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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 2016 - 31 December 2016

{SWD(2017) 364 final}

1. INTRODUCTION

1.1. Effectiveness, transparency, cooperation

In recent times many people have questioned the ability of trade policy to harness globalisation and support people and businesses in the EU and beyond. So obtaining the **maximum benefit** from the EU's free trade agreements (FTAs) is one of the Commission's key objectives.

With this in mind, the trade Communication "*Trade for All*"[1] emphasised the importance of implementing and enforcing FTAs effectively. It committed the Commission to producing an annual FTA Implementation Report, of which this is the first edition.

The main purpose of this report is to ensure **transparency**. It highlights progress as well as problems and shortcomings. In so doing, it should enable the other EU institutions, civil society and everyone with a stake in EU trade policy to scrutinise and debate the way in which the EU is putting its FTAs into practice.

The Commission also seeks to **work more closely** with the other EU institutions, EU Member States, business and non-business organisations in gathering further ideas on making FTAs more effective. And it aims to find ways to help businesses across the EU and in partner countries to make better use of them.

Currently there is no comprehensive overview of the implementation of all EU FTAs. But annual reporting is carried out for some of them[2]. This report builds on existing practices. It seeks to be comprehensive and to continue monitoring and sharing information about the EU's work to apply its FTAs.

1.2. Structure of the report

The report gives a brief overview of the main findings concerning the EU's FTAs which it is applying. It groups them into:
- "new generation" FTAs,
- Deep and Comprehensive Free Trade Areas (DCFTAs),
- Economic Partnership Agreements (EPAs),
- "first generation" FTAs.

It also includes:
- company testimonials, most notably concerning small businesses, highlighting the benefits of EU FTAs,
- a section on the implementation of the trade and sustainable development provisions in EU FTAs,
- an explanation of the Commission's *ex post* evalutions of the impact of FTAs, and
- a section on the preparation to the upcoming implementation work on new FTAs.

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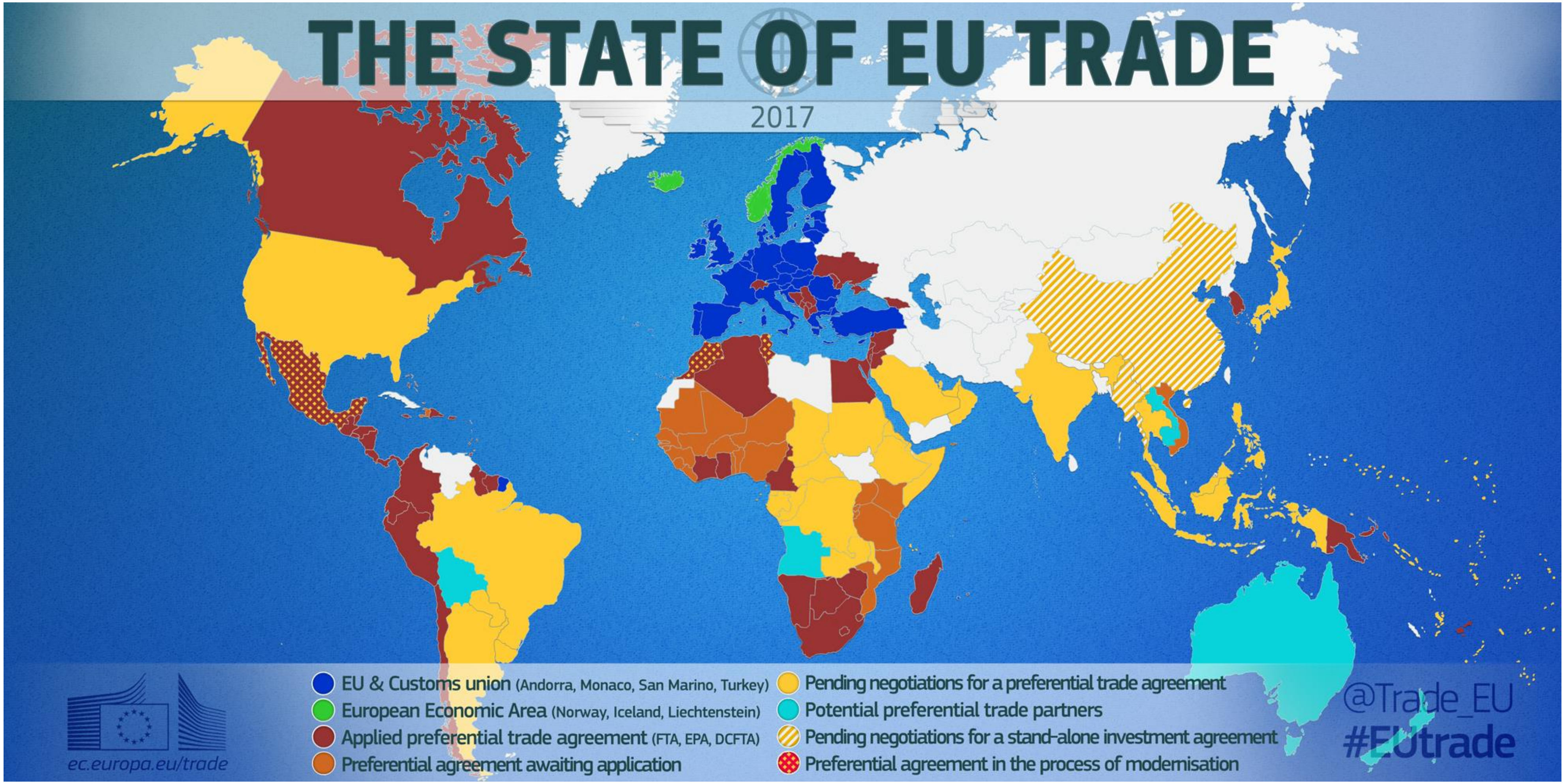
[1] European Commission, Communication "Trade for All: Towards a more responsible trade and investment policy", COM (2015) 497. These messages were reiterated in the European Commission's "Report on the Implementation of the Trade Policy Strategy *Trade for All*", COM (2017) 491.

[2] For the reporting period this concerns EU's free trade agreements with South Korea (see the latest annual report COM (2017) 614), Central America (see COM (2017) 160) and Colombia-Peru (see COM (2017) 585).

A Staff Working Document accompanying this report gives more detailed individual annual reports on DCFTAs with Georgia, Moldova and Ukraine, and factsheets on "first generation" FTAs, and EPAs.

The Commission looks forward to discussing the conclusions of this report, and invites everyone concerned to contribute to it.


THE STATE OF EU TRADE
2017
EU & Customs union (Andorra, Monaco, San Marino, Turkey)
European Economic Area (Norway, Iceland, Liechtenstein)
Applied preferential trade agreement (FTA, EPA, DCFTA)
Preferential agreement awaiting application
Pending negotiations for a preferential trade agreement
Potential preferential trade partners
Pending negotiations for a stand-alone investment agreement
Preferential agreement in the process of modernisation
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2. "NEW GENERATION" FTAS – SOUTH KOREA, COLOMBIA AND PERU, CENTRAL AMERICA

"New generation" FTAs for the purpose of this report are FTAs negotiated after 2006 when the Commission announced in its "Global Europe" Communication[3] that it would start negotiating comprehensive FTAs with selected third countries. Of the applied agreements, FTAs with South Korea (Korea), Colombia-Peru and Central America (CA) belong to this category.

2.1. Trade flows

When looking at developments in trade, the FTA with Korea has been a success story for European exports.

2.1.1. South Korea

EU exports to Korea have **increased** by 59.2% since the FTA started to be applied[4]. The EU's EUR 11.6 billion trade deficit in 2010 has turned into a **surplus** of EUR 3.1 billion in 2016.

In 2016, however, EU exports decreased by 6.9%, for the first time during the application of the FTA. EU exports decreased in particular on **machinery and appliances** (by 8.2%) and **transport equipment** (by 6.4%). These two sectors represent more than 50% of EU exports to Korea.

Imports from Korea have remained overall relatively **stable**. In 2016, imports from Korea decreased as well by 2.2%. A drop of 4.9% in imports from Korea was also noted in **machinery and appliances** and **transport equipment**.

Motor vehicles have been a sector of specific interest in the case of the EU - Korea FTA, and also in this area EU exports have performed **extremely well**.

EU **exports** of motor vehicles have increased by 244% since the start of the application of the FTA, accounting for 13% of total EU exports to Korea.

EU **imports** from Korea have grown by 53%, representing 10% of total EU imports from Korea.

In 2016 however, EU exports in motor vehicles decreased by 7.5% (in part due to the diesel engine scandal) and imports decreased by 9%.

Further reasons for the decrease of EU overall exports are decrease of **UK oil exports** (due to end of the Iran sanctions), and lower delivery of **aircraft** (with more deliveries scheduled for the next years).

