance also take place on a regular basis. The Annual Joint Committee meeting on agriculture took place on 11 October 2018 and several working group met on technical issues such as Geographical Indications, organics and wine & spirits drinks.

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 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, the Swiss are 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

Progress was made on several issues: the long-awaited **Company tax reform**, modifying the discriminatory cantonal fiscal status of companies, which was also problematic from a State aid point of view, was approved by the Swiss Parliament in September 2018 and should enter into force on 1 January 2020.

In the context of the WTO Nairobi decision on export subsidies, Switzerland abolished by a decision of the Federal Council of September 2018, its **agricultural export subsidies** laid down in the "loi chocolatière", as of January 2019.

The process of adapting the price reference of basic agricultural products needed in the context of the price compensation mechanism for **processed agricultural products** (protocol 2 to the FTA) ran particularly smoothly this year so parties agreed to further develop their methodology, in a spirit of greater transparency and simplicity.

Progress was made towards solving the issue related to the Swiss reclassification of "**seasoned meat**", which resulted in significantly higher import tariffs for seasoned meat, affecting particularly EU exporters. In 2018, Switzerland notified in WTO its intention to launch negotiations to modify the tariff concessions for 'meat not further prepared than seasoned'. The EU negotiating directives were adopted in December 2018, so that progress can be expected in 2019.

Negotiations to extend the scope of the **SPS rules** currently applicable between Switzerland and the EU made progress in 2018. A new agreement addressing notably labelling or food safety issues could facilitate trade between the parties.

The shaping of the **EU safeguard measures** on certain products of steel was subject to intense discussions with Switzerland in order to find a solution that is as least distortive to trade as possible. Their implementation will be closely monitored in the coming months.

When it comes to market access barriers, the Parliament of the Ticino region abolished in November 2018 the **law on artisanal enterprises**, which was welcomed by the EU as it represented a trade barrier to European cross-border service providers. However, the issue will have to be monitored closely since there have been voices in Ticino asking for similar measures to be reintroduced.

Access to market in the services sector remains however a major issue. The so-called "flanking measures" that the Swiss put in place to accompany the implementation of the EU-Switzerland Free Movement of Persons Agreement[99] are a long-standing issue, as the EU considers them burdensome and disproportionate. A compromise solution was found in the context of the EU-Swiss Institutional Framework Agreement, which the EU side hopes will be endorsed politically in Switzerland at the end of the consultation process.
The lack of a **level playing field as regards State aid** also remains an issue, as existing agreements between the EU and Switzerland do not include effective State aid rules. A solution was found in the context of the EU-Swiss Institutional Framework Agreement, which

[99] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22002A0430%2801%29

includes State aid rules for existing and future market access agreements between the EU and Switzerland.

6. CONCLUSIONS AND OUTLOOK

The Council adopted on 19 February 2019 the following conclusions[100] that summarise the situation and will guide Commission work in the coming months.

On the Institutional Framework:
"*In May 2014, the EU and Switzerland have entered into negotiations on a common institutional framework for existing and future agreements, with a view to consolidating the bilateral approach and to developing the EU-Swiss comprehensive partnership to its full potential. After more than four years, negotiations have come to a close at the end of 2018. Negotiators have found fair and balanced solutions in areas such as the rules for dynamic take-over of EU acquis by Switzerland, the mechanism for independent dispute settlement and the provisions to ensure increased legal certainty, as well as a level playing field for our citizens and economic operators. The Council strongly regrets that the Swiss Federal Council did not endorse this outcome in December 2018 and calls on the Federal Council to stand behind the negotiated text of the Institutional Framework Agreement and submit it for adoption to the Federal Assembly as soon as the consultation of stakeholders is completed in spring 2019. The Council emphasises that the conclusion of the Institutional Framework Agreement on the basis of the present text is a precondition for the EU for the conclusion of future agreements on Swiss participation in the EU's internal market and also an essential element for deciding upon further progress towards mutually beneficial market access. This will allow for a consolidation of the bilateral approach, in such a way as to ensure its sustainability and further development*".

On the trade relationship:
"*The EU and Switzerland continue to enjoy a strong and stable trading relationship, to the benefit of both sides. However, the free trade agreement of 1972, which is at the basis of our close economic relationship, has not been adjusted to developments in international trade rules since. The Council therefore calls for embarking on a path of modernising the agreements governing the trade relations between Switzerland and the European Union, in particular the free trade agreement. Enhanced access to the Swiss market for operators from the EU, notably in the agri-food and services sectors, should be urgently addressed*".

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Switzerland (mio €)					
Imports	96.546	102.356	121.371	110.728	108.980
Exports	140.288	150.513	142.218	150.245	156.484
Balance	43.742	48.157	20.847	39.517	47.504
Share Switzerland in EU28 trade with Extra-EU28					
Imports	5,7%	5,9%	7,1%	6,0%	5,5%
Exports	8,2%	8,4%	8,1%	8,0%	8,0%
Total (I+E)	7,0%	7,2%	7,6%	7,0%	6,7%
Share EU28 in trade Switzerland with world					
Imports	66,3%	64,6%	55,8%	59,7%	63,0%
Exports	45,2%	43,5%	48,4%	45,3%	44,4%

[100] https://www.consilium.europa.eu/en/press/press-releases/2019/02/19/council-conclusions-on-eu-relations-with-the-swiss-confederation/

Total (I+E)	55,1%	53,3%	51,9%	52,1%	53,1%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Switzerland: IMF Dots

Total merchandise trade EU28 with Switzerland (mio €)

Switzerland	2017	2018	Growth mio €	annual %
Imports	110.728	108.980	-1.749	-1,6%
Exports	150.245	156.484	6.239	4,2%
Balance	39.517	47.504	7.988	
Total trade	260.973	265.464	4.490	1,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Switzerland (mio €)

Switzerland	2017	2018	Growth mio €	annual %
Imports	4.660	4.593	-67	-1,4%
Exports	8.204	8.254	51	0,6%
Balance	3.543	3.661	118	
Total trade	12.864	12.847	-17	-0,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Switzerland (mio €)

Switzerland	2017	2018	Growth mio €	annual %
EU28 imports	106.068	104.387	-1.681	-1,6%
EU28 exports	142.041	148.230	6.189	4,4%
Balance	35.973	43.843	7.870	
Total trade	248.110	252.617	4.507	1,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Switzerland (mio €)

Switzerland	2016	2017	Growth mio €	annual %
Imports	93.080	71.676	-21.404	-23,0%
Exports	116.568	118.986	2.418	2,1%
Balance	23.487	47.309	23.822	
Total trade	209.648	190.662	-18.986	-9,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Switzerland (mio €)

	2013	2014	2015	2016	2017
Imports	54.252	62.897	73.017	93.080	71.676
Exports	101.554	107.363	115.139	116.568	118.986
Balance	47.302	44.465	42.122	23.487	47.309
Total trade	155.806	170.260	188.155	209.648	190.662

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Switzerland (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	503.054	516.232	685.515	762.270	802.444
Outward	709.272	731.320	894.365	984.936	978.969
FDI Flows					
Inward	24.911	38.329	121.712	100.848	28.383
Outward	35.934	-30.615	56.335	98.349	18.315

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

THE CUSTOMS UNION WITH TURKEY

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE EU-TURKEY CUSTOMS UNION AND TRADE AGREEMENTS

The contractual relations between the EU and Turkey date back to 1963 when the European Economic Community (i.e. the EU's predecessor) and Turkey signed an **Association Agreement** (the 'Ankara Agreement'), in which both parties agreed to progressively establish a **Customs Union** over a period of several years. An Additional Protocol was signed in November 1970, setting out a timetable for the abolition of tariffs and quotas on industrial goods circulating between the parties. The final phase of the Customs Union was completed on 1 January 1996 in the shape of the EU-Turkey Association Council Decision No 1/95, which is currently in force.[101]

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 and State aid policy and 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**[102] in 1996, along with relevant competition rules. The **Association Council Decision No 1/98**[103] **(amended by Decision No 2/2006**[104]**)** 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. In that respect, the conclusions of the General Affairs Council meeting of 26 June 2018 noted that *"Turkey has been moving further away from the European Union. Turkey's accession negotiations have therefore effectively come to a standstill and no further chapters can be considered for opening or closing and no further work towards the modernisation of the EU-Turkey Customs Union is foreseen."*

1. 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[105]. The rise in Foreign Direct investment (FDI) to Turkey from the EU has been similarly significant,

[101] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21996D0213(01):EN:HTML
[102] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21996A0907(01):en:HTML
[103] http://eur-lex.europa.eu/legal-content/en/ALL/?uri=OJ:L:1998:086:TOC
[104] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22006D0999&from=EN
[105] World Bank: Evaluation of the EU - Turkey Customs Union, March 2014

as has been the deeper integration in production networks between Turkish and European firms. In 2018, Turkey remained the EU's 5th largest trading partner overall (it is the EU's 5th biggest export market as well as source of imports), while the EU is by far Turkey's most important trading partner. The share of Turkish exports going to the EU increased from 47% to 50%, while the share of Turkish imports coming from the EU declined marginally from 36.4% to 36.2% between 2017 and 2018.

1.1 Trade in Goods

While EU-Turkey bilateral trade in goods increased rapidly in recent years, in 2018 trade showed a mixed picture, in particular due to the Turkish lira losing as much as 40% of its value against the euro over summer - before recovering some of its losses. This lead to an overall decrease in Turkish imports while at the same time facilitating exports, resulting in an improvement in the Turkish current account deficit. According to Eurostat data, EU goods exports to Turkey hence fell by 9% to €77 billion while imports from Turkey rose by 9% to €76 billion. Overall trade in goods thus amounted to €153 billion in 2018, down slightly from €154.5 billion in 2017.

Regarding the sectoral split, the EU's biggest export category in 2018 was machinery and appliances (26% of overall EU exports), followed by transport equipment (14%), base metals and article thereof (13%) and chemical products (12%). Turkey's biggest export sector was transport equipment (26%), followed by textiles and textile articles (19%) and machinery and appliances (17%).

On the basis of this diverse set of goods, Turkey has a significant trade relationship with many Member States, almost all of which were affected by the general trend reflected in the overall figure in 2018, i.e. falling exports to and increasing imports from Turkey.

1.2 Trade in agricultural goods

In 2018, Turkey was the EU's 7th largest supplier of agricultural goods, but is no longer in the top 10 export destination countries. The EU had a trade deficit in agriculture with Turkey of €1.3 billion, considerably widened from €823 million in 2017 due to a sharp decline in exports.

EU agri-food exports to Turkey are well diversified, with only one category exceeding 10% of all extra-EU agri-food exports in 2018, namely live animals (13%). Agri-food imports from Turkey are also diverse, with the top category 'preparations of vegetables, fruits, nuts and plants' accounting for 19% of all imports.

1.3 Trade in Services and Foreign Direct investment (FDIs)

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 2017. As the table in Section 7 sets out, data continue to show a substantial trade surplus for Turkey, although down from earlier years in large part due to the decrease in Turkey-bound tourism in the aftermath of the attempted coup and terrorist attacks. These will therefore likely show a rebound in 2018. Besides the importance of the tourism sector, however, the figures also reflect the high barriers to enter the Turkish services market.

As for foreign direct investment (FDI), the EU remained by far the biggest source in Turkey, though the total FDI stock shrank significantly to €69 billion in 2017. While FDI flows with Turkey are relatively volatile, some of the decrease in stock is likely due to the same instability factors that affected trade in 2016 and 2017. In 2017, European investment in Turkey was along the same limited lines as in the previous year at €1 billion, down significantly from the previous trend. Another notable development over the longer term is the sustained increase of Turkish FDI in the EU, with stocks at €19 billion in 2017.

2 ISSUES ADDRESSED IN THE COMMITTEE MEETINGS

The 36th Customs Union Joint Committee (CUJC) meetings took place on 16 and 17 May 2018 in Ankara, and was already included in the 2018 FTA Implementation Report. 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 Intellectual Property Rights (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 such as State aid.
- Update on recent EU trade policy developments, in particular as regards negotiations of free trade agreements with third countries, linked to Turkey's obligation to align with the EU's commercial policy.
- The non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States including the Republic of Cyprus.

In addition, the 49th meeting of the EU-Turkey Customs Co-operation Committee (CCC) took place in Ankara on 29 November 2018. The main topics addressed by the Committee were the following:

- Recent developments in relation to customs legislation.
- Updates regarding rules of origin, including the state of play regarding their internal procedures for the linkage to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin.
- Implementation issues around the electronic issuance of movement certificates (A.TR, EUR.1, and EUR-MED).

- Trade barriers and breaches of the Customs Union by Turkey that affect customs, including in particular the requirement of proof of origin applied by Turkey and additional documentation requirements at customs.
- Information exchange on recent legislative developments and on the risk analysis customs enforcement of IPR in Turkey and in the EU.

3 SPECIFIC AREAS OF IMPORTANCE

Turkey had a difficult year 2018, as the economy slowed markedly during the year after strong growth in the preceding years. From 2013 to 2017, GDP grew by 5% a year on average and per capita income converged significantly with EU levels, from 52% in 2010 to 65% in 2017. However, against the backdrop of Turkish public policy choices, investors lost confidence in the sustainability of this boom, which led to a sharp deterioration in external financing conditions, and in turn to a rapid depreciation in the Turkish lira, high inflation and a technical recession from the third quarter of 2018. In line with this, the current account reversed to a surplus as imports contracted and exports increased. Over the entire year 2018, Turkey still recorded a current account deficit of 3.6% of GDP, but the trade balance in particular with the EU changed drastically to a now quite balanced relationship.

Of particular importance regarding the implementation of both the Customs Union and the ECSC-Turkey free trade agreement for coal, iron and steel products in 2018 was the imposition of safeguard measures. As a response to the 25% import duties on steel applied by the United States from 23 March 2018, both Turkey and the EU initiated a safeguard procedure. After concluding its investigation, the European Commission instated first a provisional measure on 17 July 2018, and then definitive safeguard measures that entered into force on 2 February 2019. These take the form of a Tariff Rate Quota and a 25% out-of-quota duty on certain steel products, and were designed to be the least disturbing to trade in accordance with WTO rules and bilateral agreements. Turkey on 20 September 2018 also adopted provisional safeguard measures and continued its investigation. A series of exchanges and consultations took place in 2018 in that regard.

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

As regards the implementation of the existing bilateral preferential trade framework, limited progress was achieved in 2018 on several relatively minor issues, such as the rules on management of tariff quotas.

However, on balance Turkey created further market access barriers in breach of the Customs Union rules, and aggravated previous open issues in 2018. Overall, Turkey thus continued its course of maintaining and introducing trade barriers that also affect European companies.

Turkey has notably upheld trade barriers that breach the Customs Union agreement in continuing - and broadening - its deviation from the common customs tariff through additional duties on products originating outside the EU or Turkey's FTA partners. These additional duties by now cover a large part of all product lines that are subject to the Customs Union, including more sophisticated products that potentially affect not only logistics and distribution, but also assembly in the EU. In addition, given this practice as well as other documentation requirements, Turkey imposes a proof of origin contrary to Customs Union rules. Other main open issues concern the continued localisation policy in the pharmaceutical sector, discrimination against EU exports of tractors and export restrictions on leather products.

As reflected in the above, the European Commission has raised concerns about these barriers in various fora, including the Customs Union Joint Committee and other bilateral meetings as well as in written exchanges. It will continue to follow up on these and any arising issues in detail with the Turkish authorities, as well as all relevant stakeholders. In the case of the localisation requirements in the pharmaceutical sector imposed by Turkey that are in clear breach not only of bilateral agreements, but also WTO rules, the European Commission, as a last resort, after repeated warnings, decided to bring this case to WTO dispute settlement and, on 2 April 2019, requested WTO consultations with Turkey. The case is ongoing.

Finally, another area of concern is state aid control. Turkey has not adopted the necessary secondary legislation, and therefore there is no control of state aid, contrary to Turkey's obligations under the Customs Union Agreement.

5 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. This is reflected in the open issues discussed above. The European Commission had therefore adopted on 21 December 2016 a proposal to modernise the Customs Union to improve its functioning and to further extend the scope of the bilateral preferential trade arrangements in line with its approach to modern free trade agreements, also covering areas such as services, public procurement, specific rules for SMEs and sustainable development, as well as further liberalisation of agricultural products. A modernised Customs Union would also need to contain an effective dispute settlement mechanism to address the increasing number of trade and market access problems faced by European companies.

While the Commission proposal is pending adoption by the Council given political circumstances, Turkish measures diverging from the present agreements have to be remedied, and in particular the present trend of increasing market access barriers has to be reversed.

6. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Turkey (mio €)					
Imports	54.409	61.696	66.592	69.784	76.139
Exports	74.757	78.964	77.919	84.827	77.270
Balance	20.347	17.269	11.327	15.043	1.131
Share Turkey in EU28 trade with Extra-EU28					
Imports	3,2%	3,6%	3,9%	3,8%	3,8%
Exports	4,4%	4,4%	4,5%	4,5%	4,0%
Total (I+E)	3,8%	4,0%	4,2%	4,1%	3,9%
Share EU28 in trade Turkey with world					
Imports	36,7%	38,0%	39,0%	36,4%	36,2%
Exports	43,5%	44,5%	48,0%	47,1%	50,0%
Total (I+E)	39,3%	40,6%	42,8%	40,7%	42,1%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Turkey: IMF Dots

Total merchandise trade EU28 with Turkey (mio €)

Turkey	2017	2018	Growth mio €	Growth annual %
Imports	69.784	76.139	6.355	9,1%
Exports	84.827	77.270	-7.556	-8,9%
Balance	15.043	1.131	-13.912	
Total trade	154.610	153.409	-1.201	-0,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Turkey (mio €)

Turkey	2017	2018	Growth mio €	Growth annual %
Imports	4.492	4.482	-10	-0,2%
Exports	3.669	3.147	-522	-14,2%
Balance	-823	-1.335	-512	
Total trade	8.161	7.629	-531	-6,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Turkey (mio €)

Turkey	2017	2018	Growth mio €	Growth annual %
EU28 imports	65.292	71.657	6.365	9,7%
EU28 exports	81.158	74.123	-7.035	-8,7%
Balance	15.866	2.466	-13.400	
Total trade	146.450	145.780	-670	-0,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Turkey (mio €)

Turkey	2016	2017	Growth mio €	Growth annual %
Imports	14.041	14.109	68	0,5%
Exports	12.644	12.557	-87	-0,7%
Balance	-1.398	-1.552	-155	
Total trade	26.685	26.666	-19	-0,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Turkey (mio €)

	2013	2014	2015	2016	2017
Imports	15.295	15.890	16.725	14.041	14.109
Exports	10.387	10.662	13.055	12.644	12.557
Balance	-4.908	-5.228	-3.670	-1.398	-1.552
Total trade	25.682	26.551	29.780	26.685	26.666

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Turkey (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	7.977	9.210	12.200	21.733	19.477
Outward	62.288	66.889	77.723	75.921	68.701
FDI Flows					
Inward	3.095	1.743	1.522	867	303
Outward	5.947	4.727	12.364	1.132	1.042

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

PART IV: ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENTS (EPAs) WITH AFRICAN, CARRIBEAN AND PACIFIC COUNTRIES

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, Eswatini, Lesotho, Mozambique, Namibia and South Africa. It was signed on 10 June 2016 and entered into provisional application on 10 October 2016 for all Parties to the Agreement except for Mozambique. It entered into provisional application for Mozambique on 4 February 2018. Hence, 2018 was the first year in which all SADC EPA states fully implement the agreement.

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.

Under the EU-SADC EPA, the Southern African Customs Union (SACU)[106] grants duty free and quota free treatment to 84.9% of products exported by the EU to the region. An additional 12.9% of EU exports benefits from partial liberalisation (reduced tariffs or tariff rate quotas). As a least developed country, Mozambique liberalises a smaller percentage of exports from the EU. All SADC EPA States except South Africa receive duty free and quota free treatment for all their goods (except arms and ammunition) imported into the EU. South Africa receives such treatment for 96% of its exports to the EU and an additional 2.7% of exports from South Africa benefits from reduced tariffs or from preferential tariff rate quotas.

2. EVOLUTION OF TRADE

2.1 Trade in goods

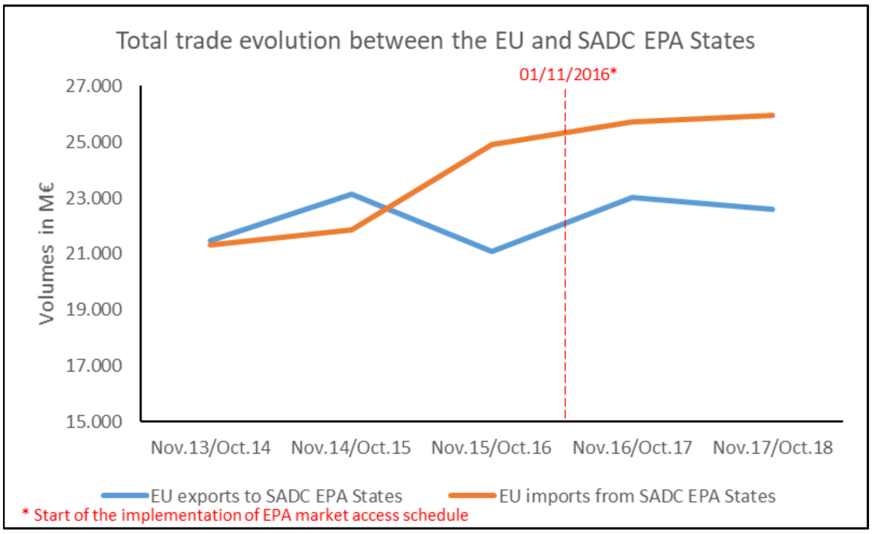
The EU remains the main trading partner for the six SADC EPA States, accounting for 24% of their exports (ahead of China with 8.5%, the US with 6% and India with 5.8%) and 25% of their imports (ahead of China with 16% and South Africa with 9.7%).

Main destination for SADC EPA States' exports within the EU are the UK (25%), Germany (24%), Belgium (18%) and the Netherlands (10%), followed by Italy (7.5%) and Spain (5.6%). EU exports to SADC EPA States come from Germany (36%), the Netherlands (9.5%), the UK (9%), Italy (8.2%) and France (6.8%).

Total trade between the EU and SADC EPA States has been increasing since implementation of the EPA. In particular, EU imports from SADC EPA states have increased continuously over the past five years, while EU exports have evolved irregularly with a slight decrease since November 2016. The balance of trade is positive for SADC EPA states, for both agrifood and non-agricultural trade, and even increasing since the implementation of the

[106] Botswana, Eswatini, Lesotho, Namibia and South Africa

EPA. South Africa accounts for 83% of EU imports from and 94% of EU exports to SADC EPA States. The trade balance with South Africa is positive for the EU but the surplus has been shrinking (down to €100 million in 2018).
In 2018, EU imports from SADC EPA States increased by €1.5 billion or 5.5% to €28.9 billion, while EU exports to SADC EPA States slightly contracted by €98 million or 0.4% to €25.7 billion. EU imports from Lesotho, South Africa, Mozambique and Namibia increased or remained stable, while imports from Botswana and Eswatini decreased. EU exports to Botswana and Mozambique increased, while exports to Lesotho, Namibia, South Africa and Eswatini decreased.



In 2018, imports from **Botswana** decreased by €90 million (-6.5%) to €1.3 billion due to a decrease in diamond exports (-€101 million or -7.5%), offset only slightly by re-exports of aircraft (+€12 million). Exports of the only other significant export to the EU, fresh or frozen beef, decreased by €2 million to €28 million.