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[3] European Commission, Communication "Global Europe: Competing in the world", COM (2006) 567.

[4] EU-Korea FTA applied since July 2011.

Exports help Austrian climbing equipment maker reach the summit

By eliminating customs duties, the EU - Korea trade agreement helped AustriAlpin to start doing business in South Korea and strengthen its position on the Asian and global markets. The climbing equipment maker now exports around 80% of its products largely thanks to EU trade agreements.

While the firm employs fewer than 100 people, in 2015, AustriAlpin's total sales were worth EUR 8.5 million, of which EUR 7.1 million came from exports.

French organic cosmetics producer finds success in South Korea

Laboratoire Soniam produces plant extracts for the cosmetics industry. The small company benefited from the EU - Korea trade agreement because the reduced tariffs helped the company offer its products at more attractive prices.

Bolstered by an Ecocert certification for organic produce and their 'made in France' label, Soniam has seen its exports to Korea increase by 20% throughout 2016.

2.1.2. Colombia and Peru

The EU is the second largest trading partner for Colombia and third largest for Peru. **Bilateral trade** between the EU and Colombia has **decreased** by 23.5% and the EU and Peru by 11% since the FTAs started to be applied[5]. This can mainly be attributed to the economic **slowdown** in Latin America and the **fall in commodity prices** on the global market, which has affected exports of both countries.

However, the FTA had a **stabilising effect**: the overall decrease of these two countries' trade with the world during the same period (approximately 36% for Colombia and 18% for Peru) is greater than the decrease of trade with the EU. It is safe to assume that without the FTA the decrease of trade with the EU is likely to have been even greater.

EU exports to **Colombia** increased by 18% during the two first years of the FTA application, but dropped by 17% in 2016 due to sluggish demand. EU imports from Colombia decreased by 37.5% since the start of the application of the FTA.

In the case of **Peru**, compared to 2012, EU exports have increased by 4%, whereas imports have dropped, also by 4%, by the end of 2016.

However, regardless of the modest overall development of trade, EU exports of **agricultural products went up** considerably to both markets, with increases of 82% to Colombia and 73% to Peru. The same applies to EU imports from Colombia and Peru, with an increase of 33% from Colombia (45% for coffee), and 19% from Peru (120% for fruits, 30% for fish and molluscs, and 226% for cocoa).

In the same period, imports in **raw materials and minerals dropped** from these two countries.

[5] EU-Peru FTA applied since March 2013, and EU-Colombia FTA – since August 2013.

Luxembourgish beer in Colombian bars

The EU's trade agreement with Colombia and Peru helped Luxembourg's brewery "Brasserie Nationale" known for its Bofferding beer to start exporting to Colombia, a market 100 times bigger than that of Luxembourg. Thanks to the agreement, the company deals with all export requirements directly without having to call on experts or negotiate with middlemen whenever it sends a container to Colombia.

Strong exports to Colombia have boosted the brewery's growth and overall it now exports 34 000 hectolitres of beer a year.

Austrian wine makes a splash in the Andes

Rainer Wess winery is located in the Wachau Valley in Austria. It has been producing wine since 2003 and exports 65% of its produce to more than twenty countries.

The EU trade agreement with Colombia and Peru enabled the company to benefit from lower trade tariffs and a lighter administrative burden. Its wine is now gaining popularity in some of the best restaurants in Lima, the Peruvian capital.

2.1.3. Central America

Regarding the FTA with Central America[6], **trade has been on the increase**. EU exports have grown by 22%, while imports from five Central American countries have increased by 18.3%.

The only **exception is Costa Rica**, which is suffering from relocation to Asia of its previously major exporter of IT components. Consequently, Costa Rican exports of office and telecommunication equipment decreased by almost 94% in 2015. Its exports to the EU decreased by 40% that year, and this also brought the total trade flows between the EU and Central America to a negative of 0.78%.

The main destination of EU exports in Central America is Costa Rica (25%), followed by Panama (24%) and Guatemala (22%).

Belgian coffee roaster creates partnerships around the globe

Established in 2001, the Belgian coffee roaster OR has since expanded into international markets, with the conviction that the best coffee beans come directly from farmers.

EU trade agreements with countries in Central and South America have made it easier for European firms to supply coffee from that region. Moreover, by requiring exporters from those countries to meet EU standards on working conditions and environmental protection, the agreements have also benefited local people.

[6] FTA has been provisionally applied since 1 August 2013 with Honduras, Nicaragua and Panama, since 1 October 2013 with Costa Rica and El Salvador, and since 1 December 2013 with Guatemala – covering all six partners on the Central America side.

2.2. Tariff-rate quotas (TRQs)

Imports of goods that are subject to tariff-rate quotas will be charged lower import duties within the agreed quantities. Beyond those quantities, the import duty will be higher.

2.2.1. Colombia and Peru

Both **Colombia** and **Peru** use their TRQs for **sugar**. Peru also increasingly uses quotas for sweetcorn and garlic, whereas for other products the tariff rate quotas are little used.

Overall, the **EU** used its tariff rate quotas established by the agreement to a large extent. However, for some products the utilisation rate is very low, for example, only 7.9% of the total quota was used for **cheese** exports to Colombia, and 4.3% to Peru; and only 3.8% of the total quota for sugar **confectionary** exports to Colombia.

2.2.2. Central America

Central America only used its tariff-rate quotas for **sugar** and **rum**, while other tariff rate quotas remained unused.

The **EU** was granted tariff rate quotas for four products, but the **use remains low**: 26% of the total quota used for cured hams, 14% for powdered milk, 44% for cheese and only 4.9% for processed swine meat.

2.3. Preference utilisation rate

The preference utilisation rate tells us the extent to which businesses are using the tariff preferences which an EU FTA offers them.

It takes the total imports from a partner country into the EU (or vice versa) that were *eligible* for preferentially reduced customs tariffs. And it indicates the share of those total imports for which the reduced tariff was *actually* used.[7]

Assessing how much EU exporters use tariff preferences agreed in FTAs is an important measure of FTAs' effectiveness.

2.3.1. South Korea

The preference utilisation rate for **EU exports** to Korea was 71% in 2016, the highest rate so far. This compares to 68% in 2015, and 65% in 2014 and 2013. The use of preferences in agricultural products was higher than in industrial products (86% vs. 64%). The highest overall preference utilisation rates concern **transport equipment** and **live animals & animal products** (93%). The use of reduced tariffs was below 50% for EU exports of mineral products, pearls & precious stones, base metals and machinery.

In 2016, **Korean exporters** used tariff preferences with regard to 87% of their eligible exports. The preference utilisation rate was above 90% for mineral products, transport equipment and plastics & rubber, whereas 9% for wood and 34% for pearls. The Koreans used reduced tariffs for machinery much more than the EU exporters to Korea (with preference utilisation rate 72% vs. 48%).

[7] See a more detailed explanation in annex 3.

2.3.2. Colombia and Peru

Based on Colombian statistics, preference utilisation rate for **EU exports** to Colombia amounted to 70.6% in 2016 (compared to 50.7% in 2014). No data is available for Peru.

For the **exports from Colombia and Peru** to the EU market, over 95% of eligible exports takes place under preferential rates.

2.3.3. Central America

For Central America, statistics on EU exports were only available in Costa Rica: only 16.6% of the eligible **EU exports** to Costa Rica were benefitting from the FTA.

In the case of **Costa Rican exports** to the EU, the rate was 92%.

2.4. Services and investment

2.4.1. South Korea

EU **services exports** to Korea have increased by 49% since the start of the application of the FTA, even though in 2015 exports decreased by 7%. **Services imports** from Korea have also increased by 32% in total, and 7.3% in 2015.

EU **investment stocks** in Korea have increased by 32.8% since the start of the application of the FTA, whereas the Korean stocks in the EU have increased by 60%. EU stocks in Korea (EUR 49.7 billion in 2015) are about 2.5 times the Korean stocks in the EU (EUR 20.9 billion in 2016).

2.4.2. Colombia and Peru

In the case of Latin American countries, small developments can be observed. EU **services exports** remained stable in the case of Colombia and increased by 11% to Peru. **Imports** from Colombia went up by 3% and decreased by 6% in the case of Peru.

The EU **investment stocks** increased by 4% in Colombia and by 15% in Peru. The EU is the biggest foreign investor in both countries.

2.4.3. Central America

Total **EU trade in services** with Central America **decreased** by 3%. There were great **fluctuations** in exports and imports from different Central American countries, but in the case of Costa Rica and Panama the services trade increased in both directions.

In this region, Panama is EU's largest trading partner in services (53%), followed by Costa Rica (21%) and Guatemala (13%).

2.5. Implementation bodies

New generation FTAs have a comprehensive structure of implementation bodies. A range of **sub-committees** and **working groups** meet annually and report to a Trade Committee (or an Association Committee in the case of Central America). Trade Committees often held at the ministerial level take stock of the developments in all areas and discuss FTA implementation problems identified with the objective of finding solutions to them.

2.5.1. South Korea

The main issues raised in the Trade Committee with Korea in the reporting period were **sanitary and phytosanitary** (SPS) issues, namely market access for beef, and regionalisation concerning exports of pork, but those issues still need to be addressed. On the other hand, good co-operation with Korea on **animal welfare** is an example to follow. The experience on SPS matters with Korea illustrates the importance of having clear and detailed SPS chapters in FTAs.

In the area of **intellectual property** protection, public performance rights is still an open issue, as well as adding new geographical indications (GIs) for protection under the FTA, which has not been successful despite EU's requests since 2014.

Trade and **sustainable development** was also extensively discussed with a focus on ratification and implementation of International Labour Organisation (ILO) conventions and protection of labour rights by Korea. Regretfully, these discussions have not yet led to the resolution of the identified problems.

The FTA also contains clear transparency provisions on **public procurement** that would allow monitoring the effective market access of EU companies in Korea. However, Korea has not yet submitted the data on public procurement contracts granted to EU companies. This will be addressed during the next meetings of the Government Procurement Working Group.

2.5.2. Colombia and Peru

In 2016, good progress was made by Colombia in addressing **sanitary and phytosanitary** issues (i.a. implementation of the single entity approach, prelisting procedure), as well as the discriminatory regime for spirits with the adoption of a new law that entered into force on 1 January 2017. EU exports of spirits to Colombia in 2016 were worth EUR 43.7 million, representing 12% of the total EU agricultural exports to Colombia. Progress was also made by Peru in the area of SPS, although some further headway is still necessary.

The regionalisation principle was set out in the SPS chapter and applied by both Colombia and Peru for their imports from the EU.

Discussion on market access to **government procurement** at sub-central level in Colombia moved in a positive direction.

In Peru, problems remain such as discriminatory treatment of imported **spirits**, as well as with regard to **public performance rights**.

Enforcement of **geographical indications** remains of concern in both countries. The issue of **direct shipment** where the EU wants to retain the FTA preferences for consignments that are split while in transit also remains open.

2.5.3. *Central America*

In the case of Central America, the main issues relate to:

- enforcement of **geographical indications** (in particular in Guatemala and Honduras),
- government **procurement** (Panama),
- tax discrimination for **beer** (Costa Rica), and
- implementing commitments towards greater regional integration concerning certain **technical regulations**.

3. DEEP AND COMPREHENSIVE FREE TRADE AREAS – UKRAINE, MOLDOVA, GEORGIA

Ukraine, the Republic of Moldova (Moldova) and Georgia concluded respective **Association Agreements** with the EU. These agreements provide for the deepening of **political association** and gradual **economic integration** between the EU and these Eastern partners.

The Deep and Comprehensive Free Trade Areas are the **economic pillars** of the Association Agreements and establish conditions for enhanced economic and trade relations. They provide for a broader progressive **approximation of partners' legislation** to that of the EU.

The purpose of DCFTAs is to create a **new framework** and climate for trade and investment with these partners and contribute to economic restructuring, modernization and diversification of the economies of the countries concerned. Due to the objective of gradual **integration into the EU's internal market**, DCFTAs go beyond "new generation" FTAs and represent a unique type of trade agreement.

The DCFTAs have two main components:

1) gradual, reciprocal **market opening** (elimination/reduction of tariffs and elimination of non-tariff barriers to trade) by both parties with some asymmetry benefiting the Eastern partners; and

2) far-reaching **regulatory approximation** to EU law in trade-related areas.

3.1. Trade flows

The EU is the largest trading partner of all three countries, accounting for 55% (Moldova), 41% (Ukraine) and 30% (Georgia) of their total trade in 2016. The EU has a positive trade balance with all three countries.

3.1.1. Ukraine

Both EU **exports** to and **imports** from Ukraine **grew** by 17.6% and 1.9%, respectively, in 2016 - the first year of application of the DCFTA[8]. This is largely due to a recovery of the Ukrainian economy which is slowly climbing back from a recession in 2015, when GDP shrunk by 9.9% and the net foreign direct investments decreased from EUR 8.2 billion in 2012 to EUR 3 billion in 2015.

3.1.2. Moldova

In 2014-2016 EU **exports** to Moldova **decreased** by 13% due to declining domestic demand, internal problems (fraud in the banking sector) and economic difficulties in the region. In the same period, EU **imports** from Moldova **grew** by 13.5%, most notably in agricultural products but also machinery, furniture and clothing.

[8] EU-Ukraine DCFTA was provisionally applied since 1 January 2016. DCFTAs with Georgia and Moldova were provisionally applied since 1 September 2014.

3.1.3. *Georgia*

EU **exports** to Georgia in 2014-2016 **increased** by 2.8%, while EU **imports** from this country **declined** by 16.4%. The drop in global prices for commodities was one of the main causes of declining value of exports from Georgia as they consist predominantly of raw materials and semi-finished products. However, in volume terms the level of exports remained stable.

The EU geodesy and topography benefits from Ukrainian drones and post-sale services

The Kyiv-based company Drone.ua produces unmanned aerial vehicles, or drones, which are sold in Europe. It has established a joint venture in Lithuania called UAV.tools to spread its technology in fifteen European countries. It will soon open offices in the UK and Moldova.

The company not only exports aircrafts, but also provides technical support, training, and data processing. In Ukraine, the drones are used in agriculture, while in the EU they're commonly used for geodesy and topography.

Ukraine strengthens its position in Europe in the field of animal nutrition

In May 2017, a Ukrainian company Kormotech LLC was included in the list of top-50 pet food manufacturers in the world and in Europe (there are only 3 companies from Central and Eastern Europe on this list).

Helped by the DCFTA, over the past two years, the company's products (feed for cats and dogs) have begun to conquer new markets in the EU as their production facilities meet European food safety and quality standards. Kormotech LLC produces 16 000 tons of wet and 30 000 tons of dry ready-made feed per year and exports it to 15 countries.

3.2. Tariff rate quotas

TRQs for agricultural products were not used in full by all three DCFTA partners due to non-compliance with EU sanitary and phytosanitary requirements.

In the case of **Ukraine**, 11 of the total of 36 TRQs were fully used.

In the case of **Moldova** TRQs of two out of the total of six product groups were used.

For **Georgia**, the only duty free tariff quota, granted for fresh and chilled garlic, has also not been used.

3.3. Preference utilisation rates

These rates are only available for exports of the Eastern partners to the EU. They are very **high**, around 80% for Georgia and 90% for Ukraine and Moldova.

3.4. Services and investment

As regards **services,** both EU **exports** to and **imports** from Moldova **increased** by 3% and 17%, respectively, in 2014-2015, whereas in the case of Georgia they remained **stable**.

EU **investment flows** to and from Moldova also **increased** in both directions (EU investment into Moldova by 127%, Moldovan investment into the EU by 67%), while remaining very low in absolute figures. In the case of Georgia investment flows remained stable.[9]

3.5. Implementation bodies

Regulatory approximation is a key component of the DCFTAs' implementation. This was also the main focus in the meetings of the implementation bodies – Association Committees in Trade Configuration and the four thematic Sub-committees, on:

- Customs,
- Geographical Indications,
- Sanitary and Phytosanitary Measures, and
- Trade and Sustainable Development.

As regards **SPS**, a comprehensive strategy has been jointly adopted by the EU and Moldova, and a legislative roadmap in the case of Georgia. A formal adoption of the SPS strategy with Ukraine is foreseen in the second half of 2017. These documents become an integral part of the Association Agreements/DCFTAs and will guide the partner countries in legal approximation and institutional capacity-building in the coming years.

Similar reform plans have been adopted in **technical regulations** and **standards**. In both these areas, however, administrative capacity will need to be reinforced in all three countries in order to carry out the remaining work and to ensure effective law implementation and enforcement.

Regarding **public procurement**, comprehensive reform strategies have been prepared in all countries. It is also noted that both Moldova and Ukraine joined the WTO Government Procurement Agreement in 2016.

In terms of **trade irritants**, Ukraine applied (between July 2016 and July 2017) the export duties on metal scrap and still applies DCFTA- and WTO-incompatible wood export ban. Regarding the protection of EU Geographical Indications (GIs) in Georgia, the two sides made major efforts to remove from the market the names which are in conflict with GIs protected in the EU. In Moldova, problems are encountered regarding the protection of certain EU GIs, such as Prosecco, and the existence of non-transparent and discriminatory measures affecting the electricity distribution sector. The elimination of these irritants is being discussed in the DCFTA implementation bodies and at the political level.