EU imports from **Mozambique** increased by €203 million (+12%) to €1.7 billion, mostly fueled by increasing raw material exports, such as aluminium (+9.7%), mineral fuels (+25%), ores (+30%) and salt (+40%). Main exports in 2018 were aluminium (€1 billion), mineral fuels (€431 million) and tobacco products (€120 million). Other agri-food exports in 2018 were crustaceans (€31 million, -17%), sugar (€16 million, -46%) and cashew nuts (€11 million, +76%).

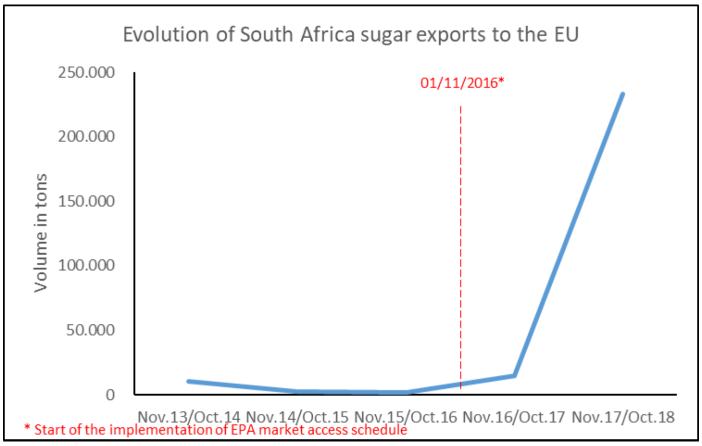
EU imports from **Namibia** have increased continuously over the past years (from €963 million in 2014 to €1.3 billion in 2018). Most important exports in 2018 were copper (€528 million, +6%), fish and crustaceans (€341 million, +6%), diamonds (€114 million, -10%), zinc (€110 million, +9%) and grapes (€65 million, +28%). Exports of inorganic chemicals (Uranium) are down €61 million or 92%.

Both Lesotho and Eswatini trade mostly with South Africa. EU imports of diamonds from **Lesotho** increased by €81 million (or 30%) to €345 million in 2018 – accounting for 98% of Lesotho's total exports to the EU. The remaining exports are mostly apparel and clothing, and some tropical fruits. EU imports of sugar from **Eswatini** (accounting for 50% of total EU imports) decreased for the fifth year in a row, by €24million or -42.6%. However, Eswatini is slowly diversifying its exports to the EU, with increasing exports of citrus fruit (+€3 million, +72%), rum (+€4 million, +435%) and exports of prepared or preserved fruits and nuts, including fruit juices (+€2 million, +21%).

EU imports from **South Africa** continued to increase in 2018, by €1.3 billion or 6% to a new total of €24 billion. Main imports in 2018 were precious stones and metals (€8 billion, +6.4%), motor vehicles (€5.2 billion, +24%), edible fruits and nuts (€1.9 billion, +5%), ores, slag and ash (€1.5 billion, +4%), machinery and mechanical appliances (€1.2 billion, +2.8%) and iron and steel (€1.1 billion, -9.7%)

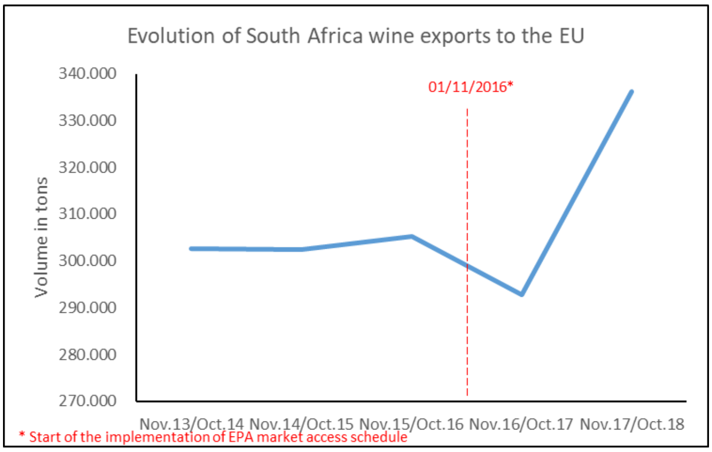
Strongest increases in absolute terms: motor vehicles (+€1 billion or 24%), precious stones and metals (+€481 million or 6%) and chemical products (+€146 or 159%). Strongest decreases in absolute terms: mineral fuels (-€218 million or 33%), iron and steel (-€117 million or 10%) and electrical machinery and equipment (-€40 million or 25%).

Main **agri-food imports from South Africa** in 2018 were fresh grapes (€471 million, -1.5%), wine (€405 million, +7.2%) and fresh sweet oranges (€333 million, -5.2%).



Cuttle fish and squid (+€45 million), maize (+€41), lemons (+€32 million), avocados (+€26) and apples (+€25 million) saw the strongest increases in absolute values. In relative terms[107], exports of maize (+1413%), fresh cut flowers (+472%), grapefruit juice (+118%) and citrus fruit (+72%) went up the most. South Africa faced slight losses in absolute values for its exports of oranges (-€18 million), fresh pears (-€15 million) and other fresh tropical fruits (-€12 million).

South Africa has benefited from **new and additional preferences for a number of its agri-food exports** to the EU. Exports of **wine** have increased strongly to €405 million in 2018, due to expanded tariff rate quotas. Fill rates for 2018 were 95%. **Sugar** exports from South Africa have considerably increased due to new zero duty tariff rate quotas: while there were only 2,400 tonnes imported in 2016, in 2018 the tariff rate quotas of 150,000 tonnes were fully used by South African operators. Export earnings in values have decreased slightly in 2018 compared to 2017 (from €57 million to €50 million) due to market prices. Finally, South Africa fully or nearly fully used the EU tariff rate quotas for **frozen orange juice** and **apple juice**. Other tariff rates quotas were not used or used only partially.



TRQs granted and TRQ usage for South African exports to the EU in 2018

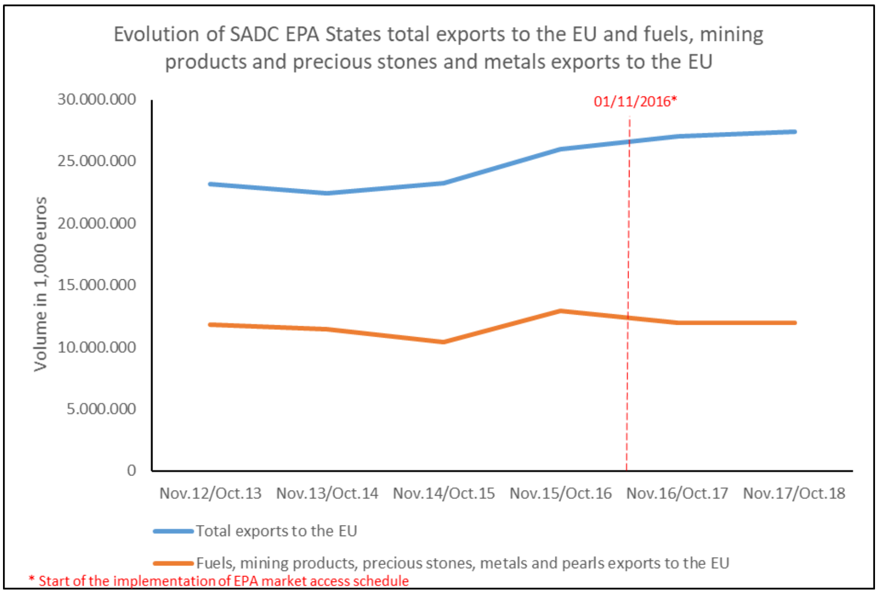
Description	Volume of TRQ in 2018 (t)	Imports in 2018 (t)	2018 quota fill
Skimmed milk powder	500	0	0,0%
Butter	500	0	0,0%
Strawberries, frozen	392,5	0	0,0%

[107] For South African exports with a value above €10 million

Cane sugar for refining and white sugar	50.000	49.725	99,4%
Cane sugar for refining	100.000	100.000	100,0%
White cristalline powder	500	0	0,0%
White cristalline powder	500	0	0%
Citrus jams	100	0	0%
Canned fruit, except tropical canned fruit	57.156	25.406	44,5%
Tropical canned fruit	3.080	237	7,7%
Frozen orange juice	1.078	1.078	100%
Apple juice	3.712	3.199	86,2%
Active yeast	350	74	21,2%
Wines - quota A (in hectolitres)	784.826	722.816	92,1%
Wines - quota B (in hectolitres)	336.354	336.354	100%

Source: DG AGRI, DG TAXUD

Exports of SADC EPA States to the EU are still little diversified. The share of fuels, mining products and precious stones and metals in total SADC exports to the EU has slightly decreased since implementation of the EPA, but nevertheless remains dominant. Exports are largely concentrated in a few products: the share of the top 10 export products in their total exports to the EU is relatively low for South Africa (46.4%), but extremely high for Botswana (99.7%), Lesotho (99.9%) and Mozambique (94.2%). Eswatini (88.8%) and Namibia (87.3%) are showing signs of diversification.



Preference utilization rates (PUR) for exports to the EU are in the 92-99% range for Botswana, Lesotho, Mozambique and Namibia. They were a bit lower for Eswatini and South Africa in 2018 where they stood at about 86%.

In 2018, total **EU exports to SADC EPA States** were €25.7 billion. EU exports to Botswana, Eswatini, Lesotho, Mozambique and Namibia increased by €159 million (12%) to €1.51 billion, while EU exports to South Africa decreased by €257 million to €24.2 billion. Main exports were machinery and mechanical appliances (€5.3 billion, -2%), motor vehicles (€4.5 billion, -3.6%), electrical machinery and equipment (€2.5 billion, -1.4%) and pharmaceutical products (€1.2 billion, +0.3%).

Main increases in exports to SADC EPA States in absolute terms: mineral fuels (+€125 million, +13%), precious stones and metals (+€92 million, +29%), inorganic chemicals (+€55 million, +15%), plastics (+€49 million, +5%) and iron and steel (+€47 million, +16%). Main increases in relative terms[108]: ships, boats and floating structures (+102%), live trees and other plants (+94%), pulp of wood (+57%), fish (+41%), precious stones and metals (+29%) and sugar (+22.5%)

Exports of aircraft (-€200 million, -61%), motor vehicles (-€166 million, -3.6%), machinery and mechanical appliances (-€108 million, -2%) and cereals (-€84 million, -34%) have shown the largest absolute losses in 2018. In relative terms[109], exports of aircrafts (-61%), products of animal origin (-40%), animal feed (-32%) and diary produce (-23%) decreased the most.

According to South African statistics, **preference utilization rates (PUR)** for EU exports to South Africa (hence to SACU overall) stood at around 64% in 2018 compared to 60% in 2017.

EU agri-food exports account for 7.7% of total exports to SADC EPA states. EU agrifood exports to SADC EPA states shrank by €94 million or 4.8% in 2018. Main agri-food exports in 2018 were wheat (€160 million), whiskies (€154 million), food preparations (€100 million), frozen chicken parts (€80 million) and sunflower oil (€73 million).

Export increases in absolute values were highest for beer (+€32 million), spirits obtained by distilling grape wine or marc (+€13 million) and food preparations (+€12.5 million). In relative terms, apple juice (+1113%), gin (+191%) and beer (+158%) increased the most.

Export decreases in absolute terms were highest for wheat (-€78 million, -33%), animal feed (-€34 million, -32%), whiskies (-€17 million, -10%), sunflower oil (-€14 million, -65%) and cheese (-€12 million, -46%). In relative terms, sunflower oil (-65%), milk and cream (-63%) and crude soya oil (-51%) decreased the most.

Since 2015, SADC EPA States poultry imports from the EU have decreased dramatically by more than 72%. The adoption of anti-dumping and safeguard measures by SADC against EU imports, as well as bans by South Africa allegedly based on SPS considerations are behind this trend.

Even though the available data for the use of TRQs granted by SACU to the EU do not cover the whole year 2018, they indicate high use of the quotas for pork, pig fat, butter and wheat.

Usage of TRQs granted by SACU to the EU from 1 January to 31 August 2018

Product	Annual quota in 2018 (t)	Quota fill till 31 August 2018 (t)
Pork	1 500	1 275
Pig fat	200	140
Butter	500	350
Cheese	7 700	2 377
Wheat	300 000	264 495
Barley	10 000	0
Cereal Based Food Preparations	2 300	0
Ice cream	150	80
Mortadella Bologna	100	0

Source: Ministry of Investment, Trade and Industry, Republic of Botswana

[108] For EU exports of products/product groups with a value of at least €10 million or more
[109] For EU exports of products/product groups with a value of at least €10 million or more

2.2 Trade in services

The EPA does not cover trade in services. Total services trade with **South Africa** increased by 8.7% to €14.5 billion in 2017 (latest year for which data is available), with EU imports from South Africa increasing by 5% to €5.4 billion and EU exports increasing by 11% to €9.1 billion. The balance of trade is positive for the EU and increasing.

Trade in services with **Botswana, Eswatini, Lesotho, Mozambique and Namibia** is marginal: €583 million with Botswana (+58%), €153 with Eswatini (-7%), €12 million with Lesotho (+66.5%), €716 million with Mozambique (-5.5%) and €669 million with Namibia (+15%) (Figures for 2017). EU services imports from Botswana and Namibia are increasing (mostly tourism), albeit from very low levels.

2.3 Foreign Direct Investment (FDI)

The EU-SADC EPA does not contain provisions on investment. Most EU investment is concentrated in **South Africa**, with current stocks of €59.8 billion. EU investment in South Africa has slowed down since 2013. According to Eurostat, FDI inflows in 2017 were negative, at -€8.4 billion (taking into account de-commitments). New commitments, according to South African national statistics, amounted to €1.16 billion in 2017 and €6.2 billion in 2018.

EU presence (more than 2,000 companies) is spread over almost all sectors of the economy. The largest shares of FDI stock are in finance (45%), mining (20%), manufacturing (20%) and transport (10%). FDI stock in finance and mining has stalled in recent years due to the economic situation and legislative uncertainty; most new investment has taken place in manufacturing (mainly in the automotive, machinery and food sectors).

A number of new investments were announced in 2017-2019, including:

- BMW completed a €350 million (ZAR 6.2 billion) investment in its assembly plant towards the X3 model which launched in 2018.
- Mercedes-Benz announced in 2018 that it will invest €600 million (ZAR 10 billion) in expanding its South African plant to accommodate production of the new generation of C-Class model that will now be exported to the EU instead of the United States.
- VW invested € 350 million (ZAR 6.1 billion) in its new plant to launch in 2018 the new Polo.
- In the renewables sector, 27 new projects were signed in 2018 under the 4th bidding round of the South African Renewable Energy Independent Power Producer Procurement Programme (REIPPP), with a total planned investment of €3.3 billion (ZAR 56 billion) – an important part of which is European direct investment.

  Since 2011, a total of 92 projects, amounting to €17 billion, have been signed, with a number of prominent EU contractors (often setting up subsidiary companies in South Africa), including: Vestas (Denmark); Acciona, ACS Cobra, Abengoa, Iberdrola, Gestamp (Spain); Juwi Renewable Energies and Nordex Energy (Germany), Enel Green Power and Temi Energia (Italy). The main suppliers of wind towers and turbines and PV equipment include Vestas (Denmark), Siemens, SMA Solar Tech, AEG and Nordex (German), ABB (Sweden), 3 Sun (UK).

The penetration of small and medium sized companies (SMEs) in the South African economy is still low. Nevertheless, in 2018 different EU SMEs have again announced investment in South Africa:

- Industrial silicon tubes: Spanish company Venair has opened in 2018 its first subsidiary in South Africa.
- Spunmelt nonwoven: Czech company Pegas Nonvwovens, the largest producer of spunmelt nonwovens in Europe, the Middle East and Africa, is investing ZAR 1.3 billion (production to start in 2019).
- PV module manufacturing: In 2018, Seraphim Southern Africa, a joint venture by Chinese Jiangsu Seraphim Solar System Co. Ltd. and Spanish ILB Helios (with IDC collaboration), will establish a €12.3 billion new PV module manufacturing factory in East London IDZ.
- Automotive components: Austrian automotive supplier the Polytec Group is investing €10m in a new parts production plant in South Africa to supply German OEM. Production is scheduled to start in for 2021.

South African FDI in the EU stood at €12.1 billion in 2017, with also negative inflows of -€31 million.

FDI stocks in **Botswana, Eswatini, Lesotho, Mozambique and Namibia** are mostly tied to extractive industries. EU FDI stocks are highest in **Mozambique**, at €1.9 billion, with new inflows of €84 million in 2017. Dominant investment partner for all five countries is South Africa. In **Namibia** (EU investment stock in 2017 was €283 million), Spain is mostly investing in the fishery sector and the UK in extractives (zinc and copper). Recent EU investments were also in renewable energy, such as the Ombepo wind farm and two major solar plants, funded by a French-Namibian joint venture. French Peugeot built an assembly plant, inaugurated in 2018; Namibian-assembled vehicles will be sold mainly within SACU.

The EU-SADC EPA facilitating the localisation and transformation of the South African automotive sector

South Africa is the dominant vehicle producer on the African continent, with an automotive industry that is highly export oriented and FDI dependant; thus strategically relying on modern free trade agreements to flourish.

South Africa now produces more than 600,000 vehicles annually, of which more than half are exported. Exports of motor vehicles, parts and accessories contribute more than 13% to the national export basket. More than half of South African vehicles exports are to the EU (66% in 2018). EU imports of motor vehicles and components from South Africa increased to €5.1 billion in 2018 (up from €1.8 billion in 2014). Motor cars for passenger transport account for €4.1 billion of this sum.

The automotive sector is therefore highly anchored in the EU-SADC EPA which provides for duty free export of cars and components to the EU. Four of the seven Original Equipment Manufacturers (OEM) present in South Africa are European (see newly announced investments above).

The automotive industry not only impacts directly on the GDP (7% GDP) and employment (+110,000 jobs), it increasingly plays an important strategic and catalytic role in the overall South African economy. Through its integration into the global supply chains of OEMs, the sector contributes to overall skills development, technology penetration and innovation intensity in the economy.

A number of initiatives are underway to strengthen the localisation and foster transformation of the automotive industry in the country. The Automotive Supply Chain Competitiveness Initiative (ASCCI) is a collaborative initiative between the OEMs, suppliers, government and labour, with the specific task of coordinating supply chain development activities in the South African auto industry, to increase the share and value added of locally based suppliers. In Gauteng province, the automotive incubation centres create hubs linked to a single OEM where the participants are subcontracted to Tier 1 component suppliers who provide technical mentoring for black entrepreneurs or black-owned suppliers until they are ready to supply directly to the OEM's production line.

3. ISSUES ADDRESSED IN THE ANNUAL EPA COMMITTEE MEETING

Since the EPA entered into force in October 2016, the **Trade and Development Committee** (at senior official level) has met five times (in February 2017, October 2017, February 2018, November 2018 and February 2019). Moreover, on 19 February 2019 the first meeting of the EU-SADC EPA **Joint Council** (at ministerial level) took place. This first meeting of the Joint Council in particular allowed for the adoption of the 'institutional set-up' of the Agreement, notably the rules of procedure for the bodies under the agreement and the procedural rules for dispute settlement. Moreover, at its latest meeting, the Trade and Development Committee also adopted the list of arbitrators for dispute settlement.

Other issues discussed at the first meeting of the Joint Council and the different meetings of the Trade and Development Committee included: differences of interpretation on specific provisions of the Agreement (in particular on the bilateral safeguard measure against imports of EU poultry products and on tariff dismantling concerning certain textile products), the setting up of annual meetings with non-state actors on the implementation of the EPA, monitoring of the EPA, tariff rate quota management, cumulation of origin[110], trade-related development cooperation and the agricultural safeguard.

Since the entry into provisional application, there have also been two meetings of the **Special Committee on Trade Facilitation and Customs Cooperation (SCTFCC),** three meetings of the **Special Committee on Geographical Indications and Trade in Wines and Spirits** (a bilateral Committee with South Africa only) and one meeting of the **Agricultural Partnership**. The meeting of the SCTFCC allowed partners to advance preparatory work for the start of diagonal cumulation of origin, but this work is not finalised yet. The meetings of the Special Committee on Geographical Indications and Trade in Wines and Spirits in particular discussed updates on protection of different Geographical Indications (GIs) and on the divergent interpretation concerning the laws and regulations governing oenological practices and restrictions in South Africa.

In November 2018, non-state actors from both the EU and SADC held a second **Civil Society Dialogue Meeting** in Windhoek, Namibia. Stakeholders elaborated recommendations on a range of trade and EPA related topics relevant to EPA implementation and monitoring.

4. SPECIFIC AREAS OF IMPORTANCE

Sanitary and Phytosanitary Standards: SPS issues concern primarily EU trade with South Africa and are discussed mostly bilaterally with South Africa. Foremost among the issues

[110] SADC EPA States have the possibility to use non-originating materials through the rules on cumulation of origin. This means that in certain circumstances, a factory in for example Botswana can use materials from another country and further process them. In calculating whether the final product can be considered to originate in Botswana within the meaning of the EPA, the materials from the other country are considered to be Botswana inputs and count towards the originating status of the final product. The SADC EPA allows SADC EPA States to cumulate with originating materials products from other countries party to the EPA, as well as many other countries (ACP and others).

related to the EU exports was the suspension of nearly all exports of EU poultry (which had reached over €200 billion in 2015 and 2016) by South Africa following the avian influenza (HPAI) outbreaks of the winter of 2016-2017. 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, some of which took place in 2018. On that basis, South Africa has reopened trade from two of the eight banned Member States, but it has not indicated how it plans to proceed for the remaining six Member States. As regards to South African exports, South Africa regained market access on the EU territory for Ostrich meat in March 2019 (Annex of Decision 2011/163).

Development Cooperation: Trade-related technical assistance and other relevant support measures are an integral part of the EPA. Regional economic integration was a key focal sector under the 10th European Development Fund (EDF) for the SADC region.[111] In 2018, implementation of the **Trade Related Facility (TRF) (€32 million)** continued, supporting national administrations to better implement regional integration policies at national level, such as the SADC Trade Protocol.

SADC Member States currently also implement the **Eastern and Southern Africa Transport and Transit Facilitation Programme (€18 million):** This programme promotes the implementation of harmonised road transport policies, laws, regulations, systems and standards in the countries of the EA-SA region with the aim to facilitate increased trade.

2018 was a transition phase, with the Regional Integration Support Programme (€20 million) under the 10th EDF coming to an end and a number of regional programmes to support trade and investment in the SADC region under the 11th EDF currently in the pipeline:

EU-SADC Support to Improving the Investment and the Business Environment in the SADC region (SIBE) (€14 million): The programme will support the implementation of the SADC protocol on investment and finance. This programme will target the improvement of the investment policy framework and harmonisation in the region to facilitate and enhanced integration of financial markets.

EU- SADC Support to Industrialisation and Productive Sectors in SADC Region (SIPS) (€18 million): This programme will support the development of two regional value chains (leather and anti-retroviral) through the enhancement of the policy and regulatory environment along these two value chains and the improvement of the private sector participation.

EU-SADC Trade Facilitation Programme (TFP) (€15 million): this programme will aim at reducing the cost of intraregional trade by enhancing the efficiency of border posts. It will harness the benefits from the EU-SADC Economic Partnership Agreement (EPA) as well as support implementation of trade facilitation measures at corridor level

Furthermore, national programmes to support EPA implementation more specifically are also under preparation:

[111] More on the European Development Fund: https://ec.europa.eu/europeaid/funding/funding-instruments-programming/funding-instruments/european-development-fund_en

Each SADC EPA State has drawn up, jointly with the EU, **National EPA Implementation Plans (NEIPs)** (some are still in the process of being finalized). The purpose is to identify necessary steps and measures to fully implement the EPA and maximize the contribution of the EPA to long-term sustainable development. Under the 11th EDF, the EU will **support the operationalization of the NEIPs with €30 million** in Botswana, Eswatini, Lesotho, Mozambique and Namibia. Under the Development Cooperation Instrument (DCI), **€10 million** have been earmarked for the same purpose to South Africa.