Regulatory approximation and institutional **capacity building** will require continuous efforts by the authorities of the partner countries and the EU. The effective

[9] No data is available for EU-Ukraine trade in services for the period since the application of the DCFTA.

implementation of the DCFTAs and facilitation of trade between the EU and the partners depends on it.

The EU delivers **financial and technical support** to the reforms and administrative capacity building in trade-related areas, including:

- elimination of technical barriers to trade (through alignment of standardization and metrology infrastructure; conformity assessment system (including accreditation of assessment bodies) and market surveillance system to the EU standards),
- introduction of competition rules (including on state aid),
- approximation of sanitary and phytosanitary measures to the EU system (notably in institutional capacity building in food safety control),
- protection and enforcement of intellectual property rights,
- alignment of public procurement system with the aim of reciprocal market opening,
- promotion of producers' organizations and value chain optimization
- SMEs' development.

Regarding the latter, the three countries benefit from the **DCFTA Facility for Small and Medium-sized Enterprises** (EUR 200 million for all three countries).

4. ECONOMIC PARTNERSHIP AGREEMENTS - AFRICAN, CARIBBEAN AND PACIFIC (ACP) COUNTRIES

In 2016 the number of applied Economic Partnership Agreements (EPAs) rose to seven, covering 28 countries in:

- the Caribbean, the Pacific, the Eastern and Southern African (ESA) sub-region,
- Cameroon in Central Africa,
- the Southern Africa Development Community (SADC) EPA Group,
- Ghana and Côte d'Ivoire in West Africa.

4.1. State of play of the agreements

4.1.1. SADC

A milestone was reached in June 2016, when the **EU signed an EPA** with six countries of the Southern African Development Community (SADC), an agreement which entered into provisional application in October 2016. In addition to **classic trade provisions**, the participating SADC countries (Botswana, Lesotho, Namibia, South Africa, Swaziland and Mozambique) as well as the EU have committed to a partnership centred on **sustainable development**, including upholding social and environmental standards.

The Agreement directly supports the economic integration of the region, favouring closer links between the six nations. In 2016 only **Mozambique** (the seventh SADC country) had not yet ratified the agreement and did not apply it.

4.1.2. West Africa

The provisional application of the EPA with the West Africa region is held back by the **missing signatures** of three (out of 16) countries. In the meantime, two countries in this region, **Côte d'Ivoire** and **Ghana**, signed and **ratified** their individual EPAs[10]. Côte d'Ivoire began applying its EPA in September 2016 and the European Parliament gave its consent to the Agreement with Ghana on 1 December 2016 allowing for its provisional application.

4.1.3. East African Community (EAC)

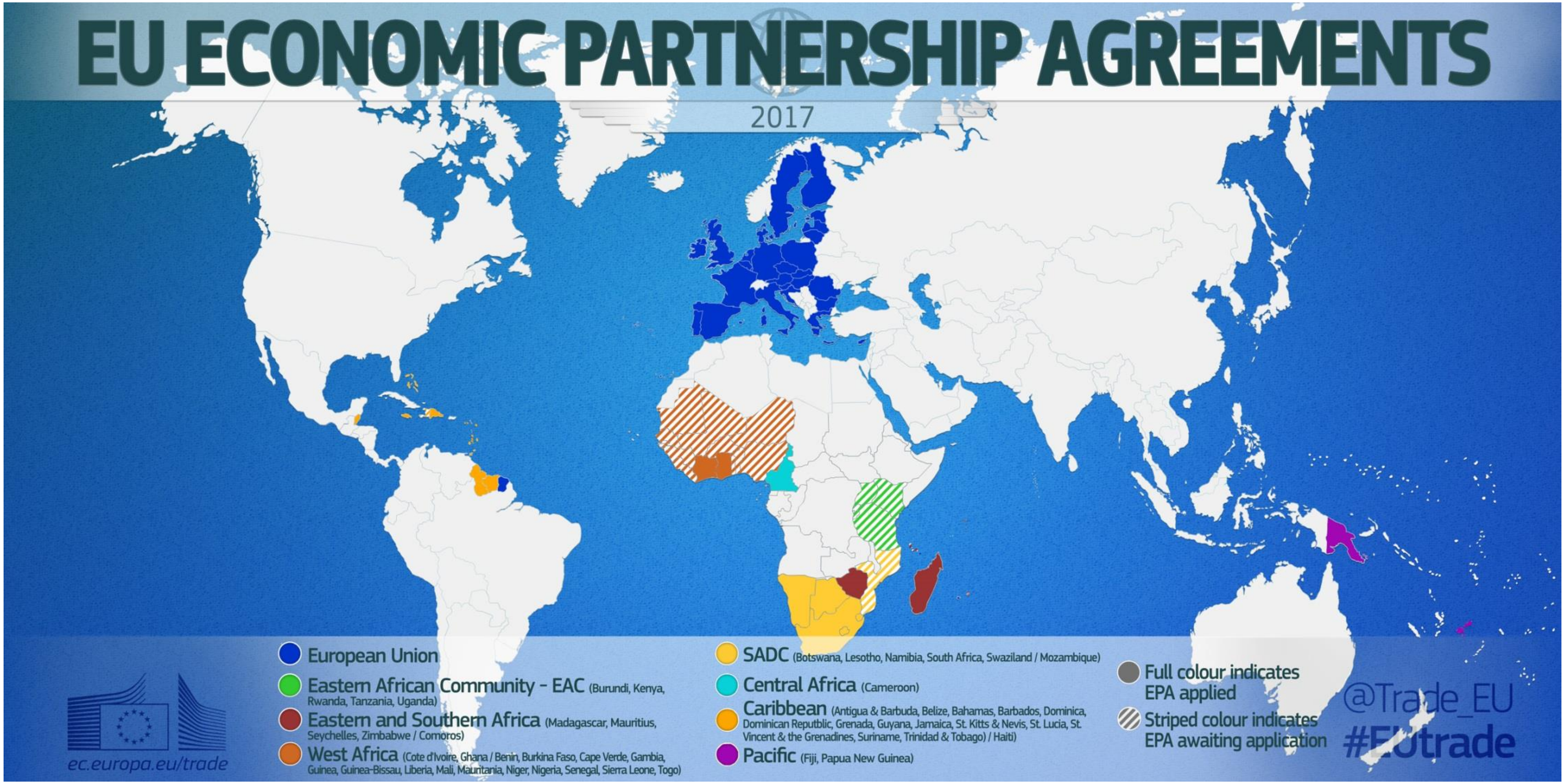
Here **signatures of three countries** (out of five) were still needed before obtaining the consent of the European Parliament and starting provisional application.

4.2. Trade flows

The evolution of trade in applied EPAs covered by this Report (with Caribbean (Cariforum), Pacific, ESA partners and Cameroon) paints a **mixed picture**. Some countries, such as Cameroon and Fiji, have not been implementing EPAs for long enough to draw any firm conclusions. But other countries have witnessed **fluctuations in trade** in both directions in the past years, in some cases are linked to **commodity price fluctuations** affecting exports of EPA partners.

[10] Both individual EPAs provide for their replacement by the West Africa – EU EPA when the latter will enter into application.

Some countries have been on a consistently **upward trend** in exports to the EU, notably **Madagascar** and the **Dominican Republic**.


EU ECONOMIC PARTNERSHIP AGREEMENTS
2017
European Union
Eastern African Community - EAC (Burundi, Kenya, Rwanda, Tanzania, Uganda)
Eastern and Southern Africa (Madagascar, Mauritius, Seychelles, Zimbabwe / Comoros)
West Africa (Cote d'Ivoire, Ghana / Benin, Burkina Faso, Cape Verde, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo)
SADC (Botswana, Lesotho, Namibia, South Africa, Swaziland / Mozambique)
Central Africa (Cameroon)
Caribbean (Antigua & Barbuda, Belize, Bahamas, Barbados, Dominica, Dominican Reputblic, Grenada, Guyana, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago) / Haiti)
Pacific (Fiji, Papua New Guinea)
Full colour indicates EPA applied
Striped colour indicates EPA awaiting application
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In all ACP regions, except the Caribbean, the EU's partner countries in EPAs are enjoying a **positive trade balance** with the EU.

In **the Caribbean**, exports to the EU have **trended downwards** since 2013, with some exceptions. There was a 23% drop in 2016, linked to falling commodity prices hitting Trinidad & Tobago's exports.

4.3. Investment

EU investment in the territories of EPA partners has been **increasing**, except in the case of Cariforum, where EU investment has remained **stable**. Cariforum investment in the EU has increased.

Malagasy textile for EU consumers

Madagascar's textile and apparel manufacturing sector has benefitted from the conclusion of the EPA with duty-free, quota-free access to the EU and improved rules of origin. After its EPA started to apply in 2012, Madagascar saw a rise in exports to the EU by almost 15% per year. In 2015, textiles and apparel were its main exports worth more than EUR 300 million and accounted for almost one third of Madagascar's total exports to the EU.

One of the beneficiaries is the local textile company Epsilon. It has increased its number of employees from an initial 100 to 2,000. The EPA has also helped to create better living conditions for employees and their families.

4.4. EU support for EPA implementation

It is important to develop monitoring mechanisms to follow the functioning and impact of EPAs and to make sure that development cooperation and trade related assistance are supporting implementation of EPAs.

In the chapters on economic and development cooperation in several EPAs, the EU has committed to cooperating with the countries concerned, mainly through financial and technical assistance.

The EU has coordinated EPA implementation with **development policy**, **cooperation** and **Aid for Trade** through discussions with the competent authorities at country level, the private sector and civil society groups.

Together they have developed "**National EPA Implementation Plans**" (NEIPs). These aim at identifying countries' needs in terms of:

- compliance, management and monitoring of EPAs,
- communication about the EPAs,
- promotion of a business environment enabling countries and businesses to fully reap the benefits of the agreements.

Such promotion includes implementation of the **necessary reforms** in order to:

- foster growth, economic diversification and local value added,
- attract investment, and

- support job creation.

On this basis, the EU is **identifying needs**, and **exploring links** between the various possible sources of financing. They may include funding from:
- different EU development assistance instruments at national, regional and intra-ACP levels,
- EU Member States,
- the European Investment Bank,
- other development finance institutions, and other possible donors.

All in all, NEIPs will help integrate responses to EPA implementation challenges and opportunities in a coherent and more impactful manner.

4.5. Development assistance

Development assistance has been earmarked for the different regions and countries implementing EPAs, in addition to other sources of EU funding more indirectly targeting EPA-related needs.

In the **Caribbean**, over EUR 100 million were allocated in the regional programme for Cariforum under the 11th European Development Fund to strengthen regional co-operation and integration processes.

In the **Pacific**, regional trade, business environment and private sector involvement were also ranked as priorities in the regional envelope of EUR 50 million.

In the **ESA** region, envelopes of EUR 10 million were allocated to each of the four EPA countries, under the Eastern and Southern Africa regional programme.

In **West Africa**, preparations were made to provide Ghana and Côte d'Ivoire with funds from the regional competitiveness programme. This will include specific EPA implementation-related activities.

In **Central Africa**, Cameroon has been assessing how to use funds made available under the EUR 211 million regional envelope for regional integration.

In the **ACP** countries in general, the EU has made particular efforts to stimulate agri-food trade and investments so as to help them gain from EPAs.

4.6. Institutional activity

There was significant institutional activity under the EPAs covered by this Report:
- **EPA governing bodies** for Cariforum, Cameroon and ESA (but not the Pacific) held their annual meetings,
- **Civil society representatives** met in the second meeting of the Cariforum-EU EPA Joint Consultative Committee (Brussels, April 2016).

More details about these meetings can be found in the Staff Working Document accompanying this Report.

5. "FIRST GENERATION" FTAS

The EU concluded "first generation" FTAs before the 2006 **"Global Europe" Communication**. These FTAs typically cover only trade in goods, and even agricultural products were often only added to their scope at a later stage.

The FTAs under this category are rather diverse, and include:

- the Customs Union with Turkey,
- FTAs with Iceland, Norway[11] and Switzerland dating from the 1970s,
- FTAs with the Faroe Islands, Mexico, Chile and South Africa,
- FTAs with the EU's Mediterranean partners[12] as part of Association Agreements concluded with them in the 1990's.[13]

There are **plans to upgrade** most of these FTAs to comprehensive FTAs that correspond better to the more complex economic exchanges that take place today between the EU and its partners. Negotiations to upgrade the FTA with **Mexico** are ongoing, and have also started with **Morocco** and **Tunisia**. Preparations are taking place to start negotiations to modernise the customs union with **Turkey** and the FTA with **Chile**, whereas the FTA with **South Africa** has been superseded by the EPA with SADC.

Exports of Traditional Italian pasta to South Africa

Pasta Astorino, a family business from Calabria, produces and sells pasta in Italy and abroad. The EU-South Africa trade agreement entered into force in 2000. It led to considerable increases in European pasta exports to South Africa, both in terms of value (43%) and quantity (67%).

Thanks to the EU-South Africa trade agreement, Pasta Astorino started doing business in South Africa and exported one ton of pasta in 2015. Local businesses supplying the company have also benefited from the EU trade agreement.

5.1. Trade flows

The development of trade overall has been positive, as the two way trade has increased in all cases during the application of FTAs.

5.1.1. Switzerland

Switzerland is EU's third largest trading partners, and both **EU exports and imports have grown** by 96% since 2002.

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

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

[13] See the full list in annex 2.

5.1.2. *Turkey*

Turkey is EU's fifth largest trading partners. Over the application period, **EU exports** to Turkey **have grown** by 185%, and imports 160%. EU exports to Turkey have however been **stable since 2014**, whereas imports continue to grow which has led to a decrease in EU's trade balance from EUR 20 billion to EUR 10 billion.

5.1.3. *Chile*

As regards Chile, EU exports have increased by 170% since 2002, almost three times more than imports, which increased by 50% over the period. However, due to the many FTAs concluded by Chile with other trading partners after the EU-Chile FTA, over time the EU has progressively **lost market share in Chile** to other trading partners.[14]

Exporting Austrian dough to Mexico

Backaldrin is a family-owned baking ingredients manufacturer in Asten, Upper Austria. The company is the inventor of the Kornspitz grain roll and exports its products to more than 100 countries. The 2001 EU-Mexico trade agreement helped Backaldrin's entry into the Mexican market.

Backaldrin now exports 80% of its produce and strong international business has ensured continued investment and job creation. In 2013 Backaldrin opened a centre for innovation and technology and expects to create 50 jobs for higher-skilled workers in the near future.

5.1.4. *Mediterranean countries*

The agreements with Mediterranean countries provide for **reciprocal liberalisation** of all trade in industrial goods and, to different degrees, of trade in agricultural, processed agricultural, and fisheries products.

These agreements typically include **elements of asymmetry**, for example, long transitional periods and/or less far-reaching liberalisation of agricultural trade. This benefits Mediterranean partners and is primarily aimed to develop the region and better integrate it into the EU market.

For most of our partners in the region, the EU is the leading trade partner. Mediterranean countries are **highly dependent on the EU** for both imports and exports.

While **trade has grown** on both sides, in most countries EU exports grew faster than imports from these partners. By exception, exports from Morocco and Tunisia to the EU have increased more than EU exports to their market since the entry into force of the agreements. Countries that have progressed most in **structural reforms** and **diversification** such as **Morocco, Tunisia and Israel** have relatively smaller and steadier trade deficits.

[14] To preserve and reinforce its market position in Chile, the EU and Chile are currently examining the possibility to negotiate the modernisation of the existing agreement.

Algeria is also a special case as more than 90% of its exports to the EU consist of mineral fuels, which has led to a year-on-year trade surplus up to 2012. Since 2012, however, the value of these exports has dropped considerably in line with the **fall in global oil prices**. Since 2015, Algeria has registered a **trade deficit with the EU**.

Exporting more Spanish biscuits to Algeria

Galletas Gullón is one of Europe's leading biscuit manufacturers. It exports its products to more than 100 countries. The EU-Algeria trade agreement, which entered into force in 2005, lowered tariff barriers, which had previously been as high as 30%. That made it easier for European companies like Galletas Gullón to export their goods there.

Over the last five years, Galletas Gullón has recorded an increase of 36% in sales in Algeria, reaching EUR 2 million in 2015. Continued demand has ensured Galletas Gullón has now become the largest biscuit exporter to Algeria, an achievement the company believes would not have been possible without the FTA.

5.2. Tariff-rate quotas

In general, TRQs **are not well utilised**, or are only used for a limited number of products. The exception is Israel, which is mostly filling its TRQs. Many Mediterranean partners face challenges exporting into the EU market due to the EU's **regulatory requirements** and standards. In many cases, the regulatory environment in partner countries does not correspond to EU requirements.

For Mediterranean partners, **regional instability** has had an economic impact. Examples of difficulties these partners face include:
- the closure of traditional trade routes,
- the challenging political situation,
- the presence of a high number of refugees, and
- difficulties in attracting foreign investment at an unstable time.

The effects of the **Syrian refugee crisis** are particularly acute in small and fragile economies such as Jordan and Lebanon. The EU is exploring ways to reinforce economic cooperation and trade related assistance aiming at ensuring Mediterranean countries benefit more from trade liberalisation with the EU. The July 2016 **Rules of Origin simplification** initiative with **Jordan**, linked to Syrian refugee employment, is an example of the EU's willingness to respond to the specific challenges faced by Mediterranean partners.