An EPA outreach project in **South Africa** ended in February 2018 with great results, such as the SADC EPA outreach website, bringing together user-friendly and up-to-date information on the EPA from the different South African implementing institutions. The project also successfully organized the first civil society forum in 2017. A follow-up project (EU SA Partners for Growth, €3.5 million) was launched in October 2018, aiming at maximising bilateral trade and investment flows and strengthening EPA implementation.

Finally, the EU maintains strong <u>support to economic development at bilateral level</u> in all six SADC EPA States. The large bilateral portfolios in the six countries include projects on employment promotion, vocational education, private sector development, SME promotion, agricultural value chains, as well as renewable energy and transport infrastructure, among others.

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

2018 marks the first year in which the Agreement was provisionally applied between all parties, including Mozambique. Moreover, in the beginning of 2019, the Joint Council and the Trade and Development Committee adopted the institutional set-up of the Agreement. There are a number of outstanding issues with regard to the implementation of the EU-SADC EPA, as well as challenges ahead.

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.

In addition, differences of views about the interpretation of certain provisions of the Agreement will need to be resolved, particularly on a SACU safeguard measure, based on Article 34 of the EPA, on poultry imports from the EU and on the SACU tariffs that apply to specific textiles imports from the EU. The fact that the EPA's chapter on dispute settlement and avoidance is now fully operational may be helpful in this regard.

On SPS issues, South Africa regained market access on the EU territory for Ostrich meat (Annex of Decision 2011/163).

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

Implementation of the EU-SADC EPA has reached full speed, with the parties progressing on multiple issues from the institutional set-up of the agreement to monitoring and civil society involvement. Trade figures are also positive, as SADC EPA States' exports to the EU are mostly increasing. In particular, South Africa is clearly benefitting from newly granted tariff and TRQ concessions. However, there are trade irritants particularly for EU exports to South Africa, poultry being the main priority, which the parties will need to resolve for the agreement to become successful. In June 2019, the EU decided to request consultation with SACU under the bilateral dispute settlement regime to address the poultry issue.

7. STATISTICS

SADC EPA States (aggregate):

Merchandise trade EU28 with SADC EPA States 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with SADC EPA States (mio €)					
Imports	23.088	23.769	27.917	27.436	28.952
Exports	25.124	27.164	24.442	25.800	25.702
Balance	2.036	3.395	-3.475	-1.636	-3.251
Share SADC EPA States in EU28 trade with Extra-EU28					
Imports	1,4%	1,4%	1,6%	1,5%	1,5%
Exports	1,5%	1,5%	1,4%	1,4%	1,3%
Total (I+E)	1,4%	1,4%	1,5%	1,4%	1,4%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade EPA SADC: IMF Dots

Growth of merchandise trade EU28 with SADC EPA States (mio €)

EPA SADC	2017	2018	Growth	
			mio €	annual %
Imports	27.436	28.952	1.516	5,5%
Exports	25.800	25.702	-98	-0,4%
Balance	-1.636	-3.251	-1.614	
Total trade	53.235	54.654	1.418	2,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with SADC EPA States (mio €)

EPA SADC	2017	2018	Growth	
			mio €	annual %
Imports	3.078	3.254	176	5,7%
Exports	1.941	1.847	-94	-4,8%
Balance	-1.138	-1.407	-269	
Total trade	5.019	5.101	82	1,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with SADC EPA States (mio €)

EPA SADC	2017	2018	Growth	
			mio €	annual %
EU28 imports	24.357	25.698	1.340	5,5%
EU28 exports	23.859	23.854	-4	0,0%
Balance	-499	-1.843	-1.345	
Total trade	48.216	49.552	1.336	2,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

South Africa:

Merchandise trade EU28 with South Africa 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with South Africa (mio €)					
Imports	18.538	19.399	22.970	22.722	24.070
Exports	23.331	25.455	22.995	24.447	24.190
Balance	4.794	6.056	25	1.725	120
Share South Africa in EU28 trade with Extra-EU28					
Imports	1,1%	1,1%	1,3%	1,2%	1,2%
Exports	1,4%	1,4%	1,3%	1,3%	1,2%
Total (I+E)	1,2%	1,3%	1,3%	1,3%	1,2%
Share EU28 in trade South Africa with world					
Imports	27,9%	29,5%	31,0%	30,9%	29,0%

Exports	20,0%	20,8%	22,9%	22,2%	23,3%
Total (I+E)	24,2%	25,3%	27,1%	26,5%	26,3%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade South Africa: IMF Dots

Total merchandise trade EU28 with South Africa (mio €)

South Africa	2017	2018	Growth mio €	annual %
Imports	22.722	24.070	1.348	5,9%
Exports	24.447	24.190	-257	-1,1%
Balance	1.725	120	-1.605	
Total trade	47.169	48.260	1.090	2,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with South Africa (mio €)

South Africa	2017	2018	Growth mio €	annual %
Imports	2.705	2.898	193	7,1%
Exports	1.780	1.711	-69	-3,9%
Balance	-925	-1.187	-262	
Total trade	4.485	4.609	124	2,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with South Africa (mio €)

South Africa	2017	2018	Growth mio €	annual %
EU28 imports	20.017	21.171	1.155	5,8%
EU28 exports	22.667	22.479	-188	-0,8%
Balance	2.650	1.307	-1.343	
Total trade	42.684	43.650	966	2,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth of Services trade EU28 with South Africa (mio €)

South Africa	2016	2017	Growth mio €	annual %
Imports	5.109	5.387	278	5,4%
Exports	8.207	9.086	879	10,7%
Balance	3.099	3.699	600	
Total trade	13.316	14.473	1.157	8,7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Total Services trade EU28 with South Africa (mio €)

	2013	2014	2015	2016	2017
Imports	4.449	4.361	5.310	5.109	5.387
Exports	7.232	7.180	8.446	8.207	9.086
Balance	2.783	2.818	3.136	3.099	3.699
Total trade	11.681	11.541	13.757	13.316	14.473

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with South Africa (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	7.698	12.014	11.521	11.796	12.116
Outward	58.872	59.946	96.298	70.081	59.787
FDI Flows					
Inward	-404	698	4	4.988	-31
Outward	2.046	4.034	22.611	-10.865	-8.433

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Botswana:

Merchandise trade EU28 with Botswana 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Botswana (mio €)					
Imports	1.822	1.503	2.198	1.384	1.294
Exports	273	275	331	267	329
Balance	-1.549	-1.228	-1.868	-1.117	-966
Share Botswana in EU28 trade with Extra-EU28					
Imports	0,1%	0,1%	0,1%	0,1%	0,1%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%

Total (I+E)	0,1%	0,1%	0,1%	0,0%	0,0%
Share EU28 in trade Botswana with world					
Imports	6,5%	5,5%	6,7%	5,1%	4,4%
Exports	28,0%	22,2%	21,0%	23,3%	17,4%
Total (I+E)	17,3%	13,0%	14,5%	14,6%	11,4%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Botswana: IMF Dots

Growth of merchandise trade EU28 with Botswana (mio €)

Botswana	2017	2018	Growth	
			mio €	annual %
Imports	1.384	1.294	-90	-6,5%
Exports	267	329	61	23,0%
Balance	-1.117	-966	151	
Total trade	1.652	1.623	-28	-1,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Botswana (mio €)

Botswana	2017	2018	Growth	
			mio €	annual %
Imports	30	28	-2	-7,9%
Exports	3	2	-1	-38,9%
Balance	-27	-26	1	
Total trade	34	30	-4	-11,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Botswana (mio €)

Botswana	2017	2018	Growth	
			mio €	annual %
EU28 imports	1.354	1.266	-87	-6,5%
EU28 exports	264	327	63	23,8%
Balance	-1.090	-940	150	
Total trade	1.618	1.593	-25	-1,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth of Services trade EU28 with Botswana (mio €)

Botswana	2016	2017	Growth	
			mio €	annual %
Imports	77	97	20	26,3%
Exports	292	486	194	66,3%
Balance	216	390	174	
Total trade	369	583	214	58,0%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Botswana (mio €)

	2013	2014	2015	2016	2017
Imports	88	80	79	77	97
Exports	171	198	417	292	486
Balance	84	118	338	216	390
Total trade	259	277	496	369	583

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Botswana (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	9	4	0	5	17
Outward	238	305	299	236	247
FDI Flows					
Inward	1	0	-6	2	12
Outward	64	39	-18	-2	5

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Eswatini:

Merchandise trade EU28 with Eswatini 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Eswatini (mio €)					
Imports	151	139	124	87	64
Exports	29	35	51	49	46
Balance	-122	-104	-73	-38	-18
Share Eswatini in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%

Share EU28 in trade Eswatini with world					
Imports	2,0%	4,0%	3,8%	3,5%	2,6%
Exports	8,0%	6,7%	7,3%	4,3%	3,5%
Total (I+E)	5,2%	5,5%	5,7%	3,9%	3,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Eswatini: IMF Dots

Total merchandise trade EU28 with Eswatini (mio €)

Eswatini	2017	2018	Growth	
			mio €	annual %
Imports	87	64	-23	-26,5%
Exports	49	46	-3	-5,8%
Balance	-38	-18	20	
Total trade	136	110	-26	-19,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Eswatini (mio €)

Eswatini	2017	2018	Growth	
			mio €	annual %
Imports	70	56	-14	-20,2%
Exports	5	5	0	-0,9%
Balance	-65	-51	14	
Total trade	75	61	-14	-18,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Eswatini (mio €)

Eswatini	2017	2018	Growth	
			mio €	annual %
EU28 imports	17	8	-9	-52,1%
EU28 exports	44	41	-3	-6,4%
Balance	26	32	6	
Total trade	61	49	-12	-19,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth of Services trade EU28 with Eswatini (mio €)

Eswatini	2016	2017	Growth	
			mio €	annual %
Imports	65	61	-4	-6,4%
Exports	100	92	-8	-7,5%
Balance	35	31	-3	
Total trade	165	153	-12	-7,1%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Eswatini (mio €)

	2013	2014	2015	2016	2017
Imports	67	29	24	65	61
Exports	86	57	72	100	92
Balance	19	28	47	35	31
Total trade	153	86	96	165	153

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Eswatini (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	155	42	128	130	68
Outward	580	578	606	608	601
FDI Flows					
Inward	-16	19	4	69	-283
Outward	-3	18	30	-194	7

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Lesotho:

Merchandise trade EU28 with Lesotho 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Lesotho (mio €)					
Imports	247	254	208	271	352
Exports	11	12	12	12	10
Balance	-237	-242	-196	-259	-343
Share Lesotho in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Lesotho with world					

Imports	1,0%	0,9%	0,9%	0,9%	0,7%
Exports	46,2%	14,6%	13,4%	34,9%	34,0%
Total (I+E)	16,7%	4,4%	5,1%	13,2%	13,7%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Lesotho: IMF Dots

Total merchandise trade EU28 with Lesotho (mio €)

Lesotho	2017	2018	Growth mio €	Growth annual %
Imports	271	352	81	30,1%
Exports	12	10	-2	-16,4%
Balance	-259	-343	-83	
Total trade	282	362	80	28,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Lesotho (mio €)

Lesotho	2017	2018	Growth mio €	Growth annual %
Imports	2	2	0	-9,3%
Exports	1	0	0	-49,9%
Balance	-1	-2	0	
Total trade	3	3	-1	-21,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Lesotho (mio €)

Lesotho	2017	2018	Growth mio €	Growth annual %
EU28 imports	268	350	82	30,4%
EU28 exports	11	9	-1	-13,3%
Balance	-258	-341	-83	
Total trade	279	359	80	28,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth of Services trade EU28 with Lesotho (mio €)

Lesotho	2016	2017	Growth mio €	Growth annual %
Imports	4	15	11	271,8%
Exports	13	14	1	6,7%
Balance	10	-0	-10	
Total trade	17	29	12	66,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Lesotho (mio €)

	2013	2014	2015	2016	2017
Imports	7	31	3	4	15
Exports	20	13	15	13	14
Balance	14	-19	13	10	-0
Total trade	27	44	18	17	29

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Lesotho (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	3	3	4	5	6
Outward	3	10	16	-2	-3
FDI Flows					
Inward			0	0	0
Outward	6	-1	11	-4	10

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Mozambique:

Merchandise trade EU28 with Mozambique 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Mozambique (mio €)					
Imports	1.366	1.435	1.320	1.664	1.867
Exports	895	983	681	532	697
Balance	-472	-452	-638	-1.132	-1.170
Share Mozambique in EU28 trade with Extra-EU28					
Imports	0,1%	0,1%	0,1%	0,1%	0,1%
Exports	0,1%	0,1%	0,0%	0,0%	0,0%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Mozambique with world					

Imports	19,1%	22,5%	19,5%	22,5%	18,1%
Exports	38,5%	45,9%	32,0%	27,2%	31,6%
Total (I+E)	25,8%	29,2%	24,3%	24,6%	24,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Mozambique: IMF Dots

Total merchandise trade EU28 with Mozambique (mio €)

Mozambique	2017	2018	Growth mio €	Growth annual %
Imports	1.664	1.867	203	12,2%
Exports	532	697	165	31,0%
Balance	-1.132	-1.170	-38	
Total trade	2.196	2.564	368	16,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Mozambique (mio €)

Mozambique	2017	2018	Growth mio €	Growth annual %
Imports	175	166	-8	-4,7%
Exports	105	88	-18	-16,7%
Balance	-70	-79	-9	
Total trade	280	254	-26	-9,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Mozambique (mio €)

Mozambique	2017	2018	Growth mio €	Growth annual %
EU28 imports	1.489	1.700	211	14,2%
EU28 exports	427	609	183	42,8%
Balance	-1.062	-1.091	-29	
Total trade	1.916	2.310	394	20,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth of Services trade EU28 with Mozambique (mio €)

Mozambique	2016	2017	Growth mio €	Growth annual %
Imports	177	245	68	38,1%
Exports	580	471	-109	-18,8%
Balance	403	226	-176	
Total trade	757	716	-41	-5,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Mozambique (mio €)

	2013	2014	2015	2016	2017
Imports	225	264	327	177	245
Exports	600	718	970	580	471
Balance	375	454	643	403	226
Total trade	825	983	1.297	757	716

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Mozambique (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	11	388	21	-309	-105
Outward	1.463	1.869	2.572	2.367	1.879
FDI Flows					
Inward	10	-1	-405	-255	175
Outward	132	202	223	67	84

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Namibia:

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Namibia (mio €)					
Imports	963	1.039	1.097	1.308	1.305
Exports	586	404	372	493	430
Balance	-378	-635	-725	-815	-875
Share Namibia in EU28 trade with Extra-EU28					
Imports	0,1%	0,1%	0,1%	0,1%	0,1%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Namibia with world					

Imports	9,6%	6,8%	6,6%	13,5%	12,3%
Exports	11,9%	15,0%	17,3%	20,5%	37,4%
Total (I+E)	10,6%	10,0%	11,2%	16,5%	24,1%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Namibia: IMF Dots

Total merchandise trade EU28 with Namibia (mio €)

Namibia	2017	2018	Growth mio €	Growth annual %
Imports	1.308	1.305	-3	-0,2%
Exports	493	430	-63	-12,7%
Balance	-815	-875	-60	
Total trade	1.800	1.735	-65	-3,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Namibia (mio €)

Namibia	2017	2018	Growth mio €	Growth annual %
Imports	96	104	8	8,2%
Exports	46	41	-5	-11,5%
Balance	-50	-63	-13	
Total trade	142	144	3	1,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Namibia (mio €)

Namibia	2017	2018	Growth mio €	Growth annual %
EU28 imports	1.212	1.201	-11	-0,9%
EU28 exports	447	390	-57	-12,8%
Balance	-765	-812	-47	
Total trade	1.659	1.591	-68	-4,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth of Services trade EU28 with Namibia (mio €)

Namibia	2016	2017	Growth mio €	Growth annual %
Imports	399	478	78	19,6%
Exports	184	192	8	4,2%
Balance	-216	-286	-71	
Total trade	583	669	86	14,8%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Namibia (mio €)

	2013	2014	2015	2016	2017
Imports	305	387	276	399	478
Exports	215	202	255	184	192
Balance	-90	-185	-20	-216	-286
Total trade	519	589	531	583	669

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Namibia (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	115	149	187	167	390
Outward	344	240	668	351	283
FDI Flows					
Inward	-20	-19	-40	3	5
Outward	-974	223	37	137	75

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE INTERIM ECONOMIC PARTNERSHIP AGREEMENT BETWEEN THE EU AND EASTERN AND SOUTHERN AFRICAN STATES

1. INTRODUCTION

Pending an EPA with the full Eastern and Southern African region, an interim EPA was signed in 2009 by four ESA countries (Madagascar, Mauritius, Seychelles and Zimbabwe). This ESA-EU interim EPA (iEPA) has been provisionally applied since 14 May 2012 for the four countries. Comoros signed the EPA in 2017, ratified it in December 2018 and implements it since 7 February 2019. Zambia took part in the negotiations of the interim EPA and it may decide to sign the agreement in the near future.

The interim EPA offers duty free quota free access in the EU for all imports from ESA as of 1st January 2008. ESA partner countries are in the process of liberalising their market to EU imports in line with the individual schedules of each ESA partner country, annexed to the interim EPA.[112] By 2022, Madagascar and Zimbabwe will liberalise around 80% of their trade, while Mauritius and Seychelles will liberalise 96 and 98%, respectively. Goods excluded from liberalisation vary according to the individual offer but include predominantly agricultural products and some industrial goods such as plastics, paper, or textiles.[113] Comoros will liberalise over a period of 9 years, after a 5 year preparatory period.

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 partner countries expressed their interest to deepen the agreement beyond trade in goods. Scoping missions conducted in 2018 made substantial progress. A joint scoping paper was concluded in May 2019 and negotiations may be launched in due time.

2. EVOLUTION OF TRADE

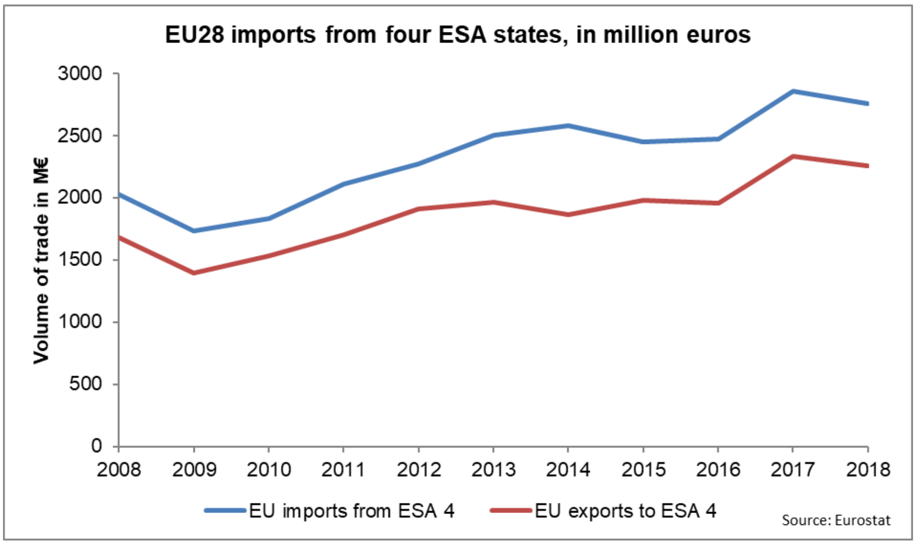
2.1 Trade in Goods

In 2018, the EPA was implemented by Madagascar, Mauritius, Seychelles and Zimbabwe. While the EU's share as a destination for ESA4 exports has been shrinking over the past decade, the bloc remains the second largest trade partner for ESA4 after South Africa. In 2018, the main export destination of ESA4 was South Africa (27%), followed by the EU (26%), the United Arab Emirates (11%) and the US (8%). In 2008, the EU still accounted for 51% of ESA4 exports. ESA4 imports in 2018 mainly came from South Africa (30%), the EU (16%), China (12%) and India (9%). Within the EU, France accounts for almost half of imports from ESA4, followed by the UK, Germany and Belgium.

[112] The ESA countries were not in a position to table a common regional market access offer and each country presented an individual offer based on its specificities.

[113] More details can be found here: http://trade.ec.europa.eu/doclib/docs/2012/march/tradoc_149213.pdf

In 2018, **total trade between the EU and ESA4** is highest with Madagascar (€1.9 billion) and Mauritius (€1.8 billion), followed by Zimbabwe (€689 million) and Seychelles (€596 million).
Although total trade with ESA4 decreased by €173 million (-3.3%) in 2018, the trade balance remains positive for ESA4. EU imports from ESA4 decreased by €100 million (-3.5%) to €2.75 billion and EU exports to ESA4 decreased by €73 million (-3.1%) to €2.26 billion.



However, regional aggregated figures mask differences between the four ESA partner states: Importantly, EU imports from Madagascar increased by €62 million (5.3%) and imports from Seychelles are up €8 million (2.8%). By contrast, imports from Mauritius decreased by €168 million (18%) and imports from Zimbabwe are relatively unchanged (-0.3%). EU exports to Madagascar (-1.8%), Mauritius (-8.7%) and Seychelles (-0.4%) decreased, but exports to Zimbabwe increased (+€42 million or 22%).

The overall **decrease in EU imports from ESA4** in 2018 is mainly caused by a sharp fall in **sugar** imports from Mauritius (-€101 million or 56%) and Zimbabwe (-€25 million or 100%), as well as declining imports of **tobacco** from Zimbabwe (-26 million or 23%) and **nickel** from Madagascar (-€25 million or 33%).

EU imports have risen for **iron and steel** from Zimbabwe (+€30 million or 27%), **vanilla** from Madagascar (+€50 million or 12.7%) and **apparel and clothing** from Madagascar (+€25 million or 7.3%). At the same time, Mauritius' exports of apparel and clothing decreased slightly by €16 million or 7%.

For Mauritius and Seychelles, exports of fresh or frozen **fish** to the EU increased (Mauritius +€4 million or 21%, Seychelles +€8 million or 18.5%). However, export values of prepared and preserved fish increased for Seychelles (+€6.3 million or 2.8%) but decreased for Mauritius (-€13 million or 5.2%).

Preference utilisation rates for ESA4 exports to the EU are high, ranging from 92-98% for the four countries.

Exports are becoming **increasingly diversified for Madagascar and Mauritius**, but **diversification is stagnating for Zimbabwe and Seychelles**. In 2018, the top 10 export products (HS 6-digit) accounted for 63% of Madagascar's total exports to the EU, 62% for Mauritius, 64% for Zimbabwe, but 98% for Seychelles. Looking at the number of different products exported to the EU with a minimum value of €1 million: in 2018, the EU imported 100 different products from Madagascar (up from 69 in 2008; mostly different textile products, however), 75 from Mauritius (up from 69), 25 from Zimbabwe (26 in 2008) and 9 from Seychelles (up from 6).