5.3. Preference utilisation rates

These are not available for all countries regarding EU exports. The rates available are however much lower for EU exports than they are for the imports from the FTA partners to the EU. The preference utilisation rates for the **"first generation" FTA partners** vary between 96% (imports from Tunisia and Egypt) and 66% (imports from Norway) with an average of 84%. For **EU exports**, it varies between 74% (exports to Lebanon and to Chile) and 23.5% (exports to Tunisia), with an average of 53%.

5.4. Services and investment

In general, the EU is either the largest, or one of the top partners in services trade and provider of investment in all countries concerned. Evolution of trade in services and investments has in general been **positive**. In recent years however the broader developments in particular in the Mediterranean region have affected some countries' services trade, especially **tourism**.

5.4.1. Chile

Services are not covered by the "first generation" FTAs, except in the cases of Mexico and Chile. The **EU exports** of **services** to Chile increased by 27% and imports by 29% between 2010 and 2015.

Regarding **investment**, the EU is the largest investor in Chile, but in the recent years EU investment has been decreasing, possibly due to the **crisis in Chile's mining** sector.

5.4.2. Mexico

In 2010-2015, EU exports of **services** to Mexico increased by 54%, while EU imports increased by 47%.

In the case of Mexico, the average yearly investment flow originating in the EU has **tripled** since the FTA started to apply.

5.5. Implementation bodies

The "first generation" FTAs do not have a structure of implementation bodies as elaborate as the most recent FTAs, but an **annual meeting** to take stock of developments is planned and usually takes place.

Issues that were raised in these meetings are very diverse, reflecting the specific situation of each partner country. Common topics addressed in several of these meetings were:

- cumbersome customs procedures,
- restrictions to trade in agricultural products,
- pharmaceutical products,
- government procurement, and
- restrictions on foreign direct investment.

In the case of Mediterranean countries, **trade-related assistance** was also discussed, with the focus on **approximation of legislation** to the EU provisions in particular in the areas of sanitary and phytosanitary measures, standards and conformity assessment.

6. IN FOCUS: TRADE AND SUSTAINABLE DEVELOPMENT CHAPTERS

EU FTAs include provisions on sustainable development such as adherence to key international **labour** and **environmental standards** and instruments, including in relation to **timber** and **fish**, and the promotion of **sustainable production** and **Corporate Social Responsibility**.

The nature and extent of activities under the Trade and Sustainable Development (TSD) Chapters differ between partners and depends on the time that such chapters have been in force.

Under the Association Agreements with Georgia, Moldova and Ukraine, trade-related provisions have only been applied recently. So much of the work in 2016 was to **establish institutions**, including civil society mechanisms, as well as to **identify priority areas** of work.

6.1. 'New Generation' FTA activities

The longer established agreements are those with South Korea, Central America, and Colombia and Peru. The following are some the activities undertaken in 2016 under these three agreements.

A **comparative study** was undertaken on the implementation of the ILO Convention 111 on non-discrimination in the workplace in the EU and **Korea** (including workshops in Seoul and Brussels).

Projects have been ongoing with the ILO in **El Salvador** and **Guatemala** to strengthen the implementation of the **ILO fundamental conventions**, focusing on:
- freedom of association,
- collective bargaining and non-discrimination, and
- child labour.

There has been continued dialogue with **Colombia** regarding the implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (**CITES**).

Overall, there has been **gradual progress** in the implementation of the TSD Chapters. It has facilitated and provided a valuable ground for regular and focused dialogues with EU trade partners on pertinent trade-related labour and environmental issues and for the initial identification of TSD priorities and opportunities.

6.2. Government-to-government TSD meetings

In the reporting period, these were held with Central America, Colombia and Peru, Korea, Georgia, and Moldova.

On the **labour** side, the topics discussed in 2016 included:
- labour inspection (Colombia, Peru, Honduras, Moldova, Georgia),
- collective bargaining (Colombia, Guatemala),
- violence against trade unions (Colombia),
- freedom of association (El Salvador, Panama),
- child labour (Colombia, El Salvador, Guatemala, Panama, Georgia),

- tripartite consultation[15] (Georgia), and
- health and safety at work (Colombia, Peru, Moldova).

The main **environmental issues** discussed included:

- **CITES:**
    - Georgia, Moldova,
    - crocodile and caiman skin trade from Colombia,
    - timber (*Dalbergia* genus) with Guatemala and Panama,
    - sharks and rays with Panama;
- combating **climate change** under the Paris Agreement:
    - reduction of $C0_2$ emissions by industry in Costa Rica,
    - ecosystems restoration, reforestation and fight against deforestation (in El Salvador, Honduras, Nicaragua, Georgia),
    - Convention on Biological Diversity (in particular Nagoya Protocol) with Panama and Moldova.

6.3. Other meetings

Open meetings between **government and civil society representatives**, including workers and employers' representatives, were organised back-to-back with the governmental TSD meetings. The EU civil society consultation groups met for all agreements to discuss implementation of the TSD Chapters, with the European Economic and Social Committee providing the secretariat.

6.4. State of play and challenges

In general, the agreements seek to provide a **useful framework** for addressing issues that may arise regarding the interaction between trade, social and environmental objectives.

But the work on TSD has **yet to realise its full potential**[16]. Further efforts will have to be made to further improve labour and environmental policies, while respecting international commitments and aiming at a high level of protection.

The implementation of TSD commitments depends on a **long-term engagement** with trade partners and on **close coordination** between **different levels of authorities** responsible for policies in areas such as labour and the environment. These do not always perceive or understand the link between those policies and international trade. Engagement with **civil society** organisations, including workers' and employers' representatives, is an important part of this process. They should play an ever greater role in monitoring implementation.

During 2016, the Commission worked to implement TSD Chapters in FTAs more effectively. The Commission sought to **better engage** with businesses and other relevant civil society

[15] Consultation between businesses, labour, and state affiliations.

[16] The Commission is currently engaged in comprehensive discussions with the European Parliament, the Council and stakeholders with a view to improving the effectiveness of the implementation and enforcement of trade and sustainable development provisions in our agreements. On 11 July 2017, the Commission issued a non-paper which serves as the basis for this debate. See at: http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155686.pdf

stakeholders, as well as to **improve coordination** with international organisations, in particular the ILO.

The Commission aims to make better use of the supervisory and monitoring **structures of international bodies**, such as the ILO and the Multilateral Environmental Agreements (MEAs) as a primary source of information to assess the effectiveness of TSD implementation.

The Commission has also contracted **pilot surveys** on checking, including through consultations with social partners, the **state of play of the implementation** in law and practice of the core labour standards in pilot countries (Colombia, Georgia and Guatemala). The Commissions intends to expand these surveys in 2018-2019.

The Commission launched a mechanism to strengthen its **cooperation with EU Member States** on implementation of TSD Chapters through a dedicated expert group on TSD. This group meets regularly and enables the exchange of information and coordination. Partnership with Member States and cooperation on TSD matters will intensify during 2017-2018.

7. EX-POST EVALUATION OF THE IMPACT OF FTAS – CHILE AND MEXICO

This Report outlines the state of play of implementation of the FTAs in 2016. It also takes into account the data of the past few years for the sake of comparison. A thorough analysis of the impact of FTAs is carried out in ex-post evaluations. So far, these have been prepared for the Chile and Mexico FTAs.[17] An analysis on the Korea FTA will be finalised in 2017. In addition, a general study on the impact of FTAs on animal welfare is currently being carried out.

7.1. Chile

Here the study concluded that **tariff cuts** had had a significant impact on bilateral trade flows. Simulations showed that in the absence of an FTA, Chile's exports to the EU in 2009 would have been 20% lower, and EU exports to Chile in 2010 would have been cut by at least 40%.

The study pointed at the EU's declining share in Chile's **total trade** since the entry into force of the Agreement, despite a substantial increase in bilateral trade flows. This suggests that, in the absence of an FTA, EU exporters could have been significantly crowded out from the Chilean market, due to the significant number of FTAs signed by Chile with other partners.

As regards **services**, the study concluded that EU services exports had increased more after the entry into force of the FTA in sectors of higher degree of liberalisation in comparison to WTO GATS[18] commitments. Chile's services exports to the EU had also performed relatively well in several sectors where FTA commitments went further than those made in GATS.

The ex post impact assessment highlighted mixed but overall marginal impacts on **natural resources** and **environmental degradation**. The increased use of fertilizers and higher exports of molybdenum, salmon, molluscs and wood products have contributed, albeit in a limited way, to different forms of air and water pollution. However, these impacts were offset to some extent by higher environmental standards, required by the EU.

The study also estimated the **social impact** mainly in Chile, since it concluded that the FTA did not cause any apparent social adjustment costs in the EU.