A number of structural problems impact the (diminishing) **competitiveness** of the economy of **Mauritius**. Traditional export sectors are breaking away. For example, the end of the sugar quota in the EU is causing a heavy contraction in sugar exports to the EU of almost all ACP countries; and the Mauritian textile industry is endangered by increasing labour costs and strong competitors such as Bangladesh, Vietnam and even Madagascar now. Recently, Mauritius has taken important steps towards an economy based on more sophisticated and high-tech manufacturing and services. For example, exports of medical devices are growing. According to Mauritian national statistics, global exports of medical devices (HS 9018) have reached €25.9 million in 2018, €17 million of which are going to the EU. According to Eurostat data, EU imports of medical devices from Mauritius stood at €12 million in 2018, a strong increase from €4 million in 2008, but still small compared to the earnings in the "old" export sectors such as textile and sugar.

For **Madagascar**, the outlook is brighter; exports could accelerate even more with changes in the overall business environment and investment climate. Similarly, **Zimbabwe** has enormous export potential but as long as the economic situation remains uncertain, with no serious business climate reforms and no foreign capital inflows, necessary investments will not take place. For **Seychelles**, the lack of diversification is serious; the country is aiming at exporting more fisheries by-products and processed fish products but is hindered by human resource limitations.

Top 10 EU imports from ESA4 in 2018				
	Madagascar	**Mauritius**	**Seychelles**	**Zimbabwe**
1	Vanilla	Prepared or preserved tunas, skipjack etc.	Prepared or preserved tunas, skipjack etc.	Tobacco
2	Cobalt matters	T-shirts, singlets and other vests of cotton	Frozen yellowfin tunas	Diamonds, unsorted
3	Frozen shrimps and prawns	Cane sugar (170199)	Frozen skipjack or stripe-bellied bonito	Ferro-chromium, containing by weight > 4% of carbon
4	Jerseys, pullovers, cardigans, waistcoats (etc.) of Kashmir	Raw cane sugar not containing flavouring or colouring (170114)	Light oils and preparations	Fresh or dried oranges
5	Nickel	Men's or boys' trousers, bib and brace overalls (etc.) of cotton	Frozen bigeye tunas	Raw hides and skins of reptiles
6	Shawls, scarves (etc.) of silk	Men's or boys' shirts of cotton	Prepared or preserved fish	Fresh or chilled peas
7	Vegetables saps and extracts	Articles of jewellery	Fresh or chilled fillets of fish, n.e.s.	Black tea
8	Fresh tamarinds, cashew apples, jackfruit, lychees, passion fruit, other	Jerseys, pullovers, cardigans, waistcoats etc., of cotton	Fresh or chilled yellowfin tunas	Granite, crude or roughly trimmed
9	Prepared or preserved tunas, skipjack, etc.	T-shirts, singlets and other vests of textile materials	Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.	Arsenic sulfides, alunite, pozzuolana, earth colours and other mineral substances, n.e.s.
10	Jerseys, pullovers, cardigans, waistcoats	Women's or girls' trousers, bib and brace	Fats and oils of fish	Leather further prepared after tanning

	(etc.) of wool	overalls (etc.) of cotton		or crusting, of reptiles

Source: Eurostat, product names partly simplified

Decreasing **EU exports** to ESA4 (-€73 million) can be explained by the unusual spike in aircraft exports in 2017 which did not happen in 2018 (a decrease of €179 million). Disregarding the aircraft sector, EU exports to ESA4 actually increased by 0.5% in 2018.

Main export increases in 2018 are mineral fuels and oils (€45 million or 574%), machinery and mechanical appliances (€28 million or 8%), textiles (€15 million or 10%), silk (€14 million or 84%) and cereals (€14 million or 68%). Besides aircraft and aircraft parts, main export decreases concern frozen fish (-€26 million or -20%) and chemical products (-€19 million or -38%).

In 2018, the **agri-food trade balance** was positive for ESA4 (€504 million). While EU imports of sugar shrunk by 62% (from €204 million in 2017 to €78 million in 2018), imports of tropical fruits increased (from €350 million in 2017 to €392 million in 2018), which however did not offset the decrease of sugar imports. EU exported mainly wheat (€33 million), followed by pet food, food preparation not specified, pasta and pastry, and infant food and other cereals, starch or milk preparations.

Jewellery exported from Mauritius and Zimbabwe – Patrick Mavros

Jewellery exports from Mauritius to the EU have increased by 30% from 2008 to 2018, reaching €20.1 million (3% of total exports to the EU). For Zimbabwe, jewellery exports are still a niche product, with exports worth around €400,000 in 2018.

Patrick Mavros is a self-taught jewellery artist from Zimbabwe. He started up in the 1970s and, against all odds, runs a successful company with 60 employees in Harare, producing nature-inspired jewellery pieces and sculptures, exported to overseas markets.

His son, Forbes Mavros, migrated to Mauritius in the early 2000s and started up his own jewellery workshop, slowly growing form a one-person business into a large open-space atelier with a factory, employing 50 persons. He has invested in a Swedish purification system to guarantee environmentally friendly production and donates part of the proceeds to the Mauritian Wildlife Foundation.

Both ateliers sell more than 60% of their products abroad, including particularly the EU, which offers both Mauritius and Zimbabwe duty free quota free market access for their products under the EPA. Patrick Mavros also has a physical store in London. Another target audience are tourists visiting the country, which goes in line with joint efforts of the EU and Mauritius and Zimbabwe to further boost sustainable tourism and increase local value added in the tourism value chain.

2.2 Trade in Services

The interim EPA does not include provisions on services. In 2017 (latest year for which data is available), total EU services imports from ESA4 decreased by €176 million to €2.2 billion, The change was driven by a decrease of services imports from Mauritius (the most important services trade partner among ESA4) by €143 million or 9.5%, to €1.4 billion.

Services imports from Madagascar are growing, albeit from low levels – total imports reached €376 million in 2017 (+13.2%). Services imports from Seychelles decreased by 16%; services imports from Zimbabwe are marginal and decreased by 6.6%.

On the other hand, EU services exports to ESA4 in total increased to €2.6 billion in 2017, an increase of 43.8% over 2016. The EU runs a surplus with Zimbabwe and Mauritius, but a deficit with Madagascar and Seychelles.

The four ESA countries are very keen on negotiating provisions on trade in services; in particular Mauritius hopes to find a new growth engine in services exports. Mauritius took part in the WTO's negotiations for a Trade in Services Agreement (TISA) and now would be interested to use the ESA EPA opportunities, as TISA is not going forward. Financial services and tourism are the main sectors of interest.

2.3 Foreign Direct investment (FDI)

Current EU FDI stocks in ESA4 stand at €23.2 billion for Mauritius, €982 million for Seychelles, €457 million for Zimbabwe and €55 million for Madagascar.

FDI inflows in 2017 amounted to €1.3 billion for Mauritius, €26 million for Zimbabwe, €17 million for Madagascar and €9 million for Seychelles.

According to Mauritian national statistics, investment inflows from the EU amounted to Rs. 10.6 billion (approx. €271 million) in 2017 and Rs 8.4 billion (approx. €2 million) in 2018. While in 2017, the EU accounted for about half of Mauritius's gross direct investment flows, this figure was down to one quarter in 2018.[114]

Mauritius stands out as the single most important jurisdiction in Africa offering a stable legal environment. In particular, Mauritius has gathered a reliable reputation regarding its banking structures and increasingly expanded its financial sector. As such, Mauritius is the largest EU FDI recipient among the ESA4 partners but also a partner to work within the context of anti-money laundering and taxation policy.

FDI in Mauritius is mostly in financial sector and real estate. The same is true for Seychelles where the financial/offshore sector is growing rapidly; the government considers the financial sector as the third pillar of economic development after tourism and fisheries. Productive investment in both countries can be found in tourism, but also in manufacturing for Mauritius. For Seychelles, an example for productive investment is a German-Seychelles joint venture, Sun Tech Seychelles[115], which provides solar photovoltaic technology and after sales services in the Seychelles.

3. Issues addressed in the annual EPA Committee Meeting

The main issues addressed by the 7th Meeting of the EPA Committee in January 2019 (in Brussels) were:

- Agreement on modernisation of rules of origin and adoption by the EPA Committee by mid-2019;

[114] Government of Mauritius, https://www.bom.mu/sites/default/files/di_2018q4_website.pdf
[115] https://sts.sc/index.html

- Agreement to put in place a Monitoring and Evaluation Mechanism to ensure an effective implementation of the interim EPA;
- Initiated discussions on the scope and objectives of the envisioned deepening of the agreement (covering additional topics) which the ESA4 have asked for. The deepening will evolve around the issues mentioned in the rendez-vous clause of the interim agreement;
- Progress on the support to EPA implementation under both the 10th and the 11th European Development Fund (EDF);
- Agreement to setup a coordination mechanism financed by the EU to assist ESA side in the negotiations that may be launched in 2019 after conclusion of the joint scoping paper, which the Parties are currently discussing;
- Discussion on the ESA commitments to the development of internationally agreed standards for cooperation between tax jurisdictions.

4. DEVELOPMENT COOPERATION

Development cooperation is essential for EPA implementation and for ensuring the long-term sustainable development impact of the agreement. Each of the four ESA EPA countries benefits from an envelope of **€10 million under the SADC regional programme** to support **EPA implementation** and **export competitiveness**. The respective technical assistance programmes are currently in different states of preparation or implementation. Comoros having recently joined the EPA will also benefit from similar support measures.

Under the EPA-dedicated programmes, **Mauritius** is 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, technical assistance will for the implementation of Intellectual Property Rights (IPR), a key reform to support the transformation to a knowledge-based economy.

Under the intra-ACP TRADECOM programme, 32 SMEs benefitted from capacity building in 2018 in the area of productivity and marketing, which has enabled a number of them to start exporting to regional markets. Furthermore, from its national envelope, Mauritius and the EU are preparing a programme on tertiary education and innovation that may launch next year.

In **Seychelles**, the EPA-related project is focusing on trade policy capacity building (long-term technical assistance for the Trade Ministry) and private sector development in manufacturing and agriculture & fisheries, with an emphasis on niche sectors that could generate exports. The project will support the realisation of the EPA Implementation Strategy, the first of its kind in the trade domain in Seychelles, formulated with active participation from public and private sector actors.

In **Zimbabwe**, the inception phase of a project that will focus on capacity development for the Trade Ministry, as well as SME development in selected value-chains, was successfully concluded in 2018. Capacity building measures for the government are ongoing, while the work on SME development will start in 2019.

In **Madagascar**, a project focusing on trade facilitation and export promotion (establishment of an export promotion agency) is under preparation but delayed due to the on-going government formation process after the 2018 presidential elections. The project should also support competitiveness in tourism, IT and textile sectors. With EU support, Madagascar has already 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. The annual roundtables organised by the delegation are also important dialogue platforms for private business and the government.

For the upcoming negotiations to deepen the EPA, the EU supports ESA4 (or in future ESA5) with an **EPA Coordination Hub** (€1 million) to facilitate the preparations of the negotiations.

Furthermore, there are currently two **infrastructure sector blending** projects on-going or under preparation, that would strongly facilitate trade opportunities, namely the extension of Port Victoria in Seychelles (€5 million) and the extension of the airport in Rodrigues in Mauritius (€10 million grant).

In addition to EPA specific programmes, the EU and the four ESA countries have embarked on a number of cooperation initiatives in the area of sustainable economic development. The EU in particular provides funding to the **Indian Ocean Commission (IOC),** to a total amount of €107 million under the 10th European Development Fund (EDF). Some key projects include:

- **SMARTFISH (€37 million):** the project supported the implementation of the ESA-IO fisheries strategic priorities for sustainable management and development of the inland and marine fisheries and aquaculture sector. (Project activities ended in April 2018)
- **ISLANDS (€17.5 million):** the project addressed specific development constraints of Small Islands Developing States (SIDS) beneficiary countries (their natural characteristics linked to insularity, relative smallness, proneness to natural disasters and limited access to capital) and fostered regional and global SIDS-SIDS cross-fertilisation. (Project ended in December 2017)
- **Regional Integration Support Programme (€6.15 million):** objective is to contribute to deepened integration and competitiveness of the ESA-IO region.

New projects under the 11th EDF on **competitiveness and business facilitation (**€8 million), **natural resource management/climate change and disaster risk management** (€16 million) and regional **food security** (€16 million) are currently under preparation.

As all ESA4 states are also members of the Southern African Development Community (SADC), they benefit from significant development assistance provided to regional integration and private sector development in the SADC region (more details see chapter on the SADC EPA).

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. Nevertheless, Zimbabwe has recently paused the implementation of new tariff cuts; discussions are ongoing to find a solution.

Following the ESA States' expressed interest in "deepening" (new issues) and "widening" (new members) the existing iEPA[116], both sides undertook to jointly define the scope and objectives of the deepening before launching the negotiation process. A joint scoping paper has been concluded in May 2019 and the launch of negotiations is expected shortly.

As for widening, Comoros has already joined the EPA (it signed the agreement in July 2017, ratified it in January 2019 and deposited the instrument of ratification on 7 February 2019). Zambia can, at any time, also sign and ratify the agreement that it initialled in 2007. As for the other ESA States[117], the EPA is open for accession by all of them but they 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 ESA5 Business Forum, an awareness-raising EPA seminar in Zimbabwe and specific training on geographical indications have been raised.

6. CONCLUSIONS AND OUTLOOK

In 2018, EU imports from Madagascar, Seychelles and Zimbabwe increased, while imports from Mauritius decreased, as did overall EU exports to ESA4. Comoros joined the EPA on 7 February 2019. Zambia may follow in 2019. The year 2019 may see the launch of negotiations to deepen the EPA towards a comprehensive agreement covering a range of modern trade policy topics.

Overall, the very different economic profiles and levels of development of ESA4, now ESA5, render implementation and negotiation challenging. Nevertheless, there are natural complementarities and the countries see the potential for cooperation among themselves, both in the context of the EPA and beyond: Labour shortages in Mauritius can be addressed by employing Malagasy and by delocalising e.g. textile production to Madagascar. Madagascar can supply Mauritius and Seychelles with needed fruits and vegetables, if SPS issues are resolved. Mauritius experience in reforming the business environment is key for Madagascar, Seychelles and Zimbabwe in unblocking their development prospects. Zimbabwe, finally, features high in Mauritius' Africa Strategy, as a close partner to invest in.

7. STATISTICS

Merchandise trade EU28 with ESA4 States 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with* ESA4 States *(mio €)					
Imports	2.580	2.450	2.470	2.853	2.754
Exports	1.865	1.981	1.955	2.332	2.259
Balance	-715	-469	-514	-521	-494
Share* ESA4 States *in EU28 trade with Extra-EU28					
Imports	0,2%	0,1%	0,1%	0,2%	0,1%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade EPA (interim) Eastern and Southern Africa (ESA): IMF Dots

[116] 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.

[117] Djibouti, Ethiopia, Eritrea, Sudan and Malawi

Growth of merchandise trade EU28 with ESA4 States (mio €)

EPA (interim) Eastern and Southern Africa (ESA)	2017	2018	Growth mio €	Growth annual %
Imports	2.853	2.754	-100	-3,5%
Exports	2.332	2.259	-73	-3,1%
Balance	-521	-494	26	
Total trade	5.185	5.013	-173	-3,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with ESA4 States (mio €)

EPA (interim) Eastern and Southern Africa (ESA)	2017	2018	Growth mio €	Growth annual %
Imports	924	839	-86	-9,3%
Exports	308	335	27	8,7%
Balance	-616	-504	113	
Total trade	1.233	1.174	-59	-4,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with ESA4 States (mio €)

EPA (interim) Eastern and Southern Africa (ESA)	2017	2018	Growth mio €	Growth annual %
EU28 imports	1.929	1.915	-14	-0,7%
EU28 exports	2.024	1.924	-100	-4,9%
Balance	95	9	-86	
Total trade	3.953	3.839	-114	-2,9%

Growth in Services trade EU28 with ESA4 (mio €)

	2016	2017	Growth mio €	Growth annual %
Imports	2.381	2.205	-176	-7,4%
Exports	1.962	2.569	607	30,9%
Balance	-419	365	784	
Total trade	4.343	4.774	431	9,9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Total Services trade EU28 with ESA4 (mio €)

	2013	2014	2015	2016	2017
Imports	2.051	2.348	2.602	2.381	2.205
Exports	1.425	1.804	1.730	1.962	2.569
Balance	-627	-544	-872	-419	365
Total trade	3.476	4.151	4.332	4.343	4.774

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with ESA4 (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	2.568	5.811	4.422	8.843	6.710
Outward	15.223	21.518	21.815	21.099	24.671
	FDI Flows				
Inward	1.878	1.328	-1.839	678	-1.240
Outward	1.706	210	1.412	-5.496	1.331

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Madagascar

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Madagascar (mio €)					
Imports	840	904	988	1.181	1.243
Exports	532	560	552	674	662
Balance	-309	-344	-436	-507	-581
Share Madagascar in EU28 trade with Extra-EU28					

	2014	2015	2016	2017	2018
Imports	0,0%	0,1%	0,1%	0,1%	0,1%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Madagascar with world					
Imports	15,5%	16,5%	16,3%	17,0%	16,9%
Exports	51,9%	47,2%	46,9%	43,2%	33,5%
Total (I+E)	29,7%	29,1%	29,2%	28,2%	24,1%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Madagascar: IMF Dots

Total merchandise trade EU28 with Madagascar (mio €)

Madagascar	2017	2018	Growth mio €	Growth annual %
Imports	1.181	1.243	62	5,3%
Exports	674	662	-12	-1,8%
Balance	-507	-581	-74	
Total trade	1.855	1.905	50	2,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Madagascar (mio €)

Madagascar	2017	2018	Growth mio €	Growth annual %
Imports	477	533	56	11,6%
Exports	72	65	-6	-9,0%
Balance	-405	-468	-62	
Total trade	549	598	49	8,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Madagascar (mio €)

Madagascar	2017	2018	Growth mio €	Growth annual %
EU28 imports	704	710	6	0,9%
EU28 exports	602	596	-6	-1,0%
Balance	-101	-114	-12	
Total trade	1.306	1.307	1	0,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Madagascar (mio €)

Madagascar	2016	2017	Growth mio €	Growth annual %
Imports	332	376	44	13,2%
Exports	192	266	74	38,7%
Balance	-141	-110	30	
Total trade	524	641	118	22,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Madagascar (mio €)

	2013	2014	2015	2016	2017
Imports	254	374	419	332	376
Exports	183	226	187	192	266
Balance	-70	-148	-232	-141	-110
Total trade	437	600	606	524	641

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Madagascar (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	5	4	2	10	-11
Outward	206	460	469	145	55
FDI Flows					
Inward	-19	-3	-1	2	-21
Outward	-36	37	-116	-129	17

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Mauritius

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Mauritius (mio €)					
Imports	960	895	861	925	756
Exports	875	899	950	1.169	1.067
Balance	-85	4	89	244	310
Share Mauritius in EU28 trade with Extra-EU28					
Imports	0,1%	0,1%	0,1%	0,0%	0,0%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,0%
Share EU28 in trade Mauritius with world					
Imports	20,8%	20,3%	22,8%	23,5%	23,0%
Exports	49,4%	43,4%	48,4%	51,5%	47,7%
Total (I+E)	30,0%	28,1%	31,0%	31,5%	29,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Mauritius: IMF Dots

Total merchandise trade EU28 with Mauritius (mio €)

Mauritius	2017	2018	Growth mio €	Growth annual %
Imports	925	756	-168	-18,2%
Exports	1.169	1.067	-102	-8,7%
Balance	244	310	66	
Total trade	2.093	1.823	-270	-12,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Mauritius (mio €)

Mauritius	2017	2018	Growth mio €	Growth annual %
Imports	213	111	-102	-48,0%
Exports	176	204	29	16,4%
Balance	-38	94	131	
Total trade	389	315	-74	-18,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Mauritius (mio €)

Mauritius	2017	2018	Growth mio €	Growth annual %
EU28 imports	711	646	-66	-9,3%
EU28 exports	993	862	-131	-13,2%
Balance	281	217	-65	
Total trade	1.704	1.508	-197	-11,5%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Mauritius (mio €)

Mauritius	2016	2017	Growth mio €	Growth annual %
Imports	1.512	1.369	-143	-9,5%
Exports	1.356	1.688	332	24,5%
Balance	-156	320	476	
Total trade	2.868	3.057	189	6,6%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Mauritius (mio €)

	2013	2014	2015	2016	2017
Imports	1.403	1.522	1.563	1.512	1.369
Exports	901	1.161	1.010	1.356	1.688
Balance	-502	-361	-553	-156	320

Total trade	2.305	2.683	2.572	2.868	3.057

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Mauritius (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	1.843	5.039	3.643	6.706	4.494
Outward	14.507	20.475	20.109	19.541	23.177
FDI Flows					
Inward	2.004	1.356	-1.824	613	-1.265
Outward	1.795	166	1.322	-5.391	1.280

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Seychelles

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Seychelles (mio €)					
Imports	270	249	282	291	299
Exports	238	302	279	298	297
Balance	-32	53	-2	7	-2
Share Seychelles in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Seychelles with world					
Imports	33,7%	30,5%	24,6%	34,4%	27,3%
Exports	58,9%	57,1%	58,1%	50,3%	54,5%
Total (I+E)	42,3%	39,2%	32,2%	39,3%	34,6%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Seychelles: IMF Dots

Total merchandise trade EU28 with Seychelles (mio €)

Seychelles	2017	2018	Growth mio €	Growth annual %
Imports	291	299	8	2,8%
Exports	298	297	-1	-0,4%
Balance	7	-2	-9	
Total trade	589	596	7	1,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Seychelles (mio €)

Seychelles	2017	2018	Growth mio €	Growth annual %
Imports	0	0	0	-14,6%
Exports	45	36	-9	-19,7%
Balance	45	36	-9	
Total trade	46	37	-9	-19,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Seychelles (mio €)

Seychelles	2017	2018	Growth mio €	Growth annual %
EU28 imports	291	299	8	2,8%
EU28 exports	253	261	8	3,0%
Balance	-38	-38	-1	
Total trade	544	560	16	2,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Seychelles (mio €)

Seychelles	2016	2017	Growth mio €	Growth annual

				%
Imports	447	376	-71	-15,9%
Exports	236	235	-1	-0,2%
Balance	-212	-141	70	
Total trade	683	611	-71	-10,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Seychelles (mio €)

	2013	2014	2015	2016	2017
Imports	255	305	426	447	376
Exports	140	206	301	236	235
Balance	-115	-99	-126	-212	-141
Total trade	394	512	727	683	611

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Seychelles (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	712	759	730	2.124	2.218
Outward	313	304	321	1.060	982
FDI Flows					
Inward	-104	-23	-11	107	32
Outward	-73	-29	30	6	9

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Zimbabwe

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Zimbabwe (mio €)					
Imports	510	402	339	456	455
Exports	221	220	174	192	234
Balance	-290	-182	-165	-265	-221
Share Zimbabwe in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Zimbabwe with world					
Imports	4,8%	4,3%	3,5%	3,7%	4,6%
Exports	5,0%	1,0%	2,2%	2,1%	1,7%
Total (I+E)	4,9%	3,1%	3,0%	3,1%	3,4%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Zimbabwe: IMF Dots

Total merchandise trade EU28 with Zimbabwe (mio €)

Zimbabwe	2017	2018	Growth mio €	Growth annual %
Imports	456	455	-2	-0,3%
Exports	192	234	42	22,1%
Balance	-265	-221	44	
Total trade	648	689	41	6,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Zimbabwe (mio €)

Zimbabwe	2017	2018	Growth mio €	Growth annual %
Imports	234	195	-39	-16,7%
Exports	15	29	14	88,8%
Balance	-218	-166	53	
Total trade	249	223	-25	-10,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Zimbabwe (mio €)

Zimbabwe	2017	2018	Growth mio €	Growth annual %
EU28 imports	223	260	38	16,8%
EU28 exports	176	205	29	16,3%
Balance	-47	-55	-9	
Total trade	399	465	66	16,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Zimbabwe (mio €)

Zimbabwe	2016	2017	Growth mio €	Growth annual %
Imports	90	84	-6	-6,6%
Exports	179	381	201	112,2%
Balance	89	297	207	
Total trade	269	465	195	72,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Zimbabwe (mio €)

	2013	2014	2015	2016	2017
Imports	140	147	195	90	84
Exports	200	211	233	179	381
Balance	61	64	38	89	297
Total trade	340	358	427	269	465

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Zimbabwe (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	9	10	46	3	9
Outward	199	279	916	353	457
FDI Flows					
Inward	-4	-1	-3	-44	14
Outward	19	37	175	18	26

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND COTE D'IVOIRE

1. INTRODUCTION

Pending an Economic Partnership Agreement (EPA) with the West African region, Côte d'Ivoire concluded a stepping stone or interim Economic Partnership Agreement with the EU in November 2008.[118] 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. The stepping stone or interim EPA (iEPA) will be substituted by the regional EU-West Africa EPA once the latter enters into force.[119] By the end of 2018, 14 out of 15 members of the Economic Community of Western African States (ECOWAS), as well as Mauritania, had signed the regional EPA which now misses only Nigeria's signature.

Côte d'Ivoire has announced it will start to liberalize its market for a range of EU products. Agricultural products, including fruit and vegetables, are mostly excluded for liberalisation.

2. EVOLUTION OF TRADE

2.1 Trade in goods

The EU continues to be the most important trade partner for Côte d'Ivoire: in 2018, 37% of Ivorian exports went to the EU, 18% to the West African region, 9% to the US and 6% to Vietnam. While 18% regional exports is still a low amount, it is above the average of 10% in the ECOWAS region. Two thirds of these regional exports go Burkina Faso, Mali and Ghana. Regarding imports, the EU accounted for 41% of Ivorian imports from the world, followed by China (13%) and Nigeria (10%). Around 15% of Ivoirian imports come from the West African region, two thirds of it from Nigeria (mostly mineral fuels and other petrol-based products). Within the EU, the Netherlands, France and Germany are the main trading partners of Côte d'Ivoire.

Total trade with Côte d'Ivoire has decreased by €342 million or 4.6% in 2018. EU imports from Côte d'Ivoire decreased by €238 million (-5%) and EU exports to Côte d'Ivoire decreased by €105 million (-3.7%). The trade balance remains strongly in favour of Côte d'Ivoire (€1.7 billion), due to a large surplus in agrifood trade (€2.8 billion); however, Côte d'Ivoire runs a deficit for non-agricultural trade (-€1.1 billion).

The decrease in **EU imports from Côte d'Ivoire** in 2018 can be attributed to a decrease in value of imports of raw and processed cocoa products by €175 million or 5.6%, as well as a

[118] 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".

[119] The Economic Partnership Agreement was signed in December 2014 by the European Union and 13 West African Countries. In 2018, the Gambia and Mauretania signed the agreement, making Nigeria the only remaining country opposed to the EPA. The agreement will enter into provisional application if the 16 West African Countries sign the agreement and 2/3 of these countries ratify it.

decrease in imports of rubber products by €79 million or 20%. EU imports of all main Ivorian export products have decreased in 2018, except for imports of mineral fuels (+ 7%) and coffee (+ 0.7%) which have slightly increased. The decrease in cocoa and rubber exports was caused by a drop in global market prices. The transmission of these external shocks to domestic prices has been significant due to inadequate institutional mechanisms to deal with such price fluctuations for its major commodities (e.g. in comparison to Ghana, where the value of both raw and processed cocoa exports increased in 2018).

Nevertheless, cocoa and transformed cocoa products remain Côte d'Ivoire's main export products, accounting for 64% of total EU imports from Côte d'Ivoire in 2018. Ivorian exports of cocoa paste, butter and powder, as well as chocolate, have continuously increased in recent years and, being less sensitive to price fluctuations, are supporting the creation of a local agro-industry. Other imports from Côte d'Ivoire are mineral fuels, rubber and articles thereof, edible fruits and nuts (primarily bananas) and prepared fish products (mainly canned tuna).

Preference utilisation rates for Côte d'Ivoire are continuously in the 98-99% range. Preferences are used in particular for cocoa and cocoa products, vegetables, prepared foodstuffs and wood products.

EU imports from Côte d'Ivoire are still **little diversified**. The total number of product lines a value of imports of at least €1 million was 46 in 2018, basically the same as in 2014 (49 product lines). The share of the top 10 products in total EU imports from Côte d'Ivoire is 91% in 2018.

2018 top 10 EU imports from Côte d'Ivoire				**2018 top 10 EU exports to Côte d'Ivoire**			
Product	*Description*	*Volume*	*Share*	*Product*	*Description*	*Volume*	*Share*
180100	Cocoa beans, whole or broken, raw or roasted	2,031,132,131	46.1 %	300490	Medicaments for therapeutic or prophylactic purposes (…)	115,742,480	4.2 %
270900	Petroleum oils	439,047,913	10 %	271019	Medium oils, of petroleum (…)	81,087,801	3 %
180400	Cocoa butter, fat and oil	359,104,444	8.2 %	240120	Tobacco	79,088,806	2.9 %
180310	Cocoa paste (excl. defatted)	342,331,572	7.8 %	100199	Wheat and meslin	72,127,390	2.6 %
400122	Technically specified natural rubber "TSNR"	262,330,162	6 %	271012	Light oils, of petroleum (…)	69,299,221	2.5 %
080390	Fresh or dried bananas (excl. plantains)	237,878,059	5.4 %	870323	Motor cars / vehicles for the transport of <10 persons	51,493,053	1.9 %
160414	Prepared or preserved tunas, skipjack and Atlantic bonito	120,405,890	2.7 %	851762	Machines for the reception, conversion, transmission of voice (…)	36,035,865	1.3 %
180620	Chocolate and other food preparations containing cocoa (…)	112,232,097	2.5 %	870120	Road tractors for semi-trailers	34,100,342	1.2 %
180320	Cocoa paste, wholly or partly defatted	82,022,685	1.9 %	190190	Malt extract; food preparations of flour, groats, meal, starch or malt extract, (..) food preparations of milk, cream, butter milk, sour milk, sour cream, whey, yogurt, kephir (…)	33,099,317	1.2 %
400129	Natural rubber in primary forms or in plates, sheets or strip	43,454,296	1 %	870210	Motor vehicles for the transport of >= 10 persons (…)	32,157,382	1.2 %

	(…)						
	Total top 10 products	**4,029,939,200**	**91.6 %**		**Total top 10 products**	**604,231,680**	**22 %**

Source: Eurostat (Product descriptions are partly shortened)

The decrease in **EU exports to Côte d'Ivoire** in 2018 can be explained by an unusual spike in exports of aircrafts and aircraft parts in 2017. As part of its expansion, the national carrier Air Côte d'Ivoire is expanding and has made purchases of €123 million in 2017 – a figure that went down to €7 million in 2018. Disregarding the aircraft sector, EU exports to Côte d'Ivoire actually continue to increase, namely by 0.5% in 2018.

Main export increases in 2018 concern machinery and mechanical appliances (+€66 million, +16%), motor vehicles, particularly cars (+€48 million, +24%), and articles of iron or steel (+€28 million, +22%). Main export decreases concern pharmaceutical products (-€77 million, -34%), ships and boats (-€30 million, -64%) and electrical machinery and equipment (-€22 million, -10%).

In the **agri-food trade**, Côte d'Ivoire continued enjoying huge surplus of €2.8 billion due to significant exports of cocoa products, followed by tropical fruits, mainly bananas. EU agri-food exports to Côte d'Ivoire are at much lower level (€584 million, compared to €3.4 billion of agri-food imports from Côte d'Ivoire) and diversified, with wheat being the lead export product, followed by tobacco, infant food and other cereals, starch or milk preparation, wine, vegetables and offal, animal fats and other meats.

2.2 Trade in services

The interim EPA with Côte d'Ivoire does not cover services. Trade in services between the EU and Côte d'Ivoire increased by 2.8% in 2017, due to an increase of EU exports by 9.8% or €84 million. EU services imports from Côte d'Ivoire decreased by 7.7% or €44 million. Total services trade balance is positive for the EU.

2.3 Foreign Direct investment (FDI)

The interim EPA with Côte d'Ivoire does not include provisions on investment. EU foreign direct investment stocks in Côte d'Ivoire stood at €3.3 billion in 2017. New outward investment in Côte d'Ivoire was €263 million in 2017.

Côte d'Ivoire is the second largest EU investment destination in West Africa after Nigeria. EU FDI accounted for over half of total FDI stocks in Côte d'Ivoire in 2016 (other important investors are Switzerland and the US; Chinese stocks are still rather limited even if inflows are increasing). The activities of the 180 European companies, represented by European Chamber of Commerce in Côte d'Ivoire, account together for 26% of GDP and have created 100,000 jobs in the country.[120]

Gas-operated minivans for public transport, assembled in Abidjan

One of the objectives of the EPA is to contribute to a **stable and conducive**

[120] Eurocham Côte d'Ivoire, 2019: https://eurochamci.com/assets/files/livre-blanc-2019-version-numerique.pdf

investment climate in the country, attracting foreign investors to produce for local, regional and international markets. EU investment in Côte d'Ivoire has been increasing over the past decade, reflecting the **decisions of EU companies to locate assembly or production lines** in the country to increase their market share in the domestic and regional market – or even export to Europe.

In 2018, the Italian automotive company **IVECO** has been the latest European company to announce an investment into an assembly line in Abidjan. The announcement to invest locally follows a first agreement for the acquisition of 450 gas-powered busses and 105 waste management vehicles between IVECO, the Moroccan Premium Group, the city of Abidjan and Abidjan's public transport company (SOTRA).

Thanks to this partnership with SOTRA and the Ivorian government, IVECO is now investing in a **local assembly plant with an initial capacity of 500 vehicles per year** (minivans for urban and interurban transport) to serve the local market. In a second phase, special purpose minivans are foreseen to be produced, such as vans for cold-chain transportation. This would be the first ever car assembly plant in the country. The construction of the plant was launched in August 2018 – production is expected to start in the first half of 2019. The investment of CFA 2 billion (€3 million) is expected to create around 500 jobs in a first phase.

The Ivorian government is supporting the project in order to contribute to a renewal of the Ivorian car fleet. The new minivans will also make transport in Côte d'Ivoire more **sustainable and efficient**, with **lower emission rates** and noise disturbance, as they will mostly operate with **natural gas** – a novelty in Sub-Saharan Africa.

3. ISSUES ADDRESSED IN THE ANNUAL EPA COMMITTEE MEETING

The 3rd EPA Committee meeting between Côte d'Ivoire and the EU took place in April 2019. The parties took stock of the liberalisation process in Côte d'Ivoire, which started on 1st January 2019, as well as the preparation of the dispute settlement framework under the EPA. The parties also discussed the first joint monitoring report on the implementation of the EPA and agreed to finalize the report in the second half of 2019. The parties furthermore exchanged views on an on-going study to assess the impact of the iEPA on regional integration in the West African region.

In Côte d'Ivoire, a technical group on sustainable development was established under the presidency of civil society groups, to promote feedback from civil society on EPA implementation and impact. The group is formally part of the "Commission Nationale APE", the governing body in charge of implementing the iEPA in Cote d'Ivoire. The technical group on sustainable development reported to the EPA Committee on its first meeting and provided a number of recommendations on how to tackle questions of sustainable development in the framework of the EPA and how to organise future collaboration between the Ivorian and European civil society.

4. DEVELOPMENT COOPERATION

Development cooperation, particularly trade-related assistance, is an important pillar of the EPA, as it contributes to operationalizing the development dimension of the partnership.
In 2018, the EU already supported Côte d'Ivoire in undertaking an **impact study** to determine the potential effects of the interim EPA on regional integration and regional trade in West Africa, and suggest mediation measures.

The EU provides budget support to Côte d'Ivoire under a **good governance budget support contract (€60 million, 2016-2020)** with the aim to improve economic governance and the investment climate overall. Another budget support operation on-going is the ***Programme d'appui au foncier rural*** **(PAFR) (€41 million 2016-2022)** which aims at investing in rural infrastructure, agricultural modernisation and security in rural areas.

The **Côte d'Ivoire EPA Implementation Strategy** was adopted in October 2017. A dedicated EU-financed programme (€5 million in **support of EPA implementation**) and hence the operationalisation of the strategy, is currently under preparation. It will promote customs cooperation on tariff and non-tariff issues and provide support to reduce barriers to trade. The programme will also assist relevant government actors with other reforms related to the implementation of the EPA, including transition in taxation (diversification of fiscal revenues away from customs income) and the establishment of trade defence instruments.

Côte d'Ivoire is benefiting from the regional **West Africa Competitiveness programme** that aims at: (1) Upgrading and supporting consortia of companies in target sectors and value chains; (2) Strengthening the capacities of the Private Sector Intermediary Organizations that will serve as a lever for modernization, competitiveness and growth for SMEs; (3) Improving the overall business regulatory environment. The national component for Côte d'Ivoire (PACIR II) is €9 million and will further consolidate results achieved under the previous Trade and Regional Integration support programme (PACIR I, €16 million, 2010-2015). The project will start operations in 2019.

Côte d'Ivoire will also benefit from the other regional programmes, including the **West Africa Trade Facilitation Programme (€20 million EU contribution)** that aims at improving regional trade measures and movement of goods along selected priority corridors including the Abidjan - Ouagadougou corridor and also **regional infrastructure investment programmes** that foresee an investment of €28.6 million on the Bamako-San Pedro corridor between Mali and Côte d'Ivoire, as well as €9.43 million for pre-studies on the construction of a motorway between Abidjan and Lagos.

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

Côte d'Ivoire is becoming the driving force behind trade integration and liberalisation in West Africa. It is implementing the EPA despite a difficult regional situation, with Nigeria blocking progress towards both the regional EPA, as well as free movement of goods within ECOWAS itself.

As mentioned above, Côte d'Ivoire commissioned a study with the financial support of the EU to measure the impact of the interim EPAs (Côte d'Ivoire and Ghana) on regional trade. A technical workshop took place in Abidjan on 7-8 May 2019 to present its results and recommendations to EPA stakeholders in Côte d'Ivoire, Ghana, Burkina, Mali and to the regional organisations West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS).

The study shows that the possible impact is limited in terms of trade flows (affecting 2% of regional trade), products (about 15 products) and affected countries (2 countries). Trade distortions might thus occur but focused on few products and with limited scale. The study provides pragmatic solutions to mitigate the risk of distortion. Due to the progressive liberalisation, effects may become more significant as from 2024 for Côte d'Ivoire and 2026 for Ghana. In the medium and long term, the best solution would be of course to adopt the regional EPA.

6. CONCLUSIONS AND OUTLOOK

Côte d'Ivoire started the liberalisation of its market for EU exporters on 1st of January 2019. This is an important step in EU trade's relationship with Côte d'Ivoire, making it the first country in West Africa to open its market in the context of the EPAs. Both parties are engaged to closely monitor and evaluate the process, including in cooperation with the regional organisations West African Economic and Monetary Union (WAEMU) 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.

7. STATISTICS

Merchandise trade EU28 with Côte d'Ivoire 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Côte d'Ivoire (mio €)					
Imports	3.256	4.255	4.573	4.641	4.404
Exports	2.310	2.672	2.437	2.846	2.742
Balance	-946	-1.583	-2.136	-1.795	-1.662
Share Côte d'Ivoire in EU28 trade with Extra-EU28					
Imports	0,2%	0,2%	0,3%	0,2%	0,2%
Exports	0,1%	0,1%	0,1%	0,2%	0,1%
Total (I+E)	0,2%	0,2%	0,2%	0,2%	0,2%
Share EU28 in trade Côte d'Ivoire with world					
Imports	26,9%	33,1%	31,1%	37,2%	37,2%
Exports	35,3%	42,1%	40,7%	40,7%	41,2%
Total (I+E)	31,4%	38,1%	36,4%	39,2%	39,3%

Source Trade G2 Statistics/ISDB,
Trade EU28: Eurostat COMEXT; Trade Ivory Coast: IMF Dots

Growth of merchandise trade EU28 with Côte d'Ivoire (mio €)

Côte d'Ivoire	2017	2018	Growth mio €	Growth annual %
Imports	4.641	4.404	-238	-5,1%
Exports	2.846	2.742	-105	-3,7%
Balance	-1.795	-1.662	133	
Total trade	7.488	7.145	-342	-4,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Côte d'Ivoire (mio €)

Côte d'Ivoire	2017	2018	Growth mio €	Growth annual %
Imports	3.543	3.361	-183	-5,2%
Exports	575	584	8	1,5%
Balance	-2.968	-2.777	191	
Total trade	4.118	3.944	-174	-4,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Côte d'Ivoire (mio €)

Côte d'Ivoire	2017	2018	Growth mio €	Growth annual %
EU28 imports	1.098	1.043	-55	-5,0%
EU28 exports	2.271	2.158	-113	-5,0%
Balance	1.173	1.115	-58	
Total trade	3.369	3.201	-168	-5,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth of Services trade EU28 with Côte d'Ivoire (mio €)

Côte d'Ivoire	2016	2017	Growth mio €	Growth annual %
Imports	579	534	-44	-7,7%
Exports	854	938	84	9,8%
Balance	275	404	128	
Total trade	1.433	1.472	40	2,8%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Côte d'Ivoire (mio €)

	2013	2014	2015	2016	2017
Imports	410	478	673	579	534
Exports	928	793	827	854	938
Balance	518	315	154	275	404
Total trade	1.338	1.271	1.500	1.433	1.472

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Côte d'Ivoire (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	-4	3	-215	-231	582
Outward	2.875	3.695	3.817	3.616	3.364
	FDI Flows				
Inward	-195	35	-232	-96	668
Outward	125	-75	729	106	263

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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.[121] 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. This agreement will be substituted by the regional EU-West Africa EPA once the latter enters into force.[122]

2. EVOLUTION OF TRADE

2.1 Trade in goods

The EU is still Ghana's largest trading partner, accounting for 21% of Ghana's exports (ahead of India with 19% and China with 17% in 2018) and 31% of Ghana's imports (ahead of China with 16% and the US with 8%). Only 13% of Ghana's exports go to the West African region and less than 4% of Ghana's imports come from the region.

Total trade between the EU and Ghana increased by 15% in 2018. This is mostly due to an increase in EU imports from Ghana by €1 billion or 48% to €3.1 billion. EU exports to Ghana decreased by €218 million or 7% to €2.8 billion. The overall trade balance is negative for the EU, for both agricultural and non-agricultural goods.

The strong increase in EU imports from Ghana has much to do with an increase in mineral oil imports by €833 million (+180%). But beyond oil, EU imports of raw cocoa beans from Ghana increased by €86 million (+14%) and imports of cocoa paste and butter increased by €25 million (+5.6%). Even though imports of further transformed cocoa powder and chocolate slightly decreased in 2018, processed cocoa products (paste, butter, powder and chocolate) now account for 42% of the overall value of Ghanaian cocoa exports to the EU.

In addition, EU imports from Ghana of aluminium (+€38 million, 78%), vegetable fats and oils (+ €10 million or 31%), prepared or preserved tuna (+€8.6 million or 6.7%), copper (+€5 million, 20%), and edible fruits and nuts (+4 million or 3%; mostly coconut and bananas) also increased in 2018. Some emerging sectors showed high growth rates, for example exports of fresh coconuts (+230%) or perfumes and "Eaux de toilette" (+100%).

On the other hand, EU imports of rubber from Ghana decreased by 30% and imports of fruit juices decreased by 40%.

[121] The official name of the agreement ("stepping-stone agreement") reflects the fact that the initial and ultimate objective for an economic partnership in West Africa is a comprehensive, regional agreement. It is also called "interim EPA"

[122] The Economic Partnership Agreement was signed in December 2014 by the European Union and 13 West African Countries. The agreement will enter into provisional application if the 16 West African Countries sign the agreement and 2/3 of these countries ratify it. In 2018, both the Gambia and Mauritania signed the agreement, which means that only Nigeria's signature is still missing.

Main destination of Ghanaian exports in the EU are the Netherlands, the UK, France, Germany and Spain. Preference utilisation rates for EU imports from Ghana are continuously around 98 or 99%.

EU imports from Ghana are diversifying only slowly. The 10 main EU import products (at HS 6-digit level), accounting for 89.8% of total imports, were petroleum oils, cocoa beans, cocoa butter, cocoa paste, prepared or preserved tuna, raw aluminium, bananas, vegetable fats and oils, cocoa powder, and finally wholly or partly defatted cocoa paste.

2018 top 10 EU imports from Ghana				**2018 top 10 EU exports to Ghana**			
Product	*Description*	*Volume*	*Share*	*Product*	*Description*	*Volume*	*Share*
270900	Petroleum oils	1,287,586,845	41.2 %	271019	Medium oils	301,419,989	10.7 %
180100	Cocoa beans	700,951,960	22.4 %	271012	Light oils and preparations	181,013,501	6.4 %
180400	Cocoa butter, fat and oil	260,675,615	8.3 %	630900	Second hand textiles	105,027,696	3.7 %
180310	Cocoa paste (excl. defatted)	172,870,574	5.5 %	020714	Frozen chicken	104,132,301	3.7 %
160414	Prepared or preserved tunas	137,899,394	4.4 %	300490	Medicaments	72,103,801	2.6 %
760110	Aluminium, not alloyed, unwrought	80,526,891	2.6 %	843041	Self-propelled boring or sinking machinery for boring earth or extracting minerals or ores	41,208,810	1.5 %
080390	Fresh or dried bananas (excl. plantains)	57,073,806	1.8 %	843143	Parts for boring or sinking machinery	33,874,967	1.2 %
151590	Fixed vegetable fats and oils	44,059,240	1.4 %	170199	Cane or beet sugar	32,118,832	1.1 %
180500	Cocoa powder	37,839,836	1.2 %	830710	Flexible tubing of iron or steel, with or without fittings	27,758,778	1 %
180320	Cocoa paste, wholly or	31,836,485	1 %	870410	Dumpers for off-highway use	26,942,320	1 %

	partly defatted						
	Total top 10 products	**2,811,320,576**	**89.8 %**		**Total top 10 products**	**925,601,024**	**32.9 %**

Source: Eurostat (product names partly shortened)

In 2018, the EU imported 58 different products (at HS 6-digit level) with a value of above €1 million from Ghana (compared to 65 products in 2014). However, the degree of diversification is significantly higher than with other export partners (e.g. China imported only 14 products with a value of above €1 million from Ghana in 2017)[123].

The decrease in **EU exports** to Ghana was mostly driven by a decrease in exports of miscellaneous articles of base metal (-€119 million, -72%), as well as machinery and mechanical appliances (-€48 million, -8.7%), motor vehicles (-€33 million, -17.6%) and optical, medical or surgical instruments (-€22 million, -27%).

On the other hand, EU exports of pharmaceutical products (+€42 million, +51%), sugar (+€16 million, 95.2%) and chicken meat (+€14 million, +9.5%) increased in 2018.

EU imports of **agri-food products** from Ghana have increased by €118 million or 9% in 2018 to a total of €1.4 billion, while EU agri-food exports to Ghana increased by €5 million to €460 million. While, as mentioned above, Ghana´s agri-food exports are by far concentrated in cocoa products, followed by tropical fruits, EU exported to Ghana mainly poultry meat (25% of EU agri-food exports to Ghana), followed by sugar, vegetable oils, offal, animal fat and other meats. Ghana is not yet liberalizing its market for EU imports under the EPA, and most agricultural products will remain excluded from liberalization.