In the **agricultural** sector in Chile, small farm households might have lost out to relatively larger-scale farming enterprises. But overall they had benefited from the increase in overall agricultural income and from reduced inequality in terms of market access between agriculture and other sectors, brought about by the FTA.

7.2. Mexico

Here the analysis concluded that bilateral **trade in goods** between the EU and Mexico expanded significantly after the entry into force of the FTA, particularly with regard to non-agricultural goods.

The EU's **agricultural exports** still face high tariffs and significant SPS obstacles in Mexico.

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[17] The evaluation of Chile FTA was prepared in 2012 by ITAQA Sarl and that of Mexico in 2016 by Ecorys. Final reports are publically available at:
http://trade.ec.europa.eu/doclib/docs/2012/august/tradoc_149881.pdf, and
http://trade.ec.europa.eu/doclib/docs/2017/august/tradoc_156011.pdf

[18] General Agreement on Trade in Services.

Exports and imports more than doubled, with exports from the EU to Mexico having grown slightly faster than exports from Mexico to the EU. The EU's **share** of Mexican exports was 3.8% in 1999 and 4.9% in 2013. Mexico's share of EU exports increased from 0.5% to 0.7%.

In percentage terms, **Mexico's GDP** is estimated to be 0.34% higher due to the FTA and the **EU's GDP** is estimated to be 0.01% higher. This asymmetrical effect is due to the difference in ranking of the two parties for each other as trading partners.

Looking at **bilateral trade flows**, EU exports to Mexico show a slightly bigger increase, of 19%, than Mexican exports to the EU, with an estimated increase of 15%.

In **services** trade, a significant increase in bilateral trade flows is observed, but these changes are in line with developments in overall services trade.

FDI flows between the two partners show a fluctuating pattern, not deviating much from the general trends in FDI flows.

Employment, human rights, changes in poverty and inequality were not significantly affected by the FTA. If there were any changes, they were very small, but positive.

The study could not conclude on the existence of any clear impact on the **environment** and, as regards **labour rights**, social protection and social dialogue, no clear link with the FTA was found.

8. PREPARING TO IMPLEMENT FTAS EFFECTIVELY

Following the experience of the Korea and Colombia-Peru FTAs in the early stages of their application, the Commission has learnt the importance of a thorough **preparation** necessary for a smooth implementation of the agreement. So in future, once the Commission concludes negotiations, alongside the necessary steps on the EU side, it will start preparing an **implementation roadmap**. This will list the legislative and administrative measures that the FTA partner country needs to adopt to comply with its FTA commitments.

It will agree and follow up with the partner countries on the implementation of these roadmaps to ensure the effective application of the agreements. In the cases of **Vietnam** and **Singapore** the Commission has already started work on implementation roadmaps. In the case of **developing** and **least developed countries**, implementation roadmaps will also include measures to help them make better use of the opportunities offered by EU trade agreements, in line with this year's review of the EU Aid for Trade strategy.

EU delegations in the FTA partner countries have a **key role** in the FTA implementation work. They are best placed to monitor domestic developments that are relevant for the effective operation of an FTA. They have close contacts with Member States' representatives, local business associations and other stakeholders, with whom they set up **Market Access Teams** to follow up the removal of trade barriers. In FTA partner countries, Market Access Teams focus on FTA implementation as a priority. The EU delegations are also essential to follow up the implementation roadmaps.

Furthermore, the Commission seeks to engage other institutions, Member States, business and non-business organisations to prepare for the effective start of application of FTAs.

9. INTENSIFYING OUTREACH

Lack of awareness of FTAs has been identified as one of the main reasons why companies do not use FTAs. The Commission is therefore intensifying its efforts to bridge this gap:

- Comprehensive information was produced on CETA[19] and the Vietnam FTA[20];
- Exporters' **success stories** were identified and publicised online and in the media[21];
- Plans were laid out to:
    - improve provision of FTA-related information in the EU **Market Access Database**[22] and
    - make better use of other **existing Commission tools** and networks to disseminate FTA related information.

New digital outreach **tools targeting SMEs** will be carried out in 2017-2018.

In addition to the Commission, **Member States** also have a **crucial role** to play in helping to disseminate information on FTAs to their stakeholders. This holds in particular for SMEs, who often require information in local language and in different regions.

In 2016, the Commission started discussions with Member States and business organisations, including in the **Market Access Advisory Committee** and at the **Trade Policy Committee** of the Council on how to work better together on the implementation of FTAs. Better outreach centrally and locally was seen as particularly important.

These exchanges also identified that close cooperation between **Member States' embassies and EU delegations** in FTA partner countries was a key factor in ensuring effective implementation of the FTAs.

Work with Member States, the European Parliament, business and non-business stakeholders continues in 2017 to identify best practices.

[19] http://ec.europa.eu/trade/policy/in-focus/ceta/

[20] http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154622.pdf

[21] http://ec.europa.eu/trade/trade-policy-and-you/in-focus/exporters-stories/

[22] http://madb.europa.eu/madb/indexPubli.htm

10. CONCLUSION

The EU has a wide variety of FTAs in place, and they are very different in terms of scope and objectives.

The work on the implementation of EPAs and DCFTAs needs to intensify on both sides. The success of these efforts is closely linked to progress made in:

- approximation and institutional capacity-building in the case of DCFTAs, and
- building implementing capacity in the case of EPAs.

Mediterranean countries still encounter difficulties in exporting to the EU market. This comes despite the already long period of application of the FTAs. Domestic developments in recent years, including the refugee crisis, have become additional challenges in building export capacity and diversifying the economy, which would help these partners to reap greater benefits from the opportunities provided by the FTAs.

10.1. Trade flows

Overall, **trade in goods increases**, in particular regarding EU exports. Where EU exports decrease, it seems to be caused mainly by external factors affecting the economy of the partner country concerned, and not as a result of the functioning of the FTA as such.

The considerable increase in EU exports of **agricultural products** and **motor vehicles** in the case of the new generation FTAs is very positive, and has exceeded initial expectations. High rates of EU companies using preferential FTA tariffs in these sectors mean that FTAs were essential for these trends.

10.2. Tariff rate quotas

As regards TRQs, there is **untapped potential** for further exports in both directions with all partners, since their use remains low in general.

10.3. Preference utilisation rates

For **EU businesses** these are in general **much lower** than those of our trading partners, based on the available data. The Commission has looked into this issue and identified three main reasons for the low take up of the FTAs:

- lack of **awareness** of the FTAs,
- **difficulties in understanding** the rules for each product, and
- cumbersome **procedures for obtaining documents** needed to benefit from preferential treatment.

The Commission is currently working to address this awareness gap. It is **improving the information** available on its websites, including existing tools such as the advance rulings on origin. It is also preparing new types of **digital tools** and guides to disseminate information on FTAs more effectively and help companies use them.

Close cooperation with Member States and the business community will be essential to fully use the benefits of these instruments and to reach as many companies as possible.

The **lack of data on preference utilisation** rates for EU exports to some partners is a problem, and should be addressed with those countries as a matter of priority. The future

FTAs will include a **provision on exchange of data**, but the problem remains as regards the FTAs already in application. Without this data it will not be possible to monitor the use of FTAs or the impact of all the reinforced efforts to help EU companies use them. The data would also help to identify those sectors where preference utilisation rates are low, so that they could be particularly targeted.

10.4. Services and investment

Services and investment are part of all "new generation" FTAs and DCFTAs, but it is difficult to see the link between the FTAs and developments in these areas. **More time is needed** to see the real impact.

In the cases of applied FTAs with Chile and Mexico, trade is developing positively.

10.5. Trade and sustainable development (TSD)

Implementation of TSD chapters requires efforts to engage the FTA partners, but **positive developments** are already noted.

Now the task is to **identify priorities for further work** in the coming years. Going beyond just ratification of core international instruments, ensuring effective implementation in both law and practice remains a challenge. **Intensified cooperation** with international organisations like the ILO will help future monitoring efforts.

10.6. Open issues

On these, **progress** has been made in:

- sanitary and phytosanitary measures (Colombia, Peru, Moldova, Georgia, Ukraine),
- discriminatory regime for spirits (Colombia), and
- technical regulations and standards (Ukraine, Georgia).

Nonetheless, **problems prevail** concerning:

- sanitary and phytosanitary measures,
- restrictions in the trade in agricultural products,
- enforcement of geographical indications, and
- public procurement.

In order to focus efforts on opening markets, in 2016 the EU and Member States adopted a **new SPS strategy** with clear market access priorities for 20 trade partners. These included countries with whom the EU has FTAs in place or negotiations are ongoing. To pre-empt future problems, further efforts are made in ongoing FTA negotiations.[23]

The longer an FTA has been applied, the less the EU should tolerate continued breach of FTA commitments. After five years of application of the EU-**Korea** FTA:

- the EU can still not export beef,
- Korea is still to accept the principle of regionalisation, and

[23] For example, the Commission now seeks to introduce cooperation provisions on animal welfare and anti-microbal resistance in all new FTAs. This seeks to ensure a level playing field between EU agricultural production standards and those applied by our trading partners.