2.2 Trade in services

The interim EPA with Ghana does not cover trade in services. Total EU services trade with Ghana decreased by 50% in 2017. EU imports of services from Ghana decreased by €845 million or 45% to 568 million. EU exports of services to Ghana decreased by €777 million or 58% to €1.022 billion. Overall balance is positive for the EU.

2.3 Foreign Direct investment (FDIs)

The interim EPA with Ghana does not contain provisions on investment. EU foreign direct investment stocks in Ghana stood at €1.7 billion in 2017, down from €2.5 billion in 2016. New EU FDI flows to Ghana amounted to €74 million in 2017, also down from €201 million in 2016.

Ghana remains a popular destination for doing business in West Africa due to its political stability, relatively open democratic institutions, free media and a fairly vibrant civil society. The 2018 Mo Ibrahim Index on African Governance ranks Ghana 6 out of 54 African countries with increasing improvement in such indicators as 'Sustainable Economic Opportunities' and 'Safety and Rule of Law'.[124] Ernst and Young, assessing attractiveness of

[123] Source: COMTRADE, Reporter data for China, accessed May 2019
[124] Mo Ibrahim Index on African Governance 2018. Available at: http://iiag.online/

countries as a FDI destination, rank Ghana 7th out of 54 African countries in 2017.[125] European businesses are very interested in using Ghana as a gateway for the region. Large companies, such as Volkswagen and Bosch, have expressed interest in investing in assembly lines in Ghana.

The current Ghanaian administration appears determined to tackle increasing imports through nationwide policies as 'One District One Factory', attempting to boost private investment and local production capacity for local consumption and increased exports.

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 met again in a technical meeting in December 2018 to continue discussions on 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 are in the past and have to be updated. The Parties made substantial progress in the transposition of Ghana's market access commitments from HS2002 (in which it was originally drafted) to HS2017 and which has been now fully endorsed. The Parties also agreed on the rules of origin and the institutional set up for the implementation of the EPA.

Following this meeting, Ghana made an announcement at the meeting of the WTO committee for regional trade agreement in late 2018 that it will start the liberalisation of its market to EU products by the beginning of 2020.

4. Development Cooperation

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 €12 million for 2018-2023 through the following projects: i) support to the Ministry of Trade to implement the EPA and to engage on EPA-related issues; ii) support to the Ghana Export Promotion Authority and the Ghana Investment Promotion Centre in promoting local SMEs to upgrade along value chains and improve the quality of their products; and iii) overall support to improving the business policy and regulatory environment.

The first action, **Support to the Ministry of Trade (€4.1 million, 2019-2021)** aims at information dissemination, awareness raising and mainstreaming the EPA across public and private sector, as well as capacity building for EPA implementation and monitoring. Implementation will start in 2019.

[125] Ernst and Young, 'Turning tides EY Attractiveness Program Africa, 2018'. Available at: https://www.ey.com/Publication/vwLUAssets/ey-Africa-Attractiveness-2018/$FILE/ey-Africa-Attractiveness-2018.pdf

In 2018, the EU already launched the **Ghana Employment and Social Protection Programme (GESP) – Investment Promotion Component (€2.8 million, 2018-2021)** which aims at fostering access to business development services (BDS), promoting structured business advocacy initiatives and supporting investment promotion and business linkages in selected value chains. The project will undertake a structured sequence of investment promotion activities, such as identifying potential investors, lead companies and local suppliers, preparing investment briefs to key target investors, supporting promotion campaigns and providing investor management. In 2018, the project organised six large workshops across the country to identify SMEs in the agribusiness sector to be included in the business linkages and investment promotion activities.

Under the regional **West Africa Competitiveness Programme, the national component in Ghana (€6.35 million, 2019-2022)** will focus on value chain development in the fruits (pineapple and mango), cassava and cosmetics sector. Planned activities include value chain diagnostics, strengthening of intermediary organizations, and specific training of brokers, cluster development agents and micro, small and medium sized enterprises (MSMEs). Implementation has started in 2019. Ghana will also benefit from the other regional programmes, including the **West Africa Trade Facilitation Programme** (€20 million EU contribution), that aims at improving regional trade measures and movement of goods along selected priority corridors including the Tema - Ouagadougou corridor.

The EU further supports Ghana's agricultural sector through the **Market Oriented Agricultural programme (MOAP)** (€35 million, 2017-2024) and the programme to promote **productive investments for sustainable agriculture in Northern Ghana (2018-2025, 102M€)**.

The EU is also implementing the **Budget Support Programme to Promote Investment and Job Creation (SDG-Contract, 45 M€, 2019-2021)** which aims at promoting domestic and foreign investment and strengthening public financial governance and fight against corruption, as well as boosting domestic revenue mobilisation.

5. FOLLOW-UP ACTIONS

In relation to the next steps for the iEPA, EU and Ghana agreed to:

a) Review and endorse the updated liberalization schedule;
b) Set up an appropriate mechanism to monitor the operation and impact of the EPA;
c) Start negotiating the dispute settlement mechanism.

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.

7. STATISTICS

Merchandise trade EU28 with Ghana 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Ghana (mio €)					
Imports	2.885	2.645	2.301	2.119	3.126
Exports	3.116	3.061	2.888	3.042	2.824
Balance	231	416	587	923	-302
Share Ghana in EU28 trade with Extra-EU28					
Imports	0,2%	0,2%	0,1%	0,1%	0,2%
Exports	0,2%	0,2%	0,2%	0,2%	0,1%
Total (I+E)	0,2%	0,2%	0,2%	0,1%	0,2%
Share EU28 in trade Ghana with world					
Imports	33,8 %	30,3 %	31,2 %	31,8 %	31,0%
Exports	21,2 %	14,4 %	13,3 %	17,5 %	21,3%
Total (I+E)	27,5 %	22,3 %	22,6 %	24,2 %	25,4%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Ghana: IMF Dots

Growth of merchandise trade EU28 with Ghana (mio €)

Ghana	2017	2018	Growth mio €	annual %
Imports	2.119	3.126	1.007	47,5%
Exports	3.042	2.824	-218	-7,2%
Balance	923	-302	-1.225	
Total trade	5.161	5.951	789	15,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agri-food trade EU28 with Ghana (mio €)

Ghana	2017	2018	Growth mio €	annual %
Imports	1.314	1.431	118	9,0%
Exports	455	460	5	1,2%
Balance	-859	-971	-112	
Total trade	1.769	1.892	123	7,0%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Ghana (mio €)

Ghana	2017	2018	Growth mio €	annual %
EU28 imports	805	1.695	889	110,4 %
EU28 exports	2.587	2.364	-223	-8,6%

Balance	1.782	669	- 1.113	
Total trade	3.393	4.059	666	19,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Ghana (mio €)

Ghana	**2016**	**2017**	**Growth mio €**	**annual %**
Imports	1.346	568	-777	-57,8%
Exports	1.866	1.022	-845	-45,2%
Balance	521	454	-67	
Total trade	3.212	1.590	- 1.622	-50,5%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Ghana (mio €)

	2013	**2014**	**2015**	**2016**	**2017**
Imports	577	1.171	1.361	1.346	568
Exports	992	1.541	2.004	1.866	1.022
Balance	415	370	643	521	454
Total trade	1.568	2.712	3.365	3.212	1.590

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Ghana (mio €)

	2013	**2014**	**2015**	**2016**	**2017**
FDI Stocks					
Inward	-426	-567	- 1.074	-639	-924
Outward	1.999	2.665	4.855	2.536	1.709
FDI Flows					
Inward	-62	-41	-424	-291	-605
Outward	837	69	335	201	74

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND CAMEROON

1. INTRODUCTION

On 17 December 2007, Cameroon and the EU initialled a stepping-stone EPA. They signed it on 15 January 2009. The European Parliament approved this agreement on 13 June 2013 and the Parliament of Cameroon proceeded to its ratification on 22 July 2014. On 4 August 2014, the agreement entered into provisional application. This EPA is a regional agreement and is open to the accession of other Central African countries.

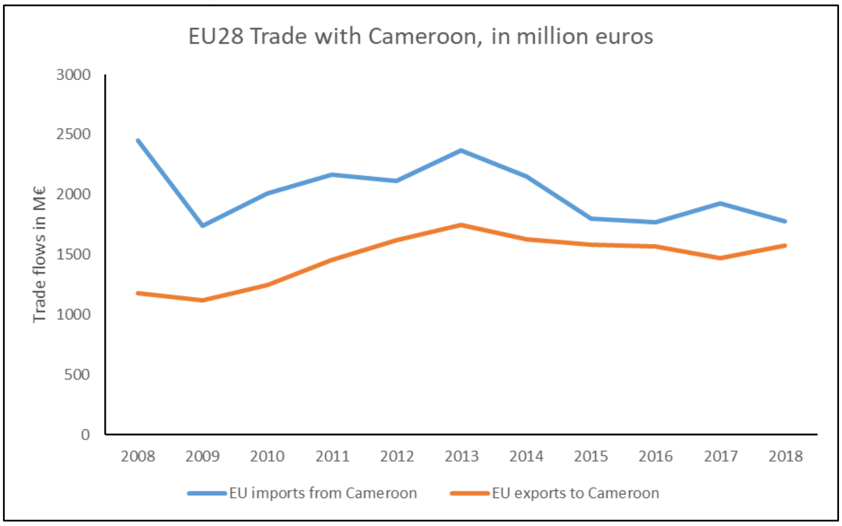
In August 2016, Cameroon started reciprocating its preferential access to the EU. After 3 years, the liberalisation process has now reached cruising speed. Cameroon will liberalize 80% of imports from the EU over 15 years. Products under liberalization are mainly industrial machines (pumps, generators, turbines, etc.), electrical equipment (transformers, capacitors, resistors, etc.) and certain chemicals. These are mostly inputs used by Cameroon's industries which are not produced locally. Eliminating import duties will reduce the costs of inputs for local businesses and will also benefit consumers.

Cameroon has excluded a number of agricultural and non-agricultural processed goods from liberalisation of EU imports, mainly to ensure the protection of certain sensitive agricultural markets and industries but also to maintain fiscal revenues. The excluded products include most types of meat, wines and spirits, malt, milk products, flour, certain vegetables, wood and wood products, used clothes and textiles, paintings, and used tyres.

2. EVOLUTION OF TRADE

2.1 Trade in goods

The EU is by far the most important trade partner of Cameroon: 48% of Cameroon's exports go to the EU, followed by China (19%), India (8%), as well as the Central African region (7%) and Nigeria (5%). In total 32% of Cameroon's imports come from the EU (followed by China with 19%).



Total trade with Cameroon has been relatively stable over the last decade. In 2018, EU imports from Cameroon decreased by €146 million (-7.6%) to €1.8 billion, back to the level of 2016 after a spike in 2017. Exports from the EU to Cameroon increased by €106 million or 7.2% to €1.6 billion, recovering from a pronounced drop in 2017. The balance of trade is positive for Cameroon. All exports from Cameroon enter the EU duty free and quota free.

The decrease in **EU imports from Cameroon** in 2018 can be attributed to a decrease in the value of imports of mineral fuels (-€63 million, -7.7%), cocoa beans (-€46 million, -15%), bananas (-€41 million, -19%) and rubber (-€25 million, -50%).

On the other hand, EU imports of aluminum from Cameroon increased by €18 million (+15.5%). Similarly, imports of wood and wood articles increased by €15 million (+6%). While still fairly limited in value compared to imports of raw cocoa beans, EU imports of processed cocoa paste and cocoa butter, fat and oils from Cameroon amounted to €31 million (+10%) and 72 million (+27%), respectively. Main destination for Cameroonian exports in the EU are France, Italy, the Netherlands and Spain.

Imports from Cameroon are still **little diversified**. Main products exported from Cameroon to the EU are oil and gas (43% of total exports in value), cocoa beans (15%), wood (12%), bananas (10%) and aluminium (7%) (Figures for 2018). The top 10 products accounted for 91.4% of total imports in 2018, almost the same figure as in 2008. The total number of products exported with an exporting value of at least €1 million was 29 in 2018 (32 in 2008), while the number of products exported valued at least €500,000 was 44 (42 in 2008).

2018 top 10 EU imports from Cameroon				**2018 top 10 EU exports to Cameroon**			
Product	*Description*	*Volume*	*Share*	*Product*	*Description*	*Volume*	*Share*
270900	Petroleum oils and oils obtained from bituminous minerals, crude	717,045,244	40.3 %	630900	Worn clothing and clothing accessories, showing signs of appreciable wear and presented in bulk (…)	70,644,051	4.5 %
180100	Cocoa beans, whole or broken, raw or roasted	262,462,852	14.8 %	300490	Medicaments (…)	65,669,391	4.2 %
080390	Fresh or dried bananas (excl. plantains)	175,086,969	9.8 %	271012	Light oils, of petroleum (…)	61,976,452	3.9 %
440729	Tropical wood, sawn or chipped lengthwise, sliced or peeled (…)	122,580,425	6.9 %	730890	Structures and parts of structures, of iron or steel, n.e.s. (…)	49,996,245	3.2 %
760110	Aluminium, not alloyed, unwrought	120,386,985	6.8 %	252310	Cement clinkers	33,464,651	2.1 %
180400	Cocoa butter, fat and oil	71,687,151	4 %	870323	Motor cars / vehicles principally	33,419,018	2.1 %

					designed for the transport of <10 persons (…)		
440727	Sapelli, sawn or chipped lengthwise, sliced or peeled (…)	53,178,607	3 %	870422	Motor vehicles for the transport of goods (…)	30,543,146	1.9 %
271111	Natural gas, liquefied	40,177,738	2.3 %	330210	Mixtures of odoriferous substances and mixtures (…)	27,430,209	1.7 %
440728	Iroko, sawn or chipped lengthwise, sliced or peeled (…)	37,204,358	2.1 %	110710	Malt (excl. roasted)	24,295,260	1.5 %
090111	Coffee (…)	25,010,253	1.4 %	100199	Wheat and meslin (…)	23,176,612	1.5 %
	Total top 10 products	**1,624,820,608**	**91.4 %**		**Total top 10 products**	**420,615,040**	**26.6 %**

Source: Eurostat (product names partly shortened)

Considering the high share of raw materials in Cameroon's exports, most of Cameroon's exports to the EU are free of duty on an MFN basis. The remainder, mainly bananas but also aluminium, processed cocoa and wood are exported under EPA preferences. Preference utilisation rates are high, at 98% in 2018.

The increase in **EU exports to Cameroon** in 2018 can be attributed to an increase in exports of iron and steel (+€59 million or 166%), mineral fuels (+€51 million or 142%) and motor vehicles (+€30 million or 22.5%). Exports of cement increased from €3 million to €18 million (+494%) in 2018, while exports of cement clinkers decreased by €12 million or 26%. Exports of machinery and mechanical appliances decreased by €30 million or 12%.

The EPA foresees that Cameroon **successively liberalizes 80% of imports from the EU**. Effective liberalization started on 4 August 2016 for 1st category products (1727 tariff lines) and on 4 August 2017 for 2nd category products (985 tariff lines). The two first categories consist mainly of necessities, industrial and agricultural inputs, machines, chemicals, vehicles and spare parts, computers, papers, consumer products for households.

The **total value of goods imported into Cameroon under EPA preferences** from August 2016 to January 2019 is estimated at €335 million (Source: Cameroon customs). The main products imported under EPA preferences according to Cameroon customs were clinker (28% of total value of imports under EPA preferences), chemical industries (24%), electrical machinery and equipment (17%), vehicles and transport equipment (16%), paper and cardboard (7,5%), fertilizers (5%). Over the period August 2016 – January 2019, the total value of forgone customs revenue due to liberalisation of tariff rates under the EPA was €10.68 million.[126] (Source: Cameroon Customs).

For **agri-food trade**, Cameroon continued enjoying a surplus (€330 million) with the EU in 2018, albeit smaller than in previous years. While the exports by Cameroon (€590 million) are heavily concentrated in cocoa products and tropical fruits, EU exports (€260 million) are much more diversified with malt (see below the case of brewery), wheat, milk powder and whey, infant food and other cereals, starch and milk preparation, and wines on top of the list.

2.2 Trade in services

The EPA does not include provisions on trade in services. Trade in services between the EU and Cameroon shows little variation over the last years. EU services imports from Cameroon decreased slightly in 2017 to €312 million, while EU services exports to Cameroon increased to €661 million. The trade balance in services is positive for the EU.

2.3 Foreign Direct investment (FDI)

The investment stock has been stable over the last four years, it currently stands at €1.3 billion. Inflows in 2017 have been lower than in previous years, at €2 million according to Eurostat statistics. The EU investment stock remains largely tied 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. The main investor is France with about 300 companies established that are estimated to contribute to about 30% of the government's corporate tax revenue.

In 2018, the French Development Fund, the World Bank's IFC, the European Investment Bank and the Cameroon government signed the final and binding agreements for the construction of the Nachtigal Hydroelectric plant. The €1.2 billion project consists of designing, constructing and operating a dam and a 420MW power plant. The plant will cover 30% of the country's energy needs. The project is expected to create up to 1,500 direct jobs, 65% of the local. Construction has started in 2019 and operation is foreseen in 2023.

Also in 2018, French retail company Carrefour announced its intention to construct its second supermarket in the country, representing a €46 million investment; however, there seem to be some difficulties related to the land ownership title for the allocated lot. Together, the existing supermarket in Douala and the new one in Yaoundé together would employ about 500 people. Cimencam (controlled by a Franco-Swiss-Moroccan consortium) opened its second cement factory in the country, an investment of €35 million. Brasserie du Cameroun, part of the French Castel group, invested in new bottling chains at three of its production locations, an investment estimated at €15 million (more below).

Cheaper inputs boosting local production and employment

La Société Anonyme des Brasseries du Cameroun (SABC), part of the French Castel group, is a brewing company in Cameroun. It is the largest private sector employer in the country,

[126] The 2018 Budget law estimate total yearly customs revenue at €670 million, including exports and imports taxes, stamp duties, etc. This would mean that losses due to EPA preferences amount to only 1.6% of total customs revenue. The IMF estimates customs revenues at €1.14 billion in 2017, also including VAT on imports.0

employing about 10,000 people across the group and its subsidiaries. Brasseries du Cameroun holds a 75% share of the Cameroonian market for beer and soft drinks.

SABC is to date the single biggest beneficiary of EPA preferences, accounting for one eight of the total fiscal gain of Cameroonian companies due to lower import tariffs. It imports a range of products from the EU, e.g. larger machinery used to bottle its beverages, as well as ingredients such as yeast, hop, aromas or colorants used it their production.

While benefiting from EPA preferences, SABC is also increasingly trying to source locally. The company has a local subsidiary producing bottles and is also buying 100% of Maïscam's (one of the large agro-industrial companies of the country) production of corn every year (10.000 tons).

3. Issues addressed in the annual EPA Committee meeting

The fourth **EPA Committee meeting** between Cameroon and the EU took place in February 2019 in Yaoundé. During this meeting, the parties signed a Decision on the accession of Croatia to the EU and initialled two draft decisions on dispute settlement (procedures and list of arbitrators). These signatures and initials marked the end of the negotiations of the corresponding files.

Since the beginning of provisional application, an important issue consisted in adjusting the **liberalization timetable** (2008-2023) of the EU products to the delay in implementation resulting from Cameroon's EPA ratification in 2014. During the last EPA Committee, the parties reached an agreement on the implementation of the liberalisation schedule until 2029. This new schedule takes into account current Cameroon security and economic constraints. Cameroon official commitment to the schedule will provide predictability for parties and particularly for economic operators.

One of the main points of discussion was the assessment of the tariff dismantling process monitored by the Cameroon Customs and its impact in terms of products concerned and customs revenue losses (see 2.1 Trade in goods). However, we are still at the beginning of the process and the real impact of the liberalisation, the final beneficiaries and the effects on the economy remain to be identified.

Two projects currently in progress are the elaboration of an **EPA Implementation Plan** and a **study on overall fiscal impact**, both to be concluded during the second half of 2019. The EPA Implementation Plan aims to identify accompanying measures, particularly in terms of development cooperation and domestic reforms, to ensure that the country reaps full benefits from the EPA. The study on fiscal impact will help to define priority actions in the field of fiscal transition, to diversify revenue away from tariff duty collection.

A common **protocol of rules of origin** was not included in the EPA at the time the parties concluded the negotiations of the agreement in 2007. Negotiations of a protocol started end 2016 and are still ongoing. After conclusion of the negotiations, the parties will annex the protocol to the agreement. In the meantime, Cameroon benefits from the general EPA rules of origin included in EU Market Access Regulation 2016/1076. Before starting liberalization, Cameroon published a decree on rules of origin applicable to products imported from the EU (Decree 2016/367, 3 August 2016).

During the last EPA committee meeting, the parties took stock of the current negotiations on the protocol on Rules of Origin. The negotiations between experts should resume soon and a conclusion is foreseen before the next EPA Committee.

The parties agreed to develop a **monitoring system** for the agreement. This monitoring will make it possible to monitor the implementation of the agreement, identify its impacts on Cameroon value chains and consumers, and will contribute to the identification of political correction or incentive measures.

The parties also discussed trade barriers, Cameroonian export taxes and internal taxes/levies on imports.

4. DEVELOPMENT COOPERATION

In 2018, the EU supported Cameroun in elaborating a National EPA Implementation Strategy that will guide future EPA-related support. The EU also facilitated a study on evaluating the net fiscal impact of the EPA, thereby strengthening the economic modelling competences of principal government actors and supporting the identification of possible compensation and absorption measures. Both projects will be completed in 2019.

Development assistance from the EU in recent years focussed particularly on strengthening productivity and competitiveness. In 2018, the programme **Programme d'appui à l'amélioration de la compétitivité de l'économie camerounaise (PACOM) (€10 million 2014-2018),** which supported Cameroonian firms in upgrading their productive equipment and production processes and in acquiring international quality certifications (ISO, OHSAS), as well as improving the overall business environment, came to an end. Some results achieved by the end of the programme include:

- The creation of an e-registration portal for companies (mybusiness.cm);
- The establishment and operationalization of the Centre technique agro-alimentaire du Cameroun (http://cta-cameroun.org/), including training of staff, purchasing of equipment and international standardization;
- Capacity building for the National Standards Agency (ANOR), resulting in 30 companies accompanied in the process for achieving ISO certification, 8 companies ISO-certified, over 30 information session organised, and an increase in the number of international norms transposed in Cameroun from 850 in 2013 to 2,600 in 2018.

As a follow up, **Dispositif d'appui à la compétitivité du Cameroun (DACC),** a €10 million programme under the 11th European Development Fund (EDF), has been launched mid-2018. It will provide direct support to companies, start-ups and intermediary organizations and will improve the provision of business services.

In the agricultural sector, the EU provides **budget support (€24 million in 2018**, out of a total €100 million for the period 2017-2019) to improve the distribution and access to seeds and fertilizers, to improve agricultural productivity and competitiveness. **Support measures for the banana sector** are also still in place (€48 million, 2015-2020). EU Member States provide support to individual value chains (e.g. beef, chicken) and France in particular started in 2018 a €30 million project (TRANSFAGRI), combining budget support and technical assistance to strengthen financial and non-financial services to SMEs in the agri-food sector.

In 2018, preparations started for the regional project *Programme d'Appui à l'Intégration Régionale et à l'Investissement en Afrique Centrale (PAIRIAC)* (€19 million) which will include support to EPA implementation and outreach in Cameroun, along with for example capacity development on the implementation and monitoring of SPS and private standards such as GlobalGAP.

Finally, throughout 2018, the Cameroonian Administration and the EU Delegation to Cameroon organized various outreach and awareness raising events on the EPA with civil society, media, academia and private sector representatives.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The main important ongoing files are:

- Rules of origin: A conclusion on a common protocol is foreseen before the next EPA Committee;
- Monitoring of the Agreement: Parties are planning to intensify discussion on the development of a monitoring system;
- Accompanying measures: On the basis of the ongoing studies and in the post-Cotonou perspective, the parties will reflect on accompanying measures, including development cooperation and reforms;
- Two decisions of the EPA Committee on Dispute Settlement will be signed during the next EPA Committee foreseen in December 2019.

In March 2017, the ministers in charge of EPA of the Central African region declared the availability of their countries to study their possible accession to the stepping stone agreement. Contacts are open between the regional organisations and the EU on accession by other Central Africa States to this EPA.

6. CONCLUSIONS AND OUTLOOK

In 2018, 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 2018, there was a clear increase in the number of import declarations from the EU in Cameroon, without major additional revenue losses.

The implementation of the agreement is now in its cruising phase. Several cases have been completed recently (Croatia accession, liberalisation schedule, dispute settlement) and others are expected to be launched soon (accompanying measures, monitoring). The discussion on rules of origin should be concluded by the end of 2019.

Uncertainty remains as to the effective resumption of negotiations and the possibility of extending the agreement to other Central Africa countries.

7. STATISTICS

Merchandise trade EU28 with Cameroon 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Cameroon (mio €)					
Imports	2.150	1.799	1.771	1.924	1.778

Exports	1.631	1.581	1.564	1.471	1.577
Balance	-520	-218	-207	-452	-201
Share Cameroon in EU28 trade with Extra-EU28					
Imports	0,1%	0,1%	0,1%	0,1%	0,1%
Exports	0,1%	0,1%	0,1%	0,1%	0,1%
Total (I+E)	0,1%	0,1%	0,1%	0,1%	0,1%
Share EU28 in trade Cameroon with world					
Imports	26,7%	27,7%	32,1%	31,9%	32,0%
Exports	51,8%	47,6%	53,6%	54,8%	48,3%
Total (I+E)	36,9%	35,7%	38,7%	40,7%	38,6%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Cameroon: IMF Dots

Growth of merchandise trade EU28 with Cameroon (mio €)

Cameroon	2017	2018	Growth mio €	Growth annual %
Imports	1.924	1.778	-146	-7,6%
Exports	1.471	1.577	106	7,2%
Balance	-452	-201	251	
Total trade	3.395	3.355	-40	-1,2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agri-food trade EU28 with Cameroon (mio €)

Cameroon	2017	2018	Growth mio €	Growth annual %
Imports	674	590	-84	-12,5%
Exports	267	260	-7	-2,7%
Balance	-407	-330	77	
Total trade	941	850	-91	-9,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Cameroon (mio €)

Cameroon	2017	2018	Growth mio €	Growth annual %
EU28 imports	1.250	1.188	-61	-4,9%
EU28 exports	1.204	1.317	113	9,4%
Balance	-45	129	174	
Total trade	2.454	2.505	52	2,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Cameroon (mio €)

Cameroon	2016	2017	Growth mio €	Growth annual %
Imports	349	312	-37	-10,7%
Exports	641	661	20	3,1%
Balance	292	349	57	
Total trade	990	972	-17	-1,7%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Cameroon (mio €)

	2013	2014	2015	2016	2017
Imports	459	399	425	349	312
Exports	677	931	643	641	661
Balance	218	532	218	292	349
Total trade	1.136	1.331	1.068	990	972

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with Cameroon (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	25	43	-16	40	46
Outward	1.353	1.281	1.134	1.281	1.316
FDI Flows					
Inward	105	1	-48	18	6

Outward	100	44	42	67	2

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) BETWEEN THE EU AND CARIFORUM

1. INTRODUCTION

The EU-CARIFORUM EPA is a regional agreement between the EU and its Member States and 15 Caribbean countries. The negotiations were concluded in December 2007. The agreement was signed in October 2008 and it entered into provisional application on 29 December 2008. In 2018, this agreement was provisionally applied by the EU and its Member States and by 14 Caribbean States.[127] Haiti still needs to ratify the agreement in parliament before applying it. By the end of 2018, 23 EU Member States and 10 Caribbean States had ratified the EPA.

The EU-CARIFRUM EPA is 'comprehensive' both in the geographic and thematic sense, covering the whole region and including not only provisions on trade in goods, but also trade in services and provisions on trade-related issues (including competition, innovation and intellectual property, transparency in public procurement and trade and sustainable development). Furthermore, like all EPAs, the EU-CARIFORUM EPA is a development-oriented trade agreement, geared towards fostering long-term sustainable economic growth in the Caribbean.

This means market liberalisation is asymmetric: while the EU provides immediate duty free quota free access for Caribbean exporters (all products except arms and ammunition), Caribbean states have up to 25 years (until 2033) to cut import tariffs. They have excluded from these cuts around 17% of goods and services, which they consider sensitive.[128] The exclusion list includes fresh fruit and vegetables, most alcoholic beverages, some garments, a number of processed agricultural products, fish, chemicals and furniture. In general, 75% of CARIFORUM's agricultural and fisheries products have been excluded from liberalisation under EPA.

2. EVOLUTION OF TRADE

2.1 Trade in goods

The EU is the third largest importer of Caribbean goods, accounting for 8.5% of total Caribbean exports (after the U.S. (28%) and Uruguay (9%)). EU exports, in turn, account for 10% of Caribbean imports, making the EU the second largest exporter to the region after the U.S. (41%), followed by China (9.7%). Intra-regional trade between the Caribbean countries is low: only 7% of the region's imports originate from another Caribbean state. Similarly, only 5.5% of Caribbean exports go to the region.

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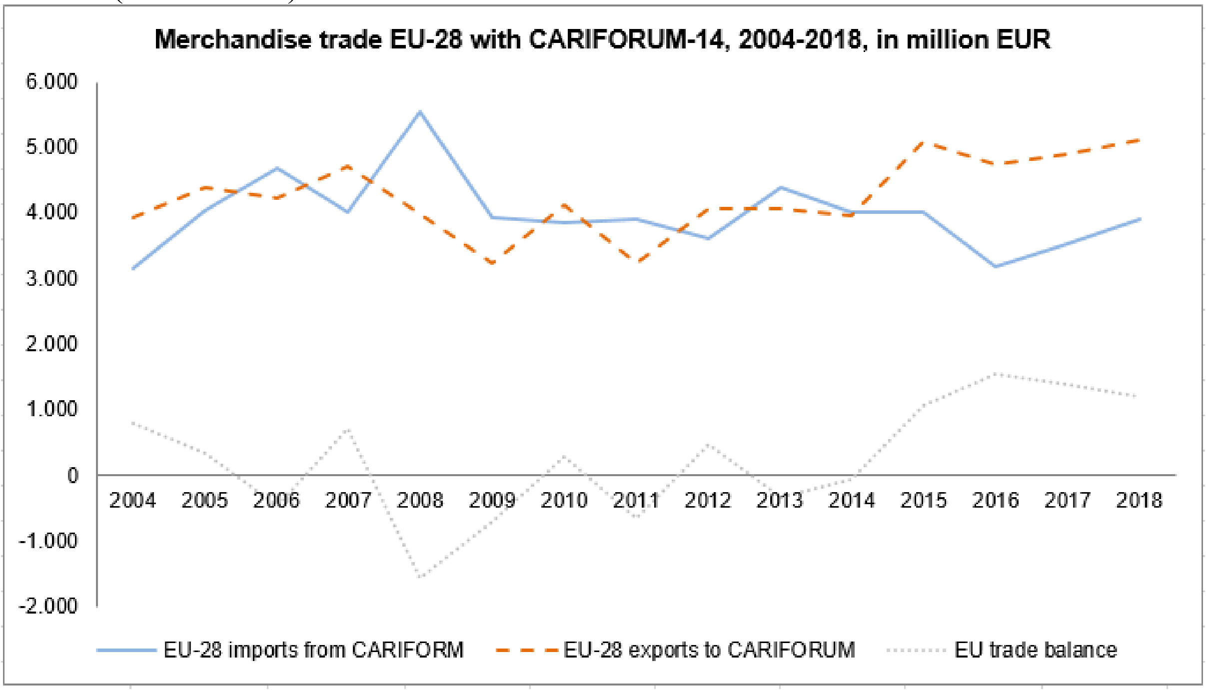
[127] Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

[128] Note that the CARIFORUM countries submitted individual market access schedules and not one single regional offer. Hence figures and information provided here are an average over all 14 market access schedules. A factsheet on the EU-CARIFORUM EPA can be found here: http://trade.ec.europa.eu/doclib/docs/2012/april/tradoc_149286.pdf

Total trade between the EU and the CARIFORUM increased by €614 million or 7.3% in 2018, to €9 billion. Importantly, in 2018 the EU imported €3.9 billion worth of goods from the Caribbean region, a €387 million (11%) increase compared to 2017. EU exports to the CARIFORUM states rose by €227 million (4.6%) to €5.1 billion. The overall trade balance is positive for CARIFORUM for agricultural goods but negative for non-agricultural goods.

The largest EU trade partner in the Caribbean is the Dominican Republic (total trade of €2.9 billion), followed by Trinidad and Tobago (€2.1 billion), Bahamas (€1.45 billion) and Jamaica (€727 million).



Main **EU imports from CARIFORUM countries** in 2018 were mineral fuels (€792 million), organic chemicals (€569 million, most of it methanol), ships, boats and floating structures (€483 million), edible fruits and nuts (€333 million, most of it bananas), and inorganic chemicals (€296 million, most of it aluminium oxide and ammonia).

Rising EU imports from CARIFORUM countries were caused by increases in mineral fuels imports (+71%), organic chemicals (+80%), inorganic chemicals (+32%), as well as increases in certain agri-food imports from the Caribbean: fish and crustaceans (+€13 million or 18%), tobacco (+€12 million or 25%) and beverages and spirits (+€9 million or 6%). Imports decreased for sugar (-€54 million or -44%), gold (-€48 million or -23%) and bananas (-€47 million or -12%). The preference utilisation rates of the CARIFORUM EPA averaged 86% in 2018, down from 91% in 2017.

CARIFORUM countries exports to the EU show little **diversification**. The share of top ten products in total exports is above 90% for most States, with exports concentrated in very few commodities. Trinidad and Tobago exports mostly natural gas, rum, and ammonia. For Jamaica, it is largely aluminium oxide (70% of its exports), followed by rum. For the Bahamas and Barbados, the dominant export are boats and ships (re-exports/sales, not local production) and rum. Guyana and Suriname export predominantly gold (accounting for 23% and 42% of their exports in 2018, respectively); Guyana also exports aluminium ores and brown rice, while Suriname exports mainly bananas and frozen shrimps and prawns.

The Dominican Republic represents an exception, where the share of top 10 products is 70.4% and exports are diversified beyond natural resources to include certain manufacturing goods. Top 10 products exported by the Dominican Republic to the EU are bananas, cocoa beans, medical, surgical and veterinary instruments, rum and other spirits based on sugar cane, ferro-nickel, appliances for ostomy use (i.e. medical products), electro-diagnostic apparatus (i.e. medical instruments), cigars, tobacco, and fresh or dried guavas, mangoes and mangosteens. The total number of products imported from Dominican Republic (at HS 6-digit level) with a value of more than €1 million grew from 53 in 2008 to 62 in 2018 (i.e. a 17% increase).

Main **EU exports to Cariforum** in 2018 were machinery and mechanical appliances (€730 million, +9%), mineral fuels (€672 million, +57%), ships and boats (€520 million, -30%), electrical machinery and equipment (€316 million, +30%) and motor vehicles (€221 million, +1%). Railway equipment exports saw a spike in 2018 (€42 million, +560%), as well as art exports (€14 million, +660%).

In the agri-food trade, the EU negative balance of the previous years turned into a small surplus (€12 million) in 2018. Main EU export products to the CARIFORUM EPA states were beverages and spirits and liqueurs (€189 million, -2%), diary produce (mostly milk powder) (€181 million, +8%), preparations of cereals, flour and starch (€70 million, +2%) and preparations of vegetables, fruits, nuts and plants (€65 million, -8%).

2.2 Trade in services

The CARIFORUM EPA provides for services liberalisation. In 2017, total trade in services decreased slightly by €147 million (-3%) to €4.7 billion in 2017. EU services exports to the CARIFORUM countries grew by €42 million (+2%), whereas imports of services from the Caribbean region dropped by €189 million (-7.1%).

Total value of trade in services with Dominican Republic grew by €34 million (2%) to €1.7 billion in 2017, with imports increasing by €57 million (6%) and exports falling by €23 million (-4%).

2.3 Foreign Direct investment (FDI)

The CARIFORUM EPA contains provisions on investment liberalisation. EU FDI stocks in the Caribbean region stood at €112 billion in 2017, up from €85 billion in 2016 (+32%). The lion's share of these stocks are held in Bahamas (€54.5 billion) and Barbados (€41 billion), which have large financial sectors, followed by Trinidad and Tobago (€7.2 billion) and Dominican Republic (€6.5 billion). New EU FDI flows to CARIFORUM amounted to €38.5 billion in 2017, with most investments going to Barbados (€38.5 billion) and Trinidad and Tobago (€1.4 billion).

Outside the financial sector, EU investment is found in fuel import and distribution (e.g. French company RUBIS), and in the rum industry, e.g. with Gruppo Campari (Italian) recently acquiring the Jamaican rum maker Lascelles de Mercado, whose brands include Appleton Estate and Wray and Nephew. Rum production of Appleton Estate has increased to over 2 million bottles a year and 500 new jobs have been added.

In the Dominican Republic, according to data presented by the Central Bank, the EU is the fourth largest investor for the period 2010-2018, after the US, Canada and Brazil, accounting for about 10% of FDI or €2 billion. The largest EU investor is Spain, accounting for around 6% of total FDI in the Dominican Republic between 2010 and 2018.[129] According to the Dominican Republic Central Bank, there are currently around 70 EU companies present in the country, including from Germany (18), Italy (13), the Netherlands (10), Spain (7) and UK (7). EU investment in the Dominican Republic is mostly in tourism and manufacturing and services for exports (so called free zones, *zonas francas*). Examples for recent investments include:

- Increasing European investment in renewable energy: for example, French Akuo Energy is building a windfarm with an installed capacity of 50MW in Monte Cristi; operations are expected to start in 2019. There is also Spanish investment in a wind park (Dominicana Renovables INVERAVANTE) with 37MW capacity in Matafongo, Bani province, with operations starting in June 2019.

- Vinci Airports (French) acquired, for approximately USD 500 million, 100% of Aerodom, holder of a concession until 2030 for the operation of 6 of the 9 airports in the country (around 40% of air traffic), including the Las Americas Airport in the capital city of Santo Domingo. Vinci is now planning an extension of the concession in exchange for an investment plan of approximately USD 400 million.

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 (Ministerial level), the Trade and Development Committee (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 on Agriculture and Fisheries and Customs Cooperation and Trade Facilitation, which meet on an ad hoc basis.

The **8th meeting of the Trade and Development Committee (TDC)** took place in Saint Lucia in December 2018. The parties discussed, among other, the implementation of the CARIFORUM's tariff liberalisation schedule, transposition of the harmonised Commodity Coding Systems by CARIFORUM countries, participation of CARIFORUM countries in EU framework programmes, activation of the provisions on the technology transfer, as well as the Protocol on the cultural cooperation. The Parties also discussed the establishment of the joint monitoring system under the EPA and the way forward for development cooperation. It was agreed to establish a special committee on Trade in Services and the draft decision to establish the committee was exchanged prior to the meeting for discussion. The TDC also decided on the establishment of a joint EU-CARIFORUM Task Force for the next 5 years review of EPA, due in 2020. On Agriculture, the Parties referred to the progress achieved in the negotiations for the CARIFORUM-EU Geographical Indications Agreement.

[129] According to the Central Bank of the Dominican Republic, total investment from Spain has been USD 292.4 million; however, the Spanish Embassy recorded only €50.6 million due to different accounting methodologies e.g. the embassy only takes into account direct flows from companies in Spain and excludes investment in real estate.

The **4th meeting of the Consultative Committee** took place in December 2018 in Saint Lucia, and its recommendations and conclusions were presented to the TDC meeting. The recommendations include the need to increase visibility and awareness of EPA and the need to analyse further any social and environmental implications of the implementation of the EPA. The committee stated its readiness to contribute to the 2020 review of the EPA. The Consultative Committee also expressed concern about the lack of implementation of the regional preference clause under the EPA, as well as the adverse effects of the application of the 'Octroi de Mer' in EU outermost regions. The committee also called for the timely adoption of a monitoring mechanism.

The **5th meeting of the Special Committee on Customs Cooperation and Trade Facilitation (SCCCTF)** took place in March 2018 in the Dominican Republic. The SCCCTF agreed that the Parties should establish a working group to carry out a comprehensive review of Protocol I on Rules of Origin to Annex III at triggered by CARIFORUM with the objective to simplify the some concepts and methods. In November 2018, the 2nd Meeting of the Special Committee on Agriculture and Fisheries (SCAF) was held in Barbados, together with the 3rd round of GI negotiations.

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 second meeting in Barbados in November 2018. The meeting had a substantive agenda, discussing cooperation in agricultural research, use of new technologies in agriculture, food and nutrition security, creation of value addition in agri-food and rural employment, as well as the sustainable use of natural resources. CARIFORUM stressed its concerns with two specific matters, namely the rules of cumulation for sugar-based products (Annex X to Protocol I) and the revision of the EU spirits definition, which includes the proposed restriction on the use of the word "agricultural" (e.g. agricultural rum). Both regions underlined the expectations for the agricultural partnership to work more closely on policy issues of relevance for the development of the agricultural sector.

Geographical indications: A negotiation directive to negotiate an agreement on Geographical Indications (GI) under the CARIFORUM EPA was adopted by the Council of the EU in November 2017 and the 3rd round of GI negotiations took place in November 2018. The parties progressed on establishing a list of GIs to be protected under the EPA. Currently the Parties are exchanging information at technical level to clarify the outstanding issues. In parallel, the EU delegations in the region are actively promoting awareness on geographical indications through tailor-made events and workshops with business community, producer groups and other farmers' organizations.

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 and of particular interest for CARIFORUM countries. Going beyond the remit of the EPA, the Commission is preparing to extend the EU Immigration Portal to cover all categories of Mode 4 service suppliers. When completed, this will provide additional transparency as regards applicable rules. With regard to the institutional set up, both Parties agreed in 2017 to establish a Special Committee on Services. In 2018, the Parties further progressed with the legal work to establish the committee, with the aim to concluding the necessary decision in 2019.

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.

***Launching of an ex-post evaluation, 10 years after the agreement entered into force*:** In February 2019, the Commission launched an ex-post evaluation to evaluate the level of implementation and the impact on sustainable development, 10 years after entering into force of the agreement. Consultations are on-going throughout 2019. Results are expected in 2020 and will feed into the Joint Review, as well as the next EU-CARIFORUM Joint Council, both foreseen for 2020.

Development cooperation: The EPA is a genuinely pro-development agreement and the EU provides considerable support to CARIFORUM and Caribbean governments for EPA implementation and export development. Under the 11th European Development Fund (EDF) (2014-2020), the total allocation for the Caribbean region is approximately €1 billion, of which €326 million is allocated to the Regional Programme. Under this envelope, the EU supports Regional Economic Cooperation and Integration in the Caribbean, including EPA implementation, trade-related capacity building and private sector development, with €102 million (33% of total allocations to the region).

Out of the €102 million, the **Caribbean Export Development Agency (CEDA)** currently implements a **Regional Private Sector Development Programme (RPSDP) (€27.2 million, 2017-2022).** In 2018, CEDA awarded mini-grants to 53 SMEs across all CARIFORUM countries to help firms get ready to export or expand their exports; a number of firms were also invited to attend business fairs in Europe which resulted in new business contracts. In addition, 20 women-owned businesses benefitted from specific coaching on growing their business and attracting angel investment. 2018 also saw the launch of the Caribbean Export Intelligence portal of Caribbean Export, which should become an important provider of data in support of business decisions and for business support organizations in the delivery of their services.

Other projects under the 11th EDF are currently under preparation (€21 million) and will include capacity building in the area of innovation and Intellectual Property Rights, technical barriers to trade, sanitary and phyto-sanitary measures, as well as competition, public procurement, customs and trade facilitation. The projects will build on the results achieved in these areas under the 10th EDF, which included, for example, improved ability of national and regional regulatory bodies and the private sector to comply with the EU's Sanitary and Phytosanitary (SPS) measures, as well as improved capacity for developing regionally harmonized SPS measures.

Under the 11th EDF, the EU is also **directly supporting the CARIFORUM Directorate (€6.2 million)** to fulfill its role in coordinating and facilitating EPA implementation in CARIFORUM Member States.

Caribbean swimwear – soon available in Europe

Vincentian-born, Trinidadian-raised and a citizen of the Caribbean, Kimya Glasgow, the CEO and head designer of her self-named clothing and lifestyle brand, aims to bring a modern version of classic Caribbean style to the world.

Her high-quality resort and swimwear pieces are currently delivered to Caribbean-based customers via LIAT Quick Pack or couriered by willing travelers. But she's focused on building a sustainable production model to gain a foothold in overseas markets such as EU and UK, as well as the US and Dubai, where she has captured the attention of buyers. "We have exceptional talent in St. Vincent that often does not go beyond our shores. So I'm working on raising the capital to enable me to partner with local artisans." she said.

Glasgow credits programmes such as Women Empowered through Export (WE-Xport) with creating a space where women can access the mentorship, technical and financial support needed to grow their businesses. Through the programme, she successfully scaled up her business and is getting export ready. The programme is part of the EU's trade-related development assistance provided under the EU-CARIFORUM Economic Partnership Agreement.

The 2009 Caribbean Fashion Awards winner has shown at fashion weeks in Miami, Jamaica, Trinidad & Tobago, Barbados, St. Kitts and St. Vincent. Mustique, Bequia, Grenada and New York have also featured her collections. As she gears up for more meaningful export in 2019, the Kimya Glasgow brand is shaping up to be one to watch.

In the Dominican Republic, the EU currently supports a project on **Quality Strengthening for Micro, Small and Medium-sized Enterprises(MSMEs) Development (€11 million, 2014-2019),** to strengthen the national quality system and improve quality orientation of MSMEs in order to access national, regional and international markets. Under the project, the EU supported the creation of a "chemical metrology and laboratories network" which will allow exporters and producers to benefit from local analysis and testing, as well as reducing costs of chemical calibration. Furthermore, more than 300 enterprises were selected to participate in a comprehensive initiative for implementing standards and quality assurance systems such as ISO/9001, ISO/27001, ISO/22000), as well as good practices and food safety measures. The results are expected by late 2019. In 2018, around 25 MSME dairy producers were supported to achieve conformity with the national normative RTD 53 related to labelling. This measure allowed such producers to access public procurement under the national programme for "school breakfast".

The EU financed **Banana Accompanying Measures for the Dominican Republic (€19.3 million, 2013-2018)** ended last year with some impressive results. Around 2,000 banana producers in Dominican Republic sustain the livelihood of around 300,000 people directly or indirectly, including nearly 25,000 Haitian immigrant workers. The sector exports around 300,000 tonnes annually (80% organic). 95% of organic banana export goes to Europe, meaning around 50% or the organic banana in Europe is from Dominican Republic. The project trained 4,600 producers and technicians and 6,000 workers on environmental management, sustainable production and quality management. It also trained 1,000 producers on organic and fair trade certification, labour rights and social security to improve the working conditions of banana workers. 1,500 farm development plans were designed and implemented. The use of pesticides and fungicides decreased by 80% over the project duration. A credit revolving fund operated by a local microcredit bank was operationalised to improve access to finance for banana small and medium farmers. 2,500 people completed literacy courses and 15,800 Haitian workers were supported in their application for national regularization.