- the EU will continue to work with Korea to expand the list of EU's protected GIs as provided for in the agreement.

As regards **Peru**, discriminatory **taxation of sprits** persists after three years of application. It contrasts with the progress made in this area in the case of Colombia. This issue should be addressed as a matter of priority.

10.7. Legal enforcement

The FTA **dispute settlement has not been used**, but the EU requested the establishment of a **WTO panel** to review the discriminatory regime for **spirits** maintained by **Colombia**. Following this request, Colombia adopted a law that entered into force in January 2017 that appears to have addressed the issues at stake. The EU is now monitoring the implementation of the law.

This illustrates how initiating a legal action can sometimes bring rapid results without the full process. The Commission shall **consider using legal enforcement**, in particular in cases of major economic or systemic importance.

ANNEX 1 - SCOPE OF THE REPORT AND DATA USED

Scope

The report covers comprehensive FTAs negotiated after 2006 (new generation FTAs), and older FTAs concluded before that date that are in general more limited in scope ("first generation" FTAs).

Economic Partnership Agreements (EPAs) and Deep and Comprehensive Free Trade Areas (DCFTAs) are looked into separately due to the particular focus in these agreements on legislative approximation in the case of DCFTAs and on development in the case of EPAs.

The full list is provided in annex 2.

Implementation of trade and sustainable development chapters is also addressed in a separate chapter covering all FTAs which include these provisions.

Data used

The report covers the situation in the year 2016, and the FTAs that have been *applied for at least one year* by the end of 2016. It uses EUROSTAT:

- data from 2016 on trade in goods,
- data of 2015 on services and investment,
- data since 2002 for "first generation" FTAs, because harmonised data of EU28 are available as of that date.

As regards the FTA with Central America, different data are used due to significant differences between EUROSTAT and Central American statistics. The report covers the years 2015-2016 using:

- EUROSTAT data extracted in October 2016 for EU imports,
- Central American statistics available for that period for EU exports.

ANNEX 2 - OVERVIEW OF THE FTAS COVERED BY THIS REPORT

"New Generation" FTAs

- **EU-South Korea**: applied since July 2011.
- **EU-Colombia-Peru**: applied since March 2013 for Peru and August 2013 for Colombia.
- **EU-Central America Association Agreement:** applied since 2013[24].

Deep and Comprehensive Free Trade Areas

- **EU-Georgia**: applied since 1 September 2014, and fully entered into force on 1 July 2016.
- **EU-Moldova**: applied since 1 September 2014, and fully entered into force on 1 July 2016.
- **EU-Ukraine:** applied since 1 January 2016, and fully entered into force on 1 September 2017.

Economic Partnership Agreements

- **EU-Cariforum** (Antigua & Barbuda; Belize; Bahamas; Barbados; Dominica; Dominican Republic; Grenada; Guyana; Jamaica; St. Kitts & Nevis; St. Lucia; St. Vincent & the Grenadines; Suriname; and Trinidad & Tobago): applied since 29 December 2008.
- **EU-Pacific** (Fiji, Papua New Guinea): applied since 28 July 2014 for Fiji and since 20 December 2009 for Papua New Guinea.
- **EU-Eastern and Southern African (ESA) sub-region** (Madagascar, Mauritius, Seychelles, and Zimbabwe): applied since 14 May 2012.
- **EU- Cameroon (Central Africa):** applied since 4 August 2014.

"First Generation" FTAs

- **EU-Turkey Customs Union**: Association Agreement signed in 1963; final phase of the customs union completed on 1 January 1996.
- **EU-Switzerland**: applied since 1972.
- **EU-Norway:** applied since 1 July 1973.
- **EU-Algeria:** applied since 1 September 2005.
- **EU-Egypt:** applied since 21 December 2003.
- **EU-Israel:** applied since 1996.
- **EU-Jordan:** applied since 1 May 2002.
- **EU-Lebanon:** applied since 1 March 2003.
- **EU-Morocco:** applied since 1 March 2000.
- **EU-Palestine:** applied since 1 July 1997.
- **EU-Tunisia:** applied since 1 March 1998.
- **EU-South Africa Trade, Development and Cooperation Agreement:** applied since 1 January 2000.
- **EU-Mexico Global Agreement:** applied since October 2000.
- **EU-Chile Association Agreement:** applied since 1 February 2003.
- **EU-Serbia Stabilisation and Association Agreement:** applied since 1 July 2008.

[24] The FTA started provisional application on 1 August as regards Honduras, Nicaragua and Panama, 1 October as regards Costa Rica and El Salvador and 1 December as regards Guatemala.

ANNEX 3 - PREFERENCE UTILISATION STATISTICS

Statistics in this report on the use by importers of preferences offered by EU free trade agreements are based on administrative data which the importing country has collected.

They reflect imports under a preferential regime which took advantage of the preferences available ("used preferences") as a share of total imports which would have been eligible for preferences ("eligible preferences"). Imports are considered only where a potential preference exists, i.e. where the applied preferential tariff is lower than the normally applied MFN tariff.

1. Preference use on imports into the EU from FTA partners

The used tariff regime is derived from the Single Administrative (customs) Document. In this the importer indicates under which regime the importation is to be made. This is compared with eligibility as derived from TARIC tariff data. Where necessary and possible corrections are made to eliminate errors.

The obtained dataset is consistent and allows for comparison over partner countries, years and, in most cases, tariff lines. However, some errors remain undetected (e.g. "end-use" conditions), and so results at a detailed product level must be interpreted with caution.

See annex 4.

2. Preference use on exports from the EU to FTA partners

Statistics on preference use on exports from the EU to third countries are based on administrative data collected in each individual importing third country. By definition these statistics are not harmonised and comparison between partner countries or with EU imports is hazardous due to variable and frequently questionable data quality.

Discrepancies are found, such as reported preferential imports in tariff lines not falling under any preference, or wide differences between reported total imports and exports as given by Eurostat. Some harmonisation is inserted ex-post by elimination of trade in tariff lines for which no preference exists according to DG Trade's Market Access Database (e.g. where MFN=0).

The obtained dataset on EU exports is therefore only consistent when used to compare utilisation within a particular country over time and to some extent over product categories. <u>The dataset should not be used to compare utilisation over various countries (including over EU imports)</u>.

See annex 5.

ANNEX 4 - PREFERENCE USE ON IMPORTS INTO THE EU

Exporting country	2013	2014	2015	2016
Albania	88%	88%	87%	86%
Algeria	95%	94%	97%	95%
Chile	93%	94%	95%	95%
Colombia	85%	96%	97%	97%
Costa Rica	89%	96%	96%	97%
Egypt	96%	96%	95%	96%
El Salvador	80%	91%	82%	74%
Georgia	86%	78%	83%	80%
Guatemala	89%	94%	95%	95%
Honduras	84%	93%	91%	92%
Israel	89%	89%	89%	90%
Jordan	76%	79%	79%	68%
Lebanon	79%	87%	76%	71%
Mexico	67%	61%	52%	57%
Moldova	89%	89%	91%	88%
Morocco	97%	97%	97%	95%
Nicaragua	90%	96%	94%	94%
Norway	74%	72%	71%	66%
Occupied Palestinian Territory	71%	78%	78%	81%
Panama	70%	81%	70%	61%
Peru	95%	97%	98%	97%
Serbia	92%	94%	93%	90%
South Africa	91%	91%	85%	79%
South Korea	82%	84%	85%	87%
Switzerland	92%	91%	86%	83%
Tunisia	95%	95%	95%	96%
Turkey	92%	93%	93%	93%
Ukraine	89%	86%	87%	89%
EPA Central Africa (Cameroon)	98%	98%	91%	97%
EPA Eastern and Southern Africa (ESA)	96%	96%	97%	97%
EPA Cariforum	79%	80%	91%	92%
Central America 6	86%	94%	92%	92%

ANNEX 5 - PREFERENCE USE ON EXPORTS FROM THE EU

Importing country	2013	2014	2015	2016
Albania		73%	76%	80%
Chile	78%	78%	76%	74%
Colombia		56%	63%	71%
Costa Rica		18%		38%
Egypt			78%	85%
For.YRep.Mac		90%		90%
Israel				89%
Kosovo				44%
Lebanon	49%	74%	74%	
Mexico		68%		
Montenegro	86%	86%	85%	85%
Morocco				52%
Nicaragua	0%	12%	22%	
Peru		42%		
Serbia	89%	90%	89%	90%
South Korea	65%	65%	68%	71%
Switzerland	80%	80%	78%	79%
Turkey				95%