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

Discussions are ongoing on the monitoring system that needs to be agreed by CARIFORUM countries and established according to the EPA. Negotiations on geographical indications are ongoing. Parties also need to achieve progress on effective implementation of all tariff and regulatory provisions and making use of the Services chapter under EPA.

6. CONCLUSIONS AND OUTLOOK

In 2018, progress was achieved in the implementation of the agreement, including notably on agriculture issues including geographical indications and progress on setting up the Services Committee and further work on customs cooperation and facilitation. 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 and in particular to raise awareness among EU companies to make a full use the agreement and business opportunities with this region.

7. STATISTICS

Merchandise trade EU28 and CARIFORUM EPA States, 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with CARIFORUM EPA States (mio €)					
Imports	4.025	4.009	3.194	3.522	3.909
Exports	3.970	5.084	4.750	4.896	5.123
Balance	-56	1.075	1.555	1.374	1.213
Share CARIFORUM EPA States in EU28 trade with Extra-EU28					
Imports	0,2%	0,2%	0,2%	0,2%	0,2%
Exports	0,2%	0,3%	0,3%	0,3%	0,3%
Total (I+E)	0,2%	0,3%	0,2%	0,2%	0,2%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade EPA Cariforum: IMF Dots

Growth of merchandise trade EU28 with CARIFORUM EPA States (mio €)

EPA Cariforum	2017	2018	Growth mio €	Growth annual %
Imports	3.522	3.909	387	11,0%
Exports	4.896	5.123	227	4,6%
Balance	1.374	1.213	-161	
Total trade	8.418	9.032	614	7,3%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with CARIFORUM EPA States (mio €)

EPA Cariforum	2017	2018	Growth mio €	Growth annual %
Imports	910	839	-71	-7,8%
Exports	784	811	27	3,5%
Balance	-126	-28	98	
Total trade	1.694	1.651	-44	-2,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with CARIFORUM EPA States (mio €)

EPA Cariforum	2017	2018	Growth mio €	Growth annual %
EU28 imports	2.612	3.070	458	17,5%
EU28 exports	4.112	4.311	199	4,8%
Balance	1.500	1.241	-259	
Total trade	6.724	7.381	657	9,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Growth in Services trade EU28 with CARIFORUM EPA States (mio €)

CF14	2016	2017	Growth

			mio €	annual %
Imports	18.818	18.000	-818	-4,3%
Exports	3.608	4.220	612	17,0%
Balance	-15.210	-13.780	1430	
Total trade	22.427	22.220	-206	-0,9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Total Services trade EU28 with CARIFORUM EPA States (mio €)

	2013	2014	2015	2016	2017
Imports	3.365	13.529	21.150	18.818	18.000
Exports	3.385	3.276	3.145	3.608	4.220
Balance	20	-10.253	-18.005	-15.210	-13.780
Total trade	6.751	16.805	24.295	22.427	22.220

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign Direct Investment (FDI) EU28 with CARIFORUM EPA States (mio €)

	2013	2014	2015	2016	2017
	FDI Stocks				
Inward	57.968	80.216	76.794	87.235	142.106
Outward	18.235	22.452	68.572	84.653	111.880
	FDI Flows				
Inward	-8.988	4.851	-6.970	2.413	42.323
Outward	2.174	5.063	1.275	50.618	38.525

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

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 were concluded on 23 November 2007 with Papua New Guinea (PNG) and Fiji – two of the 14 Pacific countries[130], representing the vast majority of regional exports to the EU.

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 PNG's 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. Samoa acceded to the Agreement on 21 December 2018 and is implementing it since 31 December 2018.

The objectives of this Agreement are to promote sustainable development and the gradual integration of Pacific States into the world economy. The EPA aims 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.

Since 1 January 2008, all exports from PNG and Fiji enter the EU market duty-free and quota-free, so do all the exports from Samoa since 31 December 2018, on a permanent basis. Taking full account of differences in levels of development and sensitive sectors, PNG has liberalised 88% of EU imports from day one (i.e. since 1 January 2008). Fiji is liberalising 87% of EU exports over 15 years, while Samoa is liberalising 80% of EU exports over 20 years.

This asymmetric and gradual liberalisation enables the countries to protect local producers; they keep tariffs on sensitive goods, such as foodstuffs. Indeed, Fiji, PNG and Samoa have excluded from liberalisation some products from sensitive sectors and/or important for revenue such as meat, fish, fruits and vegetables, etc. Should imports of other liberalised goods suddenly surge, the countries can apply safeguards.

The Agreement is open for accession of other Pacific Island States. Interested Parties will need to submit a market access offer that is compliant with GATT 1994 Article XXIV. Samoa joined at the end of 2018, and procedures are underway for the accession of Solomon Islands and Tonga to the EPA.

2. EVOLUTION OF TRADE

2.1 Trade in goods

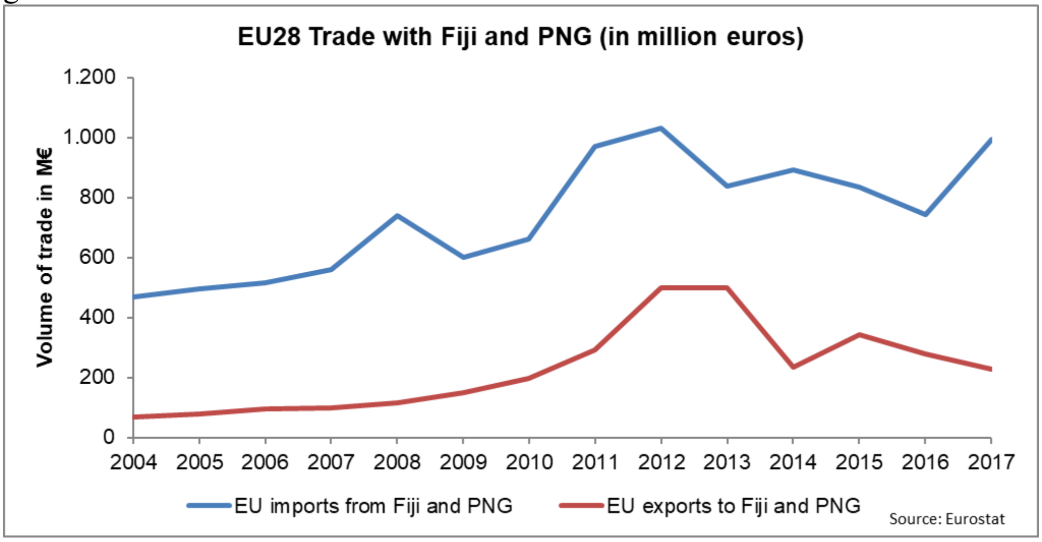
In 2018, the EPA was implemented between the EU and Fiji and PNG. Due to the geographical distance, the EU is only fifth largest destination for exports from PNG (after Australia, Singapore, China and Japan) and the third largest for Fiji, accounting for around

[130] The other countries of the region are: Cook Islands, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

10-11% of the two Pacific states' exports. The EU only accounts for about 3% of their imports, far behind Australia, China and Singapore. For Fiji, about 16% of its exports go to the Pacific region, but for PNG the share is lower than 1%. For both countries, less than 1% of their imports come from the region.

PNG accounts for 66% of the Pacific region's exports to the EU. Fiji and PNG together account for 69% of Pacific states' exports to the EU (Figures for 2018).

The EU's **total trade with Fiji and PNG** decreased by €111 million (-9.1%) in 2018. EU imports from these two Pacific states decreased by €77 million (-7.7%) to €915, while EU exports to the two Pacific states dropped by €34 million (-14.9%) to €194 million. The overall trade balance is positive for the Pacific countries, for both agricultural and non-agricultural goods.



EU imports from Fiji dropped by more than half in 2018, from €95 million in 2017 to €36 million in 2018. The decrease is almost entirely due to sugar exports, which contracted by €63 million or 76%.

EU imports from PNG only decreased slightly, by 2%, to €879 million. Palm oil exports (by far the main agri-food export to the EU) dropped by €81 million or 16%, while exports of coffee decreased by €20 million or 28.6%. Exports of prepared or preserved tuna continued to increase, albeit at a slower rate than in previous years (+€4 million or 2.6%). Exports of copper ores and precious metal ores increased strongly by €91 million or 160%, while gold exports decreased by €16 million or 30%.

Main destinations for the Pacific EPA countries' exports are the Netherlands, Germany, Spain and the UK. Preference utilisation rates for EU imports from the Pacific states have risen from 85% in 2014 to 99% in 2018.

EU imports from the Pacific EPA States show **little signs of diversification**. The top 10 export products accounted for 97.2% of total exports from Papua New Guinea and 88.4% of total exports from Fiji to the EU. The main export products were palm oil, prepared or preserved tuna, copper ores and coffee from Papua New Guinea (see table below); and sugar (€20 million), mineral water (€4 million) and frozen tuna (€7 million) from Fiji. Additionally, the number of products (at HS 6-digit level) imported from Papua New Guinea with a value of above €1 million increased marginally over a 10-year period (from 16 to 17). For Fiji, the number stayed at four.

The EU mostly exports machinery and mechanical appliances, electrical machinery and equipment, optical, medical or surgical instruments, certain chemicals, as well as aircrafts and motor vehicles to the two Pacific states. These exports are crucial for the local industry, which uses them as production inputs. Eliminating import duties on these items would reduce the costs of inputs for local businesses and would benefit consumers. The 2018 decrease in EU exports to the two Pacific countries in 2018 was mostly due to a decrease in aircraft exports.

EU agri-food exports to the EPA Pacific states are low (€22 million compared to €539 million of imports from these countries), with preparations of vegetables, fruits or nuts, and cigars and cigarettes leading the EU exports.

2018 top 10 EU imports from PNG				**2018 top 10 EU exports to PNG**			
Product	*Description*	*Volume*	*Share*	*Product*	*Description*	*Volume*	*Share*
151110	Crude palm oil	298,196,281	33.9 %	151110	Generating sets with spark-ignition internal combustion piston engine	12,528,955	9.8 %
160414	Prepared or preserved tunas, skipjack and Atlantic bonito	157,011,754	17.9 %	160414	Parts of gas turbines, n.e.s.	9,854,441	7.7 %
260300	Copper ores and concentrates	99,517,525	11.3 %	260300	Parts suitable for use solely or principally with electric motors and generators, electric generating sets and rotary converters, n.e.s.	5,831,377	4.6 %
151190	Palm oil and its fractions	78,556,162	8.9 %	151190	Vaccines for human medicine	4,836,443	3.8 %
151321	Crude palm kernel and babassu oil	59,746,205	6.8 %	151321	Prepared or preserved meat and offal of swine, incl. mixtures	4,089,829	3.2 %
090111	Coffee (excl. roasted and decaffeinated)	51,057,024	5.8 %	090111	Self-propelled mechanical shovels, excavators and shovel loaders	4,003,760	3.1 %
261690	Precious-metal ores and concentrates	48,925,760	5.6 %	261690	Parts of steam and other vapour turbines, n.e.s.	3,806,844	3 %
710812	Gold, incl. gold plated with platinum	39,088,492	4.4 %	710812	Potatoes, prepared or preserved, frozen	2,603,110	2 %
090510	Vanilla, neither crushed nor ground	12,755,856	1.5 %	090510	Parts of aeroplanes or helicopters, n.e.s.	2,136,026	1.7 %
180100	Cocoa beans, whole or broken, raw or roasted	9,652,498	1.1 %	180100	Appliances for pipes, boiler shells, tanks, vats or the like	2,091,399	1.6 %
	Total top 10 products	**854,507,584**	**97.2 %**		**Total top 10 products**	**51,782,184**	**40.5 %**

Source: Eurostat (HS code product descriptions have been partly simplified)

2.2 Trade in services

The EPA with the Pacific states does not cover services. In 2017, total trade in services with Papua New Guinea grew by €123 million or 45.9%, and with Fiji by €89 million or 44.2%. EU exports to Papua New Guinea and Fiji rose by €101 million (45.3%) and €9 million (5.9%) respectively, while imports increased by €21 million (49.1%) and €80 million (162.8%). The total services trade balance is positive for the EU with Papua New Guinea and negative with Fiji.

2.3 Foreign Direct investment (FDI)

The EPA with the Pacific countries does not include provisions on investment. In 2017, EU foreign direct investment stocks in Papua New Guinea stood at €1.680 billion, with new outward investments of €737 million. FDI stocks in Fiji were €169 million, with outward FDI flows of -€43 million, in 2017.

In PNG, most EU FDI remains tied to the mining and petroleum sector, as well as the construction sector. However, in the past 10 years, FDI in manufacturing has risen, as well as wholesale and retail. The main investors are from the Netherlands, UK, France, Spain and Denmark (Source: PNG Investment Promotion Authority). In 2018, a new investment project in liquid natural gas (LNG) was announced, led by French company Total. A formal agreement was signed in April 2019 with total investment of around €13 billion. Production is expected to start in 2024.[131]

As identified in previous reports, the EPA has given rise to significant foreign and domestic investment in the fish processing sectors in PNG. A number of new and expanded canneries are making use of the global sourcing provision in the EPA, which allows PNG to source fish (mostly tuna) from third countries, process it on its shores (mostly canning) and export it duty free to the EU. According to the government, investment in factories and other facilities have greatly increased the volume of production with capacity now at 2,000 metric tons of fish per day, contributing to around 40,000 jobs; women accounting for 90% of these jobs.[132]

In Fiji, there is significant French investment, mostly in banking and retail services, as well as fuel supply, storage and distribution.

3. Issues addressed in the EPA Committee meetings

Six meetings of the Trade Committee established under the EPA have taken place between the Parties to the Agreement. During the latest Committee meeting in October 2018, the parties discussed the state of play of EPA implementation (particularly PNG and Fiji's tariff schedules) and ratification, the rules of procedure and the arbitrators' code of conduct. Parties also examined other outstanding decisions, namely on the accession of Croatia and rules of origin (amendments of Annexes II and VIII to Protocol II as regards the update of the tariff classification and the list of OCTs). Other topics under discussion were monitoring and evaluation, trade and sustainable development issues (fisheries management and regulations, progress on labour issues, environmental protection reforms, etc.) and possible areas for deepening cooperation under the EPA on these matters. Communication (dissemination and outreach) and development cooperation were also discussed.

Parties furthermore exchanged views on the way forward of developing the EPA, including current and future accessions of other interested parties, and related technical modifications to the Agreement. Solomon Islands and Tonga were invited and participated as observers to the Committee meeting.

[131] https://www.total.com/en/media/news/press-releases/total-and-state-papua-new-guinea-sign-gas-agreement-papua-lng-project

[132] PNG Trade Report 2018, p. 4

4. DEVELOPMENT COOPERATION

Development cooperation is essential for EPA implementation, although it is not formally part of the Pacific-EU EPA. Under the Pacific Regional Indicative Programme of the 11th European Development Fund (EDF), €37 million were allocated to trade and private sector development, aiming at strengthening the business enabling environment and regional economic integration in the Pacific, through trade facilitation in particular. Acceding and implementing EPA countries will be supported to take advantage of the EPA opportunities.

At bilateral level, focal areas of EU Aid for Trade include agriculture (mainly Melanesian countries), energy (Micronesian countries), fisheries and waste management. In Fiji, focal areas include agriculture/sugar, with a budget support sector reform contract, also contributing to trade-related adjustment.

In PNG, the second phase of a Trade Related Assistance Programme finished in 2018. The project focused on institutional reform and capacity building, trade policy development and trade facilitation. The project supported the PNG government to draft its first national trade policy paper, as well as a range of trade legislation, such as on trade defence. In 2017-2018, 450 public and private stakeholders attended training courses on topics ranging from trade policy analysis to export promotion and SPS measures. For example, a training course for 44 food safety inspectors lead to a review of existing legislation on food safety and the drafting of Memorandum of Understandings between implementing agencies. The project has started supplying five public laboratories with specialised equipment to improve effectiveness and efficiency of food quality and food safety testing.

In the past years, the EU also provided assistance on customs and trade-related matters via intra-ACP programmes (Hub & Spokes II and TradeCom II), helping Pacific countries for example to conduct trade needs assessments and develop trade policy frameworks as well as national trade policy consultation mechanisms. The EU provided targeted support to the authorities of Samoa, Solomon Islands and Tonga during the process of accession and preparation for EPA implementation, with a view to extending EPA benefits to them.

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

Samoa acceded the EPA at the end of 2018 and the procedures for the accession of Solomon Islands and Tonga are expected to be completed by the end of 2019.

Vanuatu will graduate from Least Developed Countries (LDC) status in 2020, and the date of graduation of Kiribati and Tuvalu will be decided in 2021. Upon graduation from LDC status, these countries will lose the EU's Everything-But-Arms (EBA) preferences. They will fall under the less generous General Scheme of Preferences (GSP) unless they decide to accede to the current EU EPA with PNG, Fiji and Samoa. The Parties to the Agreement are open to consider each country's accession. Vanuatu has already indicated its interest to join the EPA if there is a Services Chapter.

The Pacific countries have raised the importance of services for their economies and asked to initiate discussions to examine the specific market access commitments for a possible Services Chapter. The Parties are open to consider the issue once the ongoing accession procedures are over.

6. CONCLUSIONS AND OUTLOOK

EPA implementation and accession are top priorities, with Fiji still to ratify, PNG having made all its tariff cuts and now seeking to extend export diversification beyond the fisheries sector, Samoa following suite and other Pacific States (Solomon Islands and Tonga) seeking to accede to the Agreement.

7. STATISTICS

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with EPA (interim) Pacific countries (mio €)					
Imports	893	833	746	992	915
Exports	235	342	279	228	194
Balance	-658	-491	-468	-764	-721
Share EPA (interim) Pacific countries in EU28 trade with Extra-EU28					
Imports	0,1%	0,0%	0,0%	0,1%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade EPA (interim) Pacific countries: IMF Dots

Total merchandise trade EU28 with EPA (interim) Pacific countries (mio €)

EPA (interim) Pacific countries	2017	2018	Growth mio €	Growth annual %
Imports	992	915	-77	-7,7%
Exports	228	194	-34	-14,9%
Balance	-764	-721	43	
Total trade	1.220	1.109	-111	-9,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with EPA (interim) Pacific countries (mio €)

EPA (interim) Pacific countries	2017	2018	Growth mio €	Growth annual %
Imports	699	539	-160	-22,8%
Exports	18	22	5	25,6%
Balance	-681	-517	164	
Total trade	717	562	-155	-21,6%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with EPA (interim) Pacific countries (mio €)

EPA (interim) Pacific countries	2017	2018	Growth mio €	Growth annual %
EU28 imports	293	376	83	28,3%
EU28 exports	210	171	-39	-18,4%
Balance	-83	-204	-122	
Total trade	503	547	44	8,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

FIJI

Merchandise trade EU28 2014-2018

	2014	2015	2016	2017	2018
EU28 trade with Fiji (mio €)					
Imports	99	86	61	95	36
Exports	100	177	64	64	67
Balance	1	90	3	-31	31
Share Fiji in EU28 trade with Extra-EU28					

Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Fiji with world					
Imports	7,2%	5,1%	3,8%	3,2%	2,9%
Exports	10,5%	9,8%	7,4%	12,1%	9,6%
Total (I+E)	8,0%	6,3%	4,7%	5,4%	4,2%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Fiji: IMF Dots

Total merchandise trade EU28 with Fiji (mio €)

Fiji	2017	2018	Growth mio €	Growth annual %
Imports	95	36	-59	-62,1%
Exports	64	67	2	3,5%
Balance	-31	31	61	
Total trade	159	103	-57	-35,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Fiji (mio €)

Fiji	2017	2018	Growth mio €	Growth annual %
Imports	87	25	-62	-71,8%
Exports	6	13	7	113,2%
Balance	-81	-12	69	
Total trade	93	37	-56	-59,8%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Fiji (mio €)

Fiji	2017	2018	Growth mio €	Growth annual %
EU28 imports	8	11	3	42,5%
EU28 exports	58	54	-5	-7,8%
Balance	50	42	-8	
Total trade	66	65	-1	-1,7%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Fiji (mio €)

Fiji	2016	2017	Growth mio €	Growth annual %
Imports	49	130	80	162,8%
Exports	153	162	9	5,9%
Balance	104	32	-71	
Total trade	202	292	89	44,2%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Fiji (mio €)

	2013	2014	2015	2016	2017
Imports	100	91	58	49	130
Exports	66	40	233	153	162
Balance	-35	-51	175	104	32
Total trade	166	131	291	202	292

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Fiji (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward				0	-3
Outward	159	195	185	146	169
FDI Flows					
Inward	-15				-2
Outward	12	19	-2	44	-34

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

PAPUA NEW GUINEA

Merchandise trade EU28 2014-2018	2014	2015	2016	2017	2018
EU28 trade with Papua New Guinea (mio €)					
Imports	794	747	685	897	879
Exports	135	165	214	164	127
Balance	-659	-582	-471	-733	-752
Share Papua New Guinea in EU28 trade with Extra-EU28					
Imports	0,0%	0,0%	0,0%	0,0%	0,0%
Exports	0,0%	0,0%	0,0%	0,0%	0,0%
Total (I+E)	0,0%	0,0%	0,0%	0,0%	0,0%
Share EU28 in trade Papua New Guinea with world					
Imports	3,2%	3,7%	5,3%	4,0%	3,1%
Exports	13,2%	9,4%	9,2%	11,5%	11,2%
Total (I+E)	8,1%	6,8%	7,5%	8,3%	7,7%

Source Trade G2 Statistics/ISDB 25-mars-19
Trade EU28: Eurostat COMEXT; Trade Papua New Guinea: IMF Dots

Total merchandise trade EU28 with Papua New Guinea (mio €)

Papua New Guinea	2017	2018	Growth mio €	Growth annual %
Imports	897	879	-18	-2,0%
Exports	164	127	-36	-22,2%
Balance	-733	-752	-19	
Total trade	1.060	1.006	-54	-5,1%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Agrifood trade EU28 with Papua New Guinea (mio €)

Papua New Guinea	2017	2018	Growth mio €	Growth annual %
Imports	612	515	-97	-15,9%
Exports	12	10	-2	-18,8%
Balance	-600	-505	95	
Total trade	624	524	-99	-15,9%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

NAMA trade EU28 with Papua New Guinea (mio €)

Papua New Guinea	2017	2018	Growth mio €	Growth annual %
EU28 imports	285	364	79	27,9%
EU28 exports	152	118	-34	-22,4%
Balance	-133	-246	-114	
Total trade	437	482	45	10,4%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT

Services trade EU28 with Papua New Guinea (mio €)

Papua New Guinea	2016	2017	Growth mio €	Growth annual %
Imports	43	65	21	49,1%
Exports	224	325	101	45,3%
Balance	180	260	80	
Total trade	267	390	123	45,9%

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Services trade EU28 with Papua New Guinea (mio €)

	2013	2014	2015	2016	2017
Imports	43	42	68	43	65
Exports	482	176	265	224	325

Balance	439	134	197	180	260
Total trade	525	217	332	267	390

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

FDI EU28 with Papua New Guinea (mio €)

	2013	2014	2015	2016	2017
FDI Stocks					
Inward	2	4	2	4	13
Outward	660	1.056	1.441	1.014	1.680
FDI Flows					
Inward	-1	1	-1	1	8
Outward	133	-87	192	80	737

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics