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COMMISSION STAFF WORKING DOCUMENT

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

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on Implementation of Free Trade Agreements

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

TABLE OF CONTENTS

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

1. INTRODUCTION

On 27 June 2014 the European Union and Georgia signed an ambitious Association Agreement (AA), including a Deep and Comprehensive Free Trade Area (DCFTA).[1] Following the completion of the ratification process, the Association Agreement entered into force on 1 July 2016 after being applied on provisional basis since 1 September 2014.[2]

In the preamble of the Association Agreement the EU has acknowledged *the European aspirations and European choice of Georgia* and welcomed its European choice. Simultaneously both partners take into account that the AA *will not prejudice and leaves open, the way for future progressive developments in EU-Georgia relations*. The AA aims at **closer political association and economic integration of Georgia with the EU**, in particular through the DCFTA which includes commitments on regulatory approximation in trade-related areas, and in compliance with the rights and obligations arising out of the WTO membership. This process is based on shared values i.e. respect for democracy and the rule of law, human rights and fundamental freedoms as well as market economy. The general objective of the Agreement is to contribute to political, socio-economic and institutional development of Georgia through wide-ranging cooperation in many areas of common interest e.g. development of civil society, good governance, trade integration, sustainable development, enhanced economic cooperation (including in energy[3] and transport sectors), institution building and fight against corruption. Both Parties believe that fulfilment of these objectives will create a new climate for economic relations, for the development of trade and investment, stimulate competition, and hence contribute to economic restructuring and modernization of Georgia.

The Deep and Comprehensive Free Trade Area, (Title IV of the Association Agreement), consists of two main components:

1) Reciprocal commitments on market access opening through elimination of import and export tariffs and non-tariff barriers in bilateral trade;

[1] 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

[2] 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.

[3] Georgia committed to enhance the security of energy supply, including through the development of the Southern Gas Corridor, to promote energy efficiency and the use of renewable energy resources, and to increase market integration and gradual regulatory approximation towards key elements of the EU acquis, including through the accession to the Energy Community Treaty.

2) Progressive approximation of Georgia's legislation with the EU laws in the relevant sectors, including trade-related areas and notably those which effectively contribute (e.g. EU compliant technical regulations, sanitary and phytosanitary measures) to benefiting from opportunities created by trade liberalization.

The regulatory obligations commit Georgia to ensure the effective implementation of the domestic law approximated under DCFTA and to undertake any action needed to reflect the developments in EU law in its domestic legislation (the concept of the so called **dynamic approximation**). Therefore the EU committed itself to inform Georgian authorities about any final European Commission proposals to adopt or amend Union law relevant to Georgia's approximation obligations.

Since the provisional application of the DCFTA the amendments/updates have been introduced in the Association Agreement annexes containing:

1) List of EU agricultural products and foodstuffs other than wine and spirits to be protected in Georgia (Annex XVII-C) and List of spirit drinks of the EU to be protected in Georgia (part B of Annex XVII-D);[4]

2) List of the EU sanitary, phytosanitary (SPS) and animal welfare acquis (Annex XI-B) to which Georgia intends to approximate its domestic legislation.[5] This jointly agreed *SPS roadmap* is to serve as a reference document for the implementation of SPS Chapter of the DCFTA.

This is the first report on the implementation of the EU-Georgia DCFTA prepared as part of the annual Report on implementation of FTAs concluded by the EU. Moreover, it responds to the requirements of the Regulation implementing the anti-circumvention mechanism provided for in the EU-Georgia Association Agreement.[6]

Apart from the presentation of the statistics on evolution of EU-Georgia trade, the report gives an overview of the implementation of the DCFTA in terms of approximation in trade-related areas and activities of the specific Association Committee in Trade configuration as well as supporting Sub-Committees established in order to monitor a progress in implementation of the trade part (Title IV) of the Association Agreement. Those committees meet at least once a year.

[4] OJ L 335, 9.12.2016.

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

[6] 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.

2. METHODOLOGY USED FOR THE ANALYSIS

The analysis, based on the Eurostat statistics on trade in goods, covers two years of DCFTA implementation i.e. 2015-2016 and presents the comparison of data with 2014 - the year preceding the provisional application of the trade part of AA which started on 1 September 2014. As regards trade in services, the analysis is based on annual data 2013-2015. It should be noted however, that the observed trade flows dynamics cannot be attributed solely to the DCFTA implementation, as also other internal and external factors may influence bilateral trade. The summary of the activities of the association bodies covers the calendar year 2016.

3. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

3.1. Trade in Goods

3.1.1. The scope of trade liberalization

At the start of provisional application of the DCFTA on 1 September 2014 **both partners eliminated import duties for all goods with few exceptions on the European Union side,** related to sensitive agriculture products. Nevertheless market access for these products has been improved. To this end the fresh or chilled garlic originating from Georgia has been covered by the annual duty-free tariff rate quota (TRQ) and for 28 agricultural products (including fresh and chilled fruits and vegetables) that are subject to **entry prices,** the *ad valorem* component of the import duty has been exempted by the EU.

The **anti-circumvention mechanism** is applied 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.

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

3.1.2. Overall evolution of trade in goods in 2014-2016

In accordance with 2016 Eurostat data, the **EU is the most important trade partner of Georgia with 30% share** in its overall trade (27% in total export and 31% imports). In terms of share in total Georgian exports, the EU is followed by Canada (15%), Turkey (13%), Russia (7%), China (6%) and Azerbaijan (5.5%). **Georgia is the EU's 77th trade partner** and accounts for only 0.1% of its total trade.

In 2016 the overall trade between the EU and Georgia slightly declined on year-on-year-basis by 2% and amounted to EUR 2.51 billion. **EU exports to Georgia increased** in that time by 6.7% (by 3% since 2014 i.e. from EUR 1.91 billion to 1.96 billion) while **EU imports from Georgia noted a decline of 25%** compared to 2015 (by16% between 2014 and 2016 (from EUR 659 million to 551 million). Considering the fact that the structure of Georgian exports is dominated by raw materials and semi-finished products, the world prices of which tend to fluctuate, the price drop for a number of commodities at world level is one of the main causes of declining value of exports from Georgia to the EU, whereas in volume terms the level of exports remained stable. This nominal decrease was driven by a drop in prices of exported mineral fuels (-81%), nuts (-8%), fertilizers (-60%), and mining products (-4%). These four products account for almost 60% of total Georgian export to the EU.

The EU trade surplus with Georgia has grown slightly since 2014, from EUR 1.25 billion to 1.4 billion.

Table 1: EU trade in goods with Georgia, 2014-2016 (million EUR)

EU trade with Georgia	2014	2015	% change 2015/2014	2016	% change 2016/2015	% change 2016/2014
EU Exports	1,910	1,840	3.7	1,964	6.7	2.8
EU Imports	659	736	11.7	551	-25.2	-16.4
Total trade	2,569	2,576	0.2	2,515	-2.4	-2.2
Trade balance	+1,251	+1,104	-	+1,413	-	12.9

Source: Eurostat COMEXT.

In terms of presented statistics, it should be noted that a relatively short period of DCFTA implementation does not allow drawing thorough conclusions on trade dynamics and their sustainability. The results of the free trade area are to be seen rather in mid-term period and once approximation of Georgian legislation progresses. The timeline for the latter has been back-loaded by Georgia in the negotiation process to the extent that basically approximation intensifies in 2017 and will be continued e.g. until 2022 in TBT area or even until 2027 as concerns certain veterinary measures, plant protection and food safety.

3.1.3. The structure of the EU-Georgia trade

As concerns the **structure of EU exports to Georgia** (2016), the most important product categories (by Sections of the Harmonized System Nomenclature – HS) are: **machinery and appliances, mineral and chemical products**. The observed shares and dynamics on year-on-year basis were as follows: Machinery and appliances (Section XVI) amounted to 22% of overall EU exports to Georgia and increased by 22%; Mineral products (Section V) - 18%, similar levels in 2016 compared to 2015; Products of chemical or allied industries (Section VI) - 17%, increase by 15% year-on-year (pharmaceutical products represented the largest proportion of EU exports to Georgia in this category, accounting for 11.8%, an increase of 17% compared to 2015). Other products categories that showed an increase in EU exports are Transport equipment (Section XVII), Optical, photographic and precision instruments (Section XVIII), Miscellaneous manufactured articles including furniture and toys (Section XX).

In terms of **structure of EU imports from Georgia** (2016), the most important product categories are: **mineral products, fruits and vegetables (notably nuts) and chemical goods**. The following shares and dynamics on year-on-year basis were observed: Mineral products (Section V) accounted for 31.3% of the total EU imports from Georgia and decreased by 48% year-on-year (due to a sharp decline in EU imports of mineral fuels); Vegetable products (Section II) - 24.2%; a decrease by 7% (by far the largest sub-categories of imported products were edible fruits and nuts accounting for 23.2% of the total EU imports from Georgia); Products of chemical or allied industries" (Section VI) - 9.2%; a decrease by 49% compared to 2015, mostly due to a drop in imports of fertilisers by the EU); Prepared foodstuffs, beverages, spirits and vinegar (Section IV) - 8.6%; an increase of 13% compared to 2015. Other categories of products that have shown an increase in EU imports from Georgia are Precious stones and metals (Section XIV), Base metals and articles thereof (Section XV). It should be underlined that throughout the first two years of DCFTA implementation some new products started to be exported from Georgia to the EU, e.g. kiwi and blue berries. This shows a potential of the DCFTA to attract new product categories to be commercialized on the markets of both Parties.

3.2. Establishment, trade in services and investments

3.2.1. Market access related to establishment and trade in services

In the DCFTA the EU and Georgia laid down the necessary arrangements for the progressive reciprocal liberalization of establishment and trade in services and for cooperation on electronic commerce. Both Partners made commitment on freedom of **establishment** as from the start of DCFTA provisional application by granting each other national treatment and most favoured-nation treatment (subject to several reservations specified by EU Member States and few reservations by Georgia) as well as liberalization of **cross-border supply of services** (by granting each other national treatment with several limitations and reservations on both sides). In four services sectors (postal and courier services, telecommunication, financial services and international maritime transport services) Georgia recognized the importance of gradual approximation (lasting between 4-8 years) 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). Further market opening in those sectors is conditioned upon Georgia fulfilling its commitments of gradual regulatory approximation (timeframe up to 2022).

The EU and Georgia also agreed on a **review clause** with a view to liberalizing establishment (regular review), 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.

3.2.2. EU trade in services with Georgia

In general, trade in services between the EU and Georgia has more than doubled between 2006 and 2014, both in terms of imports and exports. In 2014-2015 the total trade in services between both Partners amounted to EUR 0.9 billion and basically stayed on the same levels in case of EU exports and imports (see Table 2).

Table 2: EU trade in services with Georgia, 2013-2015 (billion EUR)

EU trade with Georgia	2013	2014	% change 2014/2013	2015	% change 2015/2014
EU exports	0.5	0.6	20.0	0.6	0.0
EU imports	0.3	0.3	0.0	0.3	0.0
Total trade	0.8	0.9	12.5	0.9	0.0
Trade balance	+0.2	+0.3	-	+0.3	-

Source: European Commission, DG Trade.

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

3.2.3. EU foreign investment with Georgia

In 2015 foreign direct investments (FDI) stocks in Georgia originating from the EU (see Table 3) accounted for EUR 3.6 billion **(**a slight decrease compared to 2014). Inward FDI in that year amounted to EUR 101 million and were at lower level than in 2014 when they reached EUR 197 million. Top EU Member States investing in Georgia are: the Netherlands, United Kingdom, Luxembourg and France.

Table 3: EU foreign direct investment with Georgia, 2014-2015 (billion EUR)

Foreign direct investment stocks	**2013**	**2014**	**2015**
Georgia in EU28 (inward)	0.1	0.1	0.1
EU28 in Georgia (outward)	2.9	3.8	3.6
Stocks: balance	2.8	3.7	3.5
Foreign direct investment flows	**2013**	**2014**	**2015**
Georgia into EU28 (inward)	-0.0	0.0	-0.0
EU28 into Georgia (outward)	0.1	0.2	0.1
Flows: balance	0.1	0.2	0.2

Source: European Commission, DG Trade.

According to data provided both by the EU and the 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 of Georgia.[7]

[7] Georgia performs very well in international rankings in terms of business climate. According to the 2017 World Bank Doing Business Index 2017 Georgia is on 16th position amongst 190 countries. In the 2016 Transparency International – Corruption Perception Index Georgia appeared on 44th position among 176 countries.

3.3. Market access in public procurement

The DCFTA envisages mutual access to public procurement markets on the basis of the principle of national treatment at national, regional and local level for public contracts and concessions in the traditional sectors as well as in the utilities sector. It provides for the progressive approximation (in 5 phases up to 2022) of the public procurement legislation in Georgia with the EU public procurement *acquis*, accompanied with an institutional reform and the creation of an efficient public procurement system based on the principles governing public procurement in the EU. The implementation of each phase shall be evaluated by the Association Committee in Trade configuration and, following a positive assessment, will allow the reciprocal market opening as set out in Annex XVI-B to the AA. After the completion of the first phase which has been foreseen for 2017, both sides may seek to grant the access to their markets for supplies for central government authorities.

3.4. Trade preferences utilisation rate

The preference utilization rate (PUR) on imports into the EU from Georgia amounted to 78% in 2014, reaching 83% in 2015 and 80% in 2016. At HS Section level, the highest overall PURs are found in Animal and vegetable fats and oils (Section III) at 100%, Vegetable products (Section II) at 99%, Articles of stone, plaster, cement, asbestos (Section XIII) at 98%, Chemical products (Section VI) at 89% and Prepared foodstuffs, beverages, spirits and vinegar (Section IV) at 89%.

3.5. Utilization of the annual duty-free tariff rate quotas

In 2015 and 2016 the EU annual duty-free TRQ of 220 tonnes for Georgian fresh & chilled garlic (Annex II-A of the Association Agreement) was not used, mainly due to marketing reasons.

4. ACTIVITIES OF THE IMPLEMENTATION BODIES

The main body under institutional framework of the EU-Georgia Association Agreement is the Association Council (at ministerial level) which is supported by the Association Committee (at senior official level) in the supervising and monitoring of the application and implementation of AA. Due to the importance of the Title IV on Trade and Trade Related Matters of the AA (i.e. DCFTA) a dedicated Association Committee in Trade configuration (ACTC) has also been established. The ACTC is assisted by four specialised Sub-Committees at experts' level: (1) the Sanitary and Phytosanitary Sub-Committee; (2) the Customs Sub-Committee; (3) the Geographical Indications Sub-Committee; and (4) the Trade and Sustainable Development Sub-Committee.[8]

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

The 3rd meeting of the EU-Georgia **Association Committee in Trade configuration** was held on 1 December 2016 in Brussels, and preceded the 3rd EU-Georgia Association Council held on 2 December 2016. The meeting provided an opportunity to review all issues related to the comprehensive, timely and inclusive implementation of the EU-Georgia DCFTA. Both Parties reviewed progress made in all DCFTA Chapters, including trade in goods, sanitary and phytosanitary 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 two years of implementation of the DCFTA. The Georgian side expressed concerns about their trade deficit with the EU and declining trade trends in 2016. The latter were related *inter alia* to decreasing world prices for commodities and did not impact the volumes traded between Parties.

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 sanitary and phytosanitary measures, technical barriers to trade, intellectual property rights and instructed the specialized Sub-Committees to continue to seek solutions. Both sides underlined the importance of EU financial and technical assistance in the implementation of the DCFTA, notably projects aimed at supporting both the Georgian administration and the SMEs to align with the *acquis* and reap the benefits from the Agreement.

The **2nd Customs Sub-Committee** met in Batumi on 20 April 2016. The discussion focused on: the legislative and policy developments, including Georgia's progress report on the implementation of DCFTA customs provisions, information about initiatives in strengthening the fight against terrorism financing to be shared by the Parties; strategic framework for EU-Georgia Customs Cooperation; Georgia's prospects for accession to the Convention on a Common Transit Procedure; risk management and fight against fraud; rules of origin; customs enforcement of intellectual property rights.

The **2nd Geographical Indications (GIs) Sub-Committee** took place in Brussels on 10 November 2016. The committee discussed updates of the lists of EU Geographical Indications 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 GIs (new ones, removals from the list, modifications) were also discussed in view of the need for each Party to have the possibility to run objection procedures for the new names and for any other procedures necessary for the next update of GI Annexes to the DCFTA.

The **1st Trade and Sustainable Development (TSD) Sub-Committee** took place on 30 November 2016. The discussions highlighted the importance of the TSD chapter implementation also for the non-governmental stakeholders and civil society. EU underlined that the process of implementation of the free trade agreements taking care about sustainable development and inclusiveness belong to its trade policy, notably due to a growing political and public perception of the importance of the environmental and labour provisions in EU agreements. The meeting was also an occasion to note Georgia's progress in implementing the fundamental International Labour Organisation (ILO) conventions, to welcome cooperation by both Parties on sustainable development and in particular on environmental aspects and encourage Georgia to ratify the Paris Agreement on Climate Change.

The **2nd Sanitary and Phytosanitary Sub-Committee** met in Tbilisi on 7 March 2017. Both Parties signed a decision to modify Annex XI-B of the DCFTA to include the list of EU sanitary, phytosanitary and animal welfare legislative measures to which Georgia decided to approximate its domestic legislation. The approximation list is to serve as a reference document for the implementation of Chapter 4 Sanitary and Phytosanitary Measures of Title IV of the Association Agreement. The discussion also focused on: progress in reforms in the SPS area and a timeframe for legislative approximation submitted by Georgian authorities (including a timetable for preparing the tables of correspondence for already approximated legislation); improvement in the food safety control system and animal health situation, in particular the strengthening of the National Food Agency's (NFA) role in ensuring overall food safety; as well as on a potential of Georgia in exports of goods to foreign markets.

5. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

As indicated in point 4, the Trade and Sustainable Development Sub-Committee gathered for the first time in Brussels on 30 November 2016. At the same time discussions were held with the Civil Society Forum and the Domestic Advisory Groups. Discussion on the content of the TSD Sub-Committee's work plan for the next 3-4 years also took place.

Both Parties highlighted the importance of the TSD Chapter, and noted some progress in implementing the fundamental labour conventions. It was underlined that in a number of specific areas more efforts need to be undertaken to effectively implement the fundamental ILO conventions, notably with regards to child labour and freedom of association and collective bargaining and to establish a comprehensive labour inspection system.. Tripartite discussions on labour policy enforcement, labour inspections and occupation and health and safety need to be strengthened.

The EU welcomed the cooperation on environmental aspects of the TSD Chapter, encouraging Georgia to adopt the Environmental Assessment Code. The EU reminded that it had ratified the Paris Agreement, enabling a rapid entry into force in time for the COP in Marrakesh (the first meeting of the Parties to the Paris Agreement). Georgia was encouraged to ratify the Paris Agreement but stressed the challenges in its implementation.

The representatives of Georgian underlined the developments in the forestry sector. Final draft of the Forestry Code had been elaborated by the Government with the aim to be submitted to the Parliament in 2017. Sustainable forestry management and risk assessment are being developed along with wildlife trade and other biodiversity aspects. The draft law on biodiversity was prepared in 2016 and will undergo public hearings in order to be adopted in 2017.

6. SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

6.1. Entry price system and anti-circumvention mechanism

In 2015-2016 there was no overshooting for products subject to entry price (Annex II-B of the Association Agreement). When it comes to agricultural products subject to anti-circumvention mechanism, none of the trigger levels were exceeded in 2015 or in 2016, due to the low trade levels for those products. Worth to note, that in the analysed period there were no imports of products to be potentially affected by anti-circumvention mechanism with exception of poultry.

6.2. Use of unilateral EU preferences under GSP+

Between 1 January 2014 and 31 August 2016 Georgia benefited from the General System of Preferences (GSP) i.e. its GSP+ scheme, a special incentive whereby the EU rewards sustainable development and good governance in some of its trade partners. As the unilateral trade preferences under GSP+ started to apply already several months before the provisional application of the DCFTA (on 1 September 2014), this transition period allowed Georgian exporting companies to adjust to a new and reciprocal preferential trade regime provided within the free trade area with the EU.

The data for 2015 and 2016 shows that out of the total imports from Georgia to the EU (EUR 741 and 541 million respectively), 44% (2015) and 47% (2016) (EUR 324 and 254 million) qualified for a preferential treatment under the GSP+ scheme. Out of these figures, 83% (2015) and 2.6% (2016) of eligible products (worth EUR 270 and 6.6 million respectively) entered the EU using the GSP+ preferences and the related rules of origin. This diminishing trend in GSP+ use was caused by the move of Georgian exports to the free trade regime under DCFTA accompanied by different rules of origin as well as – more generally - by decrease in value of exports caused by a drop in commodity prices on international markets.

7. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Without prejudice to a **general commitment to achieve economic integration with the EU**, during the DCFTA negotiations Georgian authorities applied a back-loading strategy, setting itself longer deadlines for gradual approximation with the EU acquis (up to 8 years from the entry into force of the Agreement) in such areas like technical regulations, sanitary and phytosanitary measures (SPS), public procurement and services. As a result the intensification of the approximation process should be noted only in 2017.

The only approximation commitments for 2015-2016 concerned the submission (6 months after the entry into force of the Agreement) of a list of the EU sanitary and phytosanitary, animal welfare and other legislative measures for approximation as well as completion of approximation to the two EU legal acts on anti-money laundering and the Regulation on customs enforcement of IPR (not yet adopted).

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. The very long deadlines for building compliance with the EU SPS system has been committed by Georgia, to the extent that about 45% of the legal acts will be subject to approximation only after 2020 (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 authorized to export fruits, vegetables, honey** and as from mid-2017 also **fishery products** to the EU.

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

The institutional part in **public procurement** approximation has been accomplished.[9] Both Parties should formally adopt a roadmap developed by the Government and State Procurement Agency (GSPA). The roadmap will be a point of reference and facilitate the implementation of Public Procurement Chapter of the DCFTA, including on alignment of the Georgian legislation to the EU acquis in this area. The institutional capacity needs to be built within the GSPA and the contracting authorities.

After having submitted a written request in 2015 Georgia has been invited on 28 September 2016 to accede to the Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention)[10] and formally joined it on 1 July 2017.

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.

On 4 **January 2016**, **Georgia ratified the WTO Trade Facilitation Agreement** which is in force since February 2017 and contains commitments on simplifying border procedures and modernization of **customs** techniques and instruments and customs control.

An unresolved issue for the time being is the application of the DCFTA to the breakaway territories of Abkhazia and Southern Ossetia. According to Article 429 (Territorial

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

[10] 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

application) of the Association Agreement, conditions enabling effective implementation of the DCFTA need to be created in either Abkhazia or South Ossetia for the AA/DCFTA to be able to be applied in those areas.

8. CONCLUSIONS

After two years of the DCFTA implementation by both Partners, it should be underlined that external trade and FDI remain key for the overall economic growth of a small open economy like Georgia. Economic slowdown in some key trading partners in the region (Russia, Turkey, and Azerbaijan) and the double-dip recession from which the EU was recovering created a relatively adverse external environment for Georgia's trade in 2016.

The EU is constantly encouraging Georgia to accelerate the necessary reforms, notably in SPS area as they would not only enhance the food safety in the country but also facilitate and determine effective access to the EU market for agricultural products.

In the medium term, the benefits from legislative approximation to the EU *acquis* should translate into an increase of bilateral trade, and especially grow in Georgia's exports to the EU. Notwithstanding the new products like kiwi and blueberries which have started to be exported to the EU, Georgia has an untapped trade potential not only in relation to trade in goods, but also services and public procurement. Trade diversification and the enhancement of regional trade should also be an advantage for Georgia to diversify its economy.

The continuation of the DCFTA implementation, notably through regulatory approximation (that has a dynamic character due to developments of EU *acquis*) and institutional capacity building will require continuous efforts by Georgian authorities as well as on the EU side in terms of assisting Georgia in this process. To this end the Association Committee in Trade configuration as well as the specialised Sub-Committees established under DCFTA will be the main fora for discussions and comprehensive evaluation of that progress.

Simultaneously, in order to effectively enhance export from Georgia, the EU delivers financial and technical support to the reforms and administrative capacity building in trade-related areas like TBT (e.g. standardization and metrology infrastructure; accreditation and surveillance system), SPS (notably in institutional capacity building in food safety control) as well as in promotion of producers organizations, value chain optimization and the SMEs development. As concerns the latter Georgia started (together with Moldova and Ukraine) to benefit from the EU4Business support[11], including the DCFTA Facility for SMEs (EUR 200 million for all three countries).

[11] Small and medium-sized enterprises (SMEs) in the EU's Eastern Partnership region have the potential to create jobs and drive economic growth. Obstacles such as limited access to finance, burdensome legislation and difficulties entering new markets are hindering their progress. The European Union's EU4Business breaks down these barriers with finance, support and training to help small businesses realize their full potential. EU4Business support is delivered together with other organizations such as the European Bank for Reconstruction and Development and the European Investment Bank. http://www.eu4business.eu/

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

1. INTRODUCTION

On 27 June 2014 the European Union and the Republic of Moldova (hereafter 'Moldova') signed an ambitious Association Agreement (AA) with a Deep and Comprehensive Free Trade Area (DCFTA) as its integral part.[12] The DCFTA as the main economic pillar of the Association Agreement has been provisionally applied since 1 September 2014. Following completion of the ratification process, the Association Agreement fully entered into force on 1 July 2016. In November 2015, Moldova announced that the conditions had been fulfilled for DCFTA application on the entirety of its internationally recognised territory, on this basis allowing to keep the EU market open to goods from the breakaway region Transnistria (to this end the *trade facilitation measures* are in force since January 2016).

It should be emphasized that in the preamble of Association Agreement the EU acknowledges *the European aspirations of the Republic of Moldova* and welcomes its European choice. Simultaneously both partners take into account that the AA *will not prejudice and leaves open, the way for future progressive developments in EU-Moldova relations*. The Association Agreement provides for **deepening of political association and gradual economic integration between Moldova and the EU**, based on shared values and principles i.e. democracy and the rule of law, respect for human rights and fundamental freedoms, as well as a free market economy. Furthermore, the Agreement is to contribute to the socioeconomic development of Moldova through an ambitious reform agenda and enhanced economic cooperation with the EU in key fields such as sustainable development, trade, transport and environment, employment and social policy, financial management. In energy sector both sides acknowledged the need for enhanced energy cooperation and implementation of the Energy Community Treaty (Moldova joined it on 1 May 2010) and committed to enhance the security of energy supply, facilitating the development of infrastructures, increasing market integration and regulatory approximation with key elements of the EU acquis and promoting energy efficiency and renewable energy. Good governance and institutional capacity building including in the public administration have been recognized as horizontal areas of common interest and cooperation.

The Deep and Comprehensive Free Trade Area (Title V of the Association Agreement) covers two main components:

1) A gradual, reciprocal market opening (removal/reduction of tariff and elimination of non-tariff barriers to trade) by both partners with a timeline asymmetry benefiting Moldova;

[12] 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

2) A far-reaching dynamic regulatory approximation with EU laws in trade-related areas which should stimulate competition, create a new predictable environment for business cooperation, development of trade and investment, and hence contribute to economic restructuring, modernization and diversification of Moldovan economy.

Due to the concept of **dynamic regulatory approximation** embedded in the DCFTA, Moldova has to ensure the effective implementation of the approximated domestic law and undertake any action necessary to reflect the development in the EU acquis in its domestic law in the trade-related areas. The EU on its side shall inform Moldova of any final European Commission proposals to adopt or amend EU legislation relevant for Moldova's approximation obligations. As a result of the above mentioned commitments after the start of the provisional application of the DCFTA in September 2014, several annexes to the Association Agreement which include the lists of EU laws as well as the deadlines for approximation by Moldova have been amended. The modifications introduced before the end of 2016 by means of the Joint Decisions of the Association bodies relate to the following Annexes:

1) XXIV-B (sanitary, phytosanitary and animal welfare law),[13]

2) XXX-C (geographical indications (GIs): list of EU agricultural products and foodstuffs other than wine and spirits to be protected in Moldova) and XXX-D (GIs: list of EU wines to be protected in Moldova),[14]

3) XVI (technical regulations: horizontal legislative framework, the New Approach and Global Approach as well as sectorial legislation),[15]

4) XXIX (public procurement).[16]

Moreover, Protocol II to the Association Agreement concerning the definition of the concept of 'originating products' and methods of administrative cooperation has been replaced by the updated one and the list of arbitrators for dispute settlement[17] (in accordance with Article

[13] Decision No 1/2016 of the EU-Republic of Moldova Sanitary and Phytosanitary Sub-Committee of 1 June 2016 modifying Annex XXIV-B to the Association Agreement (OJ L 178, 2.07.2016) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22016D1074&from=EN

[14] Decision No 1/2016 of the EU-Republic of Moldova Geographical Indications Sub-Committee amending Annexes XXX-C and XXX-D to the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova, of the other part (OJ L 335, 9.12.2016).

[15] Decision No 1/2016 of the EU–Republic of Moldova Association Committee in Trade configuration of 19 October 2016 updating Annex XVI to the Association Agreement (OJ L 313, 19.11.2016) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22016D2027&from=EN

[16] Decision No 2/2016 of the EU-Republic of Moldova Association Committee in Trade configuration of 19 October 2016 updating Annex XXIX to the Association Agreement (OJ L 313, 19.11.2016) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22016D2028&from=EN

[17] Council Decision (EU) No 2016/2355 of 12 December 2016 on the position to be taken on behalf of the European Union within the Association Committee in Trade configuration established by the Association Agreement between the European Union and the European Atomic Energy Community and their Member

404) as well as the list of experts for a consultation Panel on issues covered by the Trade and Sustainable Development Chapter[18] (in accordance with Article 379(3) of the Association Agreement) have also been adopted.

This is the first report on the implementation of the EU-Moldova DCFTA presented as part of the *annual Report on implementation of FTAs concluded by the EU*. Moreover, it has been prepared in accordance with the provisions of the Regulation implementing the safeguard clause and the anti-circumvention mechanism.[19] In addition to providing an overview of the statistics on the evolution of EU-Moldova trade, information about the application of trade defence measures and anti-circumvention mechanism has been included. The progress in regulatory approximation in trade-related areas as well as activities of the specific Association Committee in Trade configuration and the assisting Sub-Committees established to monitor the implementation of the DCFTA, are presented in the report.

2. METHODOLOGY USED FOR THE ANALYSIS

The analysis of the bilateral trade in goods between the EU and Moldova is based on Eurostat data for the two years of DCFTA implementation i.e. 2015-2016 compared with 2014 as a year preceding the DCFTA provisional application, which started on 1 September 2014. As regards trade in services and investment, the analysis is based on data for 2014-2015. It should be noted, however, that the dynamics of trade flows cannot be attributed solely to the DCFTA implementation, as other internal and external factors may also influence bilateral trade. Though the figures provided below give an indication of how the DCFTA has worked between September 2014 and the end of 2016. The summary of the activities of the association bodies covers the calendar year 2016.

3. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

3.1. Trade in goods

States, of the one part, and the Republic of Moldova, of the other part, as regards the establishment of a list of arbitrators (OJ L 348, 21.12.2016).

[18] Decision No 2/2015 of the EU-Republic of Moldova Trade and Sustainable Development Sub-Committee of 7 July 2015 adopting the list of experts on Trade and Sustainable Development in accordance with Article 379(3) of 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 264, 9.10.2015).

[19] 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.

3.1.1. The scope of trade liberalization

At the start of the DCFTA provisional application on 1 September 2014, the European Union eliminated all customs duties on goods imported from Moldova. Six agricultural products i.e. apples, table grapes, plums, grape juice, garlic and tomatoes are subject to annual duty-free tariff rate quotas (TRQs). Twenty agricultural products (fruits and vegetables) are covered by the **system of entry prices** for which the *ad valorem* component of the import duty has been exempted. Import of 14 groups of agricultural and processed agricultural products (pig meat, poultry, dairy products and processed dairy products, cereals, cigarettes, sugar processed goods and sweet corn) is duty-free but monitored under **anti-circumvention mechanism** (if the imports to the EU reaches certain agreed levels the EU may temporarily suspend the preferential treatment of the products concerned).

Similarly, 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. 1% of tariff lines (for agricultural products) are covered by preferential tariff rate quotas. 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 has been reserved for agricultural and food products). This schedule of tariff elimination reflects an asymmetric market opening for the benefit of Moldova.

3.1.2. Overall evolution of trade in goods in 2014-2016

According to Eurostat data for **2016, the EU is a key trade partner of Moldova, accounting for 55% of its total trade** (66% of the total exports and 49% of Moldova's total imports). In terms of the share in overall Moldovan exports, the EU is followed by Russia (10%) and Belarus (6%). **Moldova is the EU's 68th trade partner** and accounts for 0.1% of the EU's total trade.

In 2016 (after contracting in the wake of the banking crisis and recession in 2014-2015), the **total bilateral trade** between the EU and Moldova resumed and grew by 1.5% on a year-on-year basis to **EUR 3.3 billion**. EU exports have decreased by 2% from EUR 2.07 billion to EUR 2.02 billion while EU imports from Moldova have increased in that period by 7.7% from EUR 1.2 to EUR 1.31 billion (see Table 1).

Table 1: EU trade in goods with Moldova, 2014-2016 (million EUR)

EU trade with Moldova	2014	2015	% change 2015/2014	2016	% change 2016/2015	% change 2016/2014
EU Exports	2,352	2,070	-12.0	2,026	-2.0	-13.0
EU Imports	1,160	1,223	5.0	1,317	7.7	13.5
Total trade	3,512	3,293	-6.0	3,343	1.5	-5.0
Trade balance	+1,192	+847	-	+708	-	-

Source: Eurostat COMEXT.

In 2014-2016 EU exports to Moldova decreased by 13% due to declining domestic demand, domestic problems (fraud in banking sector) and economic difficulties in the region. In the same time **EU imports** from Moldova experienced an increase of 13.5% (from EUR 1.1 billion to EUR 1.3 billion). This has been driven by a better export performance of Moldovan companies as concerns certain agricultural products, but also machinery, furniture and clothing articles (see point 3.1.3).

In 2016 the **EU trade balance with Moldova has remained positive** but declined since 2014 from EUR 1.2 billion to EUR 0.7 billion. It was a result of the changing trade structure characterized by growing share of goods with high value added in its exports to Moldova (i.e. machinery and appliances, mineral products, chemical products and transport equipment), whereas its imports from Moldova have been dominated by agricultural goods and beverages, machinery and appliances, textiles and textile articles (see point 3.1.3.).

The EU's share in the total Moldovan exports has been steadily increasing since the start of the provisional application of the DCFTA, from 54% in 2014 to 63% in 2015 and 66% in 2016. The EU's share in the total Moldovan imports has also increased from 48% in 2014 to 49% in 2016. The EU's share in the total trade of Moldova has similarly increased in that period from 50% to 55%.

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

3.1.3. The structure of the EU-Moldova trade

The **main product categories** (according to the Sections of the Harmonized System Nomenclature – HS) **exported by the EU to Moldova** in 2016 were **machinery and appliances, mineral products, chemical products and transport equipment.** Machinery and appliances (Section XVI) accounted for 19% of the total EU exports to Moldova (EUR 382 million). Exports have decreased by 8% since 2014 (from EUR 416 million), although they have stabilised at a similar level as in 2015. Mineral products (Section V) accounted for 16% of the total EU exports to Moldova (EUR 321 million) and their exports have decreased by 31% since 2014, when they stood at EUR 469 million. Chemical product (Section VI) accounted for 11% of the total EU exports to Moldova in 2016 (EUR 223 million) and their exports have remained at a similar level as in 2014, and have increased by 3% compared to 2015. Transport equipment (Section XVII) accounted for 9% of the total EU exports to Moldova (EUR 183 million) and its exports have decreased by 37% compared to 2014, although a 10% increase can be observed when compared to 2015.

It should be emphasized that EU exports in certain key sectors have declined in 2014-2015 in large part due to the weak performance of the Moldovan economy which in 2016 has been slowly climbing back from a recession in 2015 (when GDP shrunk by 0.5%, net FDI by 22% and remittances by 25%). This was visible in Moldova's trade with the world which dropped. Trade appears to be resuming in 2016, with EU exports slightly decreasing by 2% year-on-year, compared to 11% decrease in 2015. Prior to that, exports had grown by 3.2% in 2014.

The main products in EU imports from Moldova in 2016 were **agricultural goods and beverages, machinery and appliances, textiles and textile articles and miscellaneous manufactured articles**. Vegetable products (HS Section II) accounted for 23% of the total EU imports from Moldova (EUR 303 million) and their imports have increased by 50% since 2014, with a 26% increase compared to 2015.

Top imported products include fruits and nuts (walnuts), cereals, oil seeds (sunflower seeds) and crude sunflower seed oil. Machinery and appliances (Section XVI) accounted for 17.5% of the total EU imports from Moldova (EUR 231 million), and textiles and textile articles, with a similar share of the total EU imports (EUR 230 million). Imports of machinery and appliances have increased by 18% since 2014, with 3% year-on-year increase in 2015-2016. The foodstuffs, beverages and tobacco (Section IV) accounted for 11% of the total EU imports from Moldova (EUR 146 million). Imports of this product category have increased by 56% since 2014, mainly due to an increase in the imports of beverages, spirits and vinegar by 76%. Finally, miscellaneous manufactured articles (Section XX) accounted for 8.5% of the total EU imports from Moldova. The biggest share in this category has been recorded for furniture, the imports of which increased by 53% since 2014 to EUR 109 million.

3.2. Establishment, trade in services and investments

3.2.1. Market access related to establishment and trade in services

In the DCFTA the EU and Moldova laid down the necessary arrangements for the progressive reciprocal liberalization of establishment and trade in services and for cooperation on electronic commerce. Both Partners committed 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 a few reservations by Moldova) as well as liberalization of cross-border supply of services (by granting each other national treatment) with several limitations and reservations on both sides). In four services sectors (postal and courier services, telecommunication, financial services and international maritime transport services), Moldova recognized the importance of gradual (lasting between 3 and 8 years) approximation of its existing and future legislation to the list of the EU acquis (in case of financial services also to the international best practice and standards).

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

3.2.2. EU trade in services with Moldova

The total trade in services between the EU and Moldova has more than doubled between 2006 and 2015. The same trends were observed in imports and in exports (see Table 2). In 2015 compared to 2014, **EU exports of services to Moldova** have increased by 3% (from EUR 521 million to 616 million). EU imports have increased in the same time by 17% (from EUR 565 million to EUR 660 million).

Table 2: EU trade in services with Moldova, 2014-2015 (million EUR)

EU trade with Moldova	2014	2015	% change 2015/2014
EU Exports	596	616	3.0
EU Imports	565	660	17.0
Total trade	1,161	1,276	10.0
Trade Balance	31	-44	-

Source: Eurostat COMEXT.

Trade in services remained overall in balance in 2015, with EU imports worth EUR 660 million and EU exports accounting for EUR 616 million. Main sub-sectors of services exported by Moldova to the world are: transport, travel, telecommunications, computer and information 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.

3.2.3. EU foreign investments with Moldova

Foreign direct investments (FDI) in Moldova have been traditionally dominated by the EU Member States (53% of FDI stock in 2014), followed by the Russian Federation (9.2%), the US, Switzerland, Turkey and Ukraine. Almost 30% of FDI stock was allocated to financial intermediation, followed by the manufacturing sector (22.4%), wholesale and retail trade (14.2%); real estate (11%); transport, storage and communication (10.3%); electricity, gas and water supply (7.1%).[20]

In 2015 the FDI stocks originating from EU (see Table 3) amounted to approximately EUR 1 billion, a similar level as in 2014.

[20] WTO, Trade Policy Review, Report by the Secretariat, Republic of Moldova, WT/TPR/S/323, 14 September, 2015 https://www.wto.org/english/tratop_e/tpr_e/s323_e.pdf

Table 3: EU foreign direct investments with Moldova, 2014-2015 (million EUR)

Foreign Direct Investment stocks	**2014**	**2015**
Moldova in EU28 (inward)	62	84
EU28 in Moldova (outward)	1,002	1,007
Net investment stocks	940	923
Foreign Direct Investment flows	**2014**	**2015**
Moldova into EU28 (inward)	9	15
EU28 into Moldova (outward)	51	116
Net investment flows	42	111

Source: Eurostat.

Direct investment flows from EU have increased to EUR 116 million in 2015, following a sharp decrease in the context of the banking fraud scandal in 2014 (to EUR 51 million in 2014 from EUR 264 million in 2013).

There is untapped potential related to the level of foreign direct investments in Moldova which badly needs them for modernization and diversification of the economy. The effective fight against corruption, policy stability and improved access to finance would certainly attract more investors. To this end *The Investment Attraction Strategy for the Promotion of Exports for 2016-2020* has been adopted by the Government of Moldova on 25 April 2016.[21] It has been designed to contribute to the enhancement and structural diversification of Moldovan exports which have traditionally heavily relied on several commodities only. More productive and diversified exports will be the key in stabilizing the trade balance, creating new jobs and ensuring sustainable economic development of the country.

3.3. Market access in public procurement

The DCFTA envisages mutual access to public procurement markets on the basis of the principle of national treatment at national, regional and local level for public contracts and concessions in the traditional sectors as well as in the utilities sector. It provides for a gradual approximation (in four phases up to 2022) of the public procurement legislation in Moldova with the EU public procurement *acquis*, accompanied with an institutional reform and the creation of an efficient public procurement system based on the principles governing public procurement in the EU. The implementation of each phase shall be evaluated by the Association Committee in Trade Configuration and, following a positive assessment, will provide for the reciprocal granting of market access as set out in Annex XXIX to the AA. The

[21] *The Investment Attraction Strategy for the Promotion of Exports for 2016-2020*, adopted by the Decision 511 of the Government of the Republic of Moldova of 25 April 2016 http://www.mec.gov.md/sites/default/files/snaipe_2016-2020_eng.pdf

completion of the first phase by Moldova (foreseen for 2016) that may lead to the reciprocal opening of market for supplies for central government authorities is pending.

3.4. Trade preferences utilisation rate

The preference utilisation rate (PUR) on imports into the EU from Moldova has amounted to around 89% in 2014, reaching 91% in 2015 and 88% in 2016. At HS Section, the highest overall PURs are found in Live animals and animal products (Section I) and Animal or vegetable fats and oils (Section III) at 100%, as well as in Prepared foodstuffs, beverages, spirits and tobacco (Section IV) and Footwear (Section XII) at 99%. The lowest overall PURs (below 50%) are found in Wood and articles of wood (Section IX), Mineral products (Section V) and Optical, photographic and measuring instruments (Section XVIII).

3.5. Utilization of the annual duty-free tariff rate quotas

In accordance with Annex XV-B of the Association Agreement the EU applies annual duty-free tariff rate quotas (TRQs) for 6 agricultural product categories imported from Moldova: tomatoes, garlic, table grapes, apples, plums and grape juice. Only the TRQs for table grapes and plums were used in 2016 (100% and 75% utilization respectively).

4. ACTIVITIES OF THE IMPLEMENTATION BODIES IN 2016

The main body under the institutional framework of the EU-Moldova Association Agreement is the Association Council (at ministerial level), which is supported by the Association Committee (at senior civil servant level) in supervising and monitoring the application and implementation of AA. Due to the importance of the trade and trade-related part of the AA (i.e. DCFTA) a dedicated **Association Committee in Trade configuration** (ACTC) has also been established. The ACTC is assisted by **4 specialised Sub-Committees** at experts' level: (1) the Sanitary and Phytosanitary Sub-Committee; (2) the Customs Sub-Committee; (3) the Geographical Indications Sub-Committee; and (4) the Trade and Sustainable Development Sub-Committee.[22] In 2016 the ACTC and the Sub-Committee meetings took place in Brussels.

The **3rd Association Committee in Trade Configuration** met on 19 October 2016. Both Parties reviewed progress made in all DCFTA chapters, including trade in goods, sanitary and phytosanitary 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 the development of bilateral trade after two years of implementation of the DCFTA. The Moldovan side presented the progress achieved in the approximation of its legislation to that of the EU in all relevant chapters. The EU stressed the need for

[22] The Official Journals of the EU (OJ) where the decisions on the Rules of Procedure for the EU-Moldova Association bodies were published: of the Association Council and those of the Association Committee and of Sub-Committees (OJ L 9, 15.01.2015); of the Customs Sub-Committee (OJ L 185, 10.07.2015); of the Sanitary and Phytosanitary Sub-Committee (OJ L 114, 30.04.2015); of the Trade and Sustainable Development Sub-Committee (OJ L 264, 9.10.2015); of the Geographical Indications Sub-Committee (OJ L 11, 17.01.2015).

Moldovan authorities to focus on the implementation and enforcement of new laws and the strengthening of its institutions so as to provide visible benefits to businesses and citizens. The representatives of Moldova requested the EU to examine the possibility to increase the trigger level for a number of agricultural products such as grapes and plums. The EU side expressed concerns about Moldova failing to meet the SPS requirements for exports of poultry meat and eggs and weak diagnostic and surveillance capabilities for animal diseases. Both sides underlined the importance of the 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 reap the benefits of the Agreement.

The **2nd Sub-Committee on Sanitary and Phytosanitary measures** (SPS Sub-Committee), which met on 1 June 2016, saw the appointment of new SPS focal points as well as discussion on the action plan/roadmap for the reorganisation of laboratories and possibilities for EU technical assistance. Discussions touched upon the need to accelerate accreditation of animal health laboratories and establish a common channel of communication and action on African swine fever. The Sub-Committee also adopted the SPS reform plan reflected in the list of EU legal acts to which Moldova will approximate its legislation, as an Annex to the Association Agreement.

The **3rd Sub-Committee on Customs and Trade Facilitation** took place on 6 October 2016. The Parties discussed legislative developments in the EU, customs cooperation, the concept of authorized economic operator, and fight against fraud. An update of the relevant DCFTA regulatory approximation Annex was touched upon, as the new reference to the Union Customs Code is now in force. Following Moldova's adherence to the Pan Euro-Mediterranean Convention on preferential rules of origin (PEM) on 1 September 2015, the replacement of the bilateral rules of origin protocol by a link to the PEM Convention was also discussed.

The **3rd Geographical Indications (GIs) Sub-Committee**, which met on 18 October 2016, touched upon relevant food quality issues, endorsed new GI products that have been approved by the legislators on both sides, and amended Annexes XXX-C and XXX-D. Both sides discussed the latest developments in the "Prosecco" Court case. In that context the EU urged Moldovan authorities to pursue in all instances the respect for the terms of the Association Agreement in what concerns the protection of EU GIs. The Moldovan side informed about priority actions being undertaken to prevent future cases of breach of the AA on protection of GIs, such as training of judges on EU law and raising the awareness of economic operators on the need to protect GIs. Technical assistance in the field of GIs was also discussed.

As regards the **2nd Trade and Sustainable Development (TSD) Sub-Committee meeting -** see point 5.

5. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The Trade and Sustainable Development (TSD) Sub-Committee has been established under TSD Chapter of the AA and met twice before the end of 2016. During the meeting on 17 October 2016, the Parties reviewed the state of play in the implementation of labour and environment provisions of the TSD Chapter, including the ratification and implementation of international conventions and other multilateral treaties. The situation of the State Labour Inspectorate appeared as highly problematic in view of the implementation of the ILO labour standards. Discussion on the content of a TSD work plan for the next 3-4 years also took place. The Sub-Committee meeting was followed by the Joint Civil Society Dialogue Forum. Both the Parties and civil society representatives made a statement about the implementation of the TSD Chapter, and agreed that a more focused, sectorial approach is needed for its implementation. It was also agreed that civil society should be consulted on the priority topics identified in the draft work plan.

6. SPECIFIC AREAS SUBJECT TO REPORTING OR MONITORING

Anti-circumvention mechanism

Fourteen groups of agricultural and processed agricultural products included in Annex XV-C (pig meat, poultry, dairy products and processed dairy products, cereals, cigarettes, sugar processed goods and sweet corn) are imported duty-free from Moldova to the EU but their imports are monitored under anti-circumvention mechanism (the EU may temporarily suspend the preferential treatment of the products concerned if the imports to the EU reaches certain trigger volumes and is not justified and reflected in the increased production capacity of Moldova). In 2016 those levels were exceeded for wheat, barley, maize, sugar and processed cereals. The information provided about the increased production in Moldova in that period was accepted by the European Commission therefore exports exceeding those trigger volumes could continue to benefit from preferential treatment by the EU.

Twenty agricultural products (fruits and vegetables) are covered by the system of entry prices for which the *ad valorem* component of the import duty is exempted. Some fresh apricots, cherries, peaches and some grapes were imported into the EU in 2016 being subject to the entry price.

7. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

In view of a desire to achieve gradual economic integration with the EU internal market, *inter alia*, through the DCFTA, Moldova agreed on far-reaching market access liberalization and regulatory approximation and, notably in the areas that are instrumental (like technical as well sanitary and phytosanitary (SPS) standards) in effective benefiting from the opportunities created by the gradual market opening for goods, services and public procurement. To this end Moldova has very ambitious legal approximation commitments and the first three years of DCFTA implementation require the most extensive work.

In terms of **SPS measures** Moldova timely submitted a list of the EU sanitary and phytosanitary, animal welfare and other laws which it will approximate its legislation with.

This list, which was jointly adopted in June 2016, serves as a reference for the implementation of the SPS Chapter by the end of 2020.[23]

Moldovan authorities need to further reinforce the institutional capacity of the National Food Safety Agency (ANSA) with the aim to eliminate the appearing delays in the regulatory approximation timetable as well as enhance law enforcement. The legislative and governance measures should also be intensified in order the relevant enterprises were able to receive authorisations for exports e.g. fish, eggs and egg products to the EU.

Moldova adopted a very ambitious plan of reforms in **technical barriers to trade** (TBT) up to 2021 which was endorsed by the Decision of the Association Committee in Trade configuration in October 2016. While the reform plan was prepared by Moldova on time, the work on the approximation of sectorial legislation in TBT area should continue and delays caused either by the complexity of legislation or lack of financial resources to implement it, should be addressed. Investments in quality infrastructure should be enhanced and institutional capacity improved. The *Roadmap for initiating the negotiations of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA)* was approved in 2016 and in January 2017 submitted to the EU together with the table of correspondence for horizontal legislation for the European Commission's assessment. Moldovan authorities have chosen **3 product sectors to be covered by future ACAA:** construction products, toys and low voltage equipment.[24]

Moldova consolidated its ***Reform Strategy in Public Procurement*** (*"a comprehensive roadmap"*) on which the Association Committee in Trade configuration will need to give a favourable opinion in 2017. In 2017, Moldova will also run a pilot project for e-procurement. Phase 2 reforms are to be completed by the end of 2019. Good governance in public procurement needs to equally be reinforced by strengthening the administrative capacity of the Public Procurement Agency and ensuring the independence of the review body. The latter i.e. the National Complaint Settlement Agency (NCSA) has been created in December 2016 and is accountable to the Parliament. It is important to make it fully operational. Worth to underline that Moldova became a Member of the WTO Government Procurement Agreement (GPA) on 14 July 2016.

With regards to implementation of **Trade-related energy Chapter of the DCFTA**, the independence of the energy regulator has not been ensured yet and hampers governance of the

[23] When the foreseen legislative approximation is achieved as a result of the monitoring stipulated in the AA, Moldova shall notify this fact the EU and this notification shall be considered to be a request to initiate the process of recognition of *equivalence* of relevant SPS measures. The *equivalence* may be recognized in respect of: and individual or group of SPS measures, or a system applicable to a sector, subsector, commodities or group of commodities.

[24] ACAA will provide that trade between the EU and Moldova in goods in the sectors that it covers shall take place under the same conditions as those applying to trade in such goods between the Member States of the EU. Until a product is covered under the ACAA, the relevant existing legislation of the Parties shall apply to it, taking into account the provisions of the WTO TBT Agreement.

sector, including for investors from the EU. Market practices and lack of transparency in the electricity distribution sector are also concerns that need to be addressed.

On **services**, Moldova is making progress in postal services reform but has yet to deliver on the 2016 approximation commitments in the international maritime transport. Delays have also occurred in telecommunications services. Legal approximation in financial services has become secondary in the face of major corruption crisis in the banking sector, resolution of which depends on restoring the fundamentals of good governance among key institutions. 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) is foreseen for 2017. As concerns financial services, due to the last financial crisis and significant changes related to the regulation of the EU financial sector and notably more centralized supervisory framework which does not have legal authority to act beyond the EU borders, it is not feasible for Moldova to implement in full EU *acquis* in this area. On the other hand Moldova can take inspiration from the EU law to design its own regulatory and supervisory frameworks conducive to financial stability.

Moldovan legislation on protection of **intellectual property rights** (IPR) has been harmonized with the WTO TRIPS Agreement and EU law (Directive 2004/48/EC and Regulation 608/2013 on customs enforcement of IPR). The protection of EU geographical indications has to be enhanced in line with commitments undertaken in the DCFTA. To this end, the Moldovan authorities should undertake necessary actions in order to ensure the protection of the GI "*Prosseco"*.

On 24 June 2016, Moldova ratified the **WTO Trade Facilitation Agreement** (in force since February 2017) which contains commitments on simplifying border procedures and modernization of **customs** techniques and instruments and customs control. The EU Authorised Economic Operator recognition pilot project that is being implemented at the Moldova-Romania border crossing point since July 2015 has been extended to 2017.

In the context of approximation of **competition policy** to the EU standards, the Moldovan Competition Council (set up in 2012) is well advanced in setting up the framework for competition enforcement and state aid control. The new competition law and the state aid law were adopted in 2012 and most of the implementing regulations are in place. The electronic state aid notification and monitoring system has been established. The priorities for future work include approving a *National Program on Competition and State Aid*. In the years 2017-2022 full alignment of aid schemes with EU state aid rules is to take place.

8. CONCLUSIONS

After two years of implementation of the trade-related part of Association Agreement, one can conclude that the EU-Moldova DCFTA has been working well. In 2014-2016 **the EU share in the total Moldovan trade has increased** from 50% **to 55%** and **EU imports from Moldova grew by 13.5%** reaching EUR 1.3 billion. Compared to the decade before the implementation of the Association Agreement/DCFTA, exports from Moldova have increased significantly: the value of exported goods was 3.5-4 times as high in 2015 as it had been in 2005. Access to the EU market is of key importance to the economy of Moldova. Examples of companies across a wide range of sectors testify to the benefits of free trade with the EU. Among successful ones there are producers of juices and conserved fruit and vegetables (the DCFTA has brought grow in sales by up to 25%) as well as alcoholic beverages, notably wines (exports to the EU increased several times). Products from Moldova are appreciated by the most prestigious brands in the EU, for example, Moldovan electrical cables are used by European car brands, such as Audi, BMW, Mercedes-Benz, Maserati, Mini and Porsche. Apparel factories in Moldova also sew clothes for European luxury brands including Giorgio Armani.

Good progress has been made in implementing the DCFTA in terms of regulatory approximation despite political and economic turbulence. With extensive support from the EU, Moldova has adopted a number of trade-related reforms, including for example the plan for SPS reform and the roadmaps for the approximation of legislation in TBT and public procurement. However, **further reform efforts are needed to improve the rule of law and the business environment**, which is still negatively affected by prevalent corruption, as well as inconsistent policy making.[25] Strong implementation and enforcement measures are needed in order to deliver tangible results for business, consumers and citizens. Weak governance and institutional capacity and/or absence of regulatory independence slow down the trade-related reforms, notably in the fields of food safety, procurement and energy market regulation. 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 the medium-term, the benefits from approximation of Moldova's legal framework to the EU *acquis* as well as development of export capacity, notably by small and medium-size enterprises (SMEs) supported by EU4Business actions[26] (including the DCFTA Facility for SMEs – EUR 200 million for Georgia, Moldova and Ukraine) should translate into an increase in bilateral trade, and notably growth in exports from Moldova to the EU. The accession of Moldova to the Pan-Euro-Mediterranean (PEM) Convention on Rules of Origin on 1 September 2015, allowing for cumulation of origin of products, may also positively contribute to foreign trade performance of this country. The country has an untapped export

[25] According to the 2017 World Bank Doing Business Index (covering 190 countries) Moldova has slightly improved its position to 44th compared to 47th in the 2016 edition. In the 2016 Transparency International – Corruption Perception Index (covering 176 countries) Moldova's position dropped to 123rd from the 103rd place in 2015 edition.

[26] Small and medium-sized enterprises (SMEs) in the EU's Eastern Partnership region have the potential to create jobs and drive economic growth. Obstacles such as limited access to finance, burdensome legislation and difficulties entering new markets are hindering their progress. The European Union's EU4Business breaks down these barriers with finance, support and training to help small businesses realise their full potential. EU4Business support is delivered together with other organizations such as the European Bank for Reconstruction and Development and the European Investment Bank. http://www.eu4business.eu/

potential in particular in agricultural products. The attraction of FDIs (notably green field investments) pursued currently in accordance with governmental strategy for 2016-2020 should contribute to the diversification of production and trade, and hence intensification of regional trade.

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

1. INTRODUCTION

Due to the fact that the ratification process of the EU-Ukraine Association Agreement by all EU Member States has been pending,[27] on 1 January 2016 both Parties have started to implement a Deep and Comprehensive Free Trade Area (DCFTA) on a provisional basis. The DCFTA is the main economic pillar of the Association Agreement[28] (AA), the political and cooperation provisions of which have been provisionally applied since 1 November 2014. It should be emphasized that in the AA the EU acknowledged the European aspirations of Ukraine and welcomed its European choice. Simultaneously both sides took into account that this Agreement *would not prejudice and leave open future developments in EU-Ukraine relations*.

The Association Agreement, with the DCFTA as its integral part, provides for **deepening of political association** and **gradual economic integration between the EU and Ukraine**, based on shared values and principles i.e. democracy and the rule of law, good governance, respect for human rights and fundamental freedoms, as well as free market economy which would facilitate the participation of Ukraine in the EU policies. Furthermore, the Agreement establishes conditions for enhanced economic and trade relations leading towards Ukraine's gradual integration in the EU internal market through the Deep and Comprehensive Free Trade Area as stipulated in Title IV (Trade and Trade-related Matters) of the AA and linked to the broader process of progressive approximation of its legislation to that of the Union. The AA also supports Ukrainian efforts to complete the transition into a functioning market economy and hence to create a new climate conducive to economic relations between the Parties. Taking into account the geopolitical location of Ukraine and its energy transit capacity, both sides committed to intensifying energy cooperation, building on the commitment to implement the Energy Community Treaty of 2005 (Ukraine joined it on 1 February 2011), enhancing energy security, facilitating the development of appropriate infrastructure and increasing market integration and regulatory approximation towards key elements of the EU *acquis*.

The Deep and Comprehensive Free Trade Area (Title IV of the Association Agreement) covers two main components:

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

[27] 27 EU Member States as well as the European Parliament have completed the ratification process of the EU-Ukraine Association Agreement but its full entry into took place only on 1 September 2017 due to the delayed ratification by the Netherlands.

[28] The EU-Ukraine Association Agreement was published in OJ L 161, 29.05.2014

http://trade.ec.europa.eu/doclib/docs/2016/november/tradoc_155103.pdf

2) Far-reaching regulatory approximation to the EU law in trade-related areas[29] which should stimulate competition, create new predictable environment for business cooperation, development of trade and attracting foreign investments, and hence contribute to economic restructuring and modernization of Ukrainian economy.

Due to a concept of **dynamic and extensive regulatory approximation** embedded in the DCFTA, Ukraine has to ensure the effective implementation and enforcement of the approximated domestic law and undertake any action necessary to reflect the development in the EU *acquis* in its legislation in the trade-related areas. The EU on its side shall inform Ukraine about the development in its legal framework. In follow up to the above mentioned commitments, after the start of provisional application of the DCFTA, several Annexes to the AA which include the lists of EU laws, as well as the deadlines for approximation by Ukraine, are being amended with the aim to bring them up to date with the EU legislation. After having completed the internal procedures on both sides, the Annexes will be jointly adopted by the EU-Ukraine Association Committee in Trade configuration (ACTC) or by the thematic Sub-Committees. The joint decisions are imminent as concerns:

- Update of Annex XXI and a favourable opinion regarding comprehensive roadmap on public procurement;[30]
- Addition of Annex V (a list of provisions of the EU *acquis* regarding sanitary, phytosanitary and animal welfare to which Ukraine intends to approximate its domestic legislation; it is a reference document (*Comprehensive SPS Strategy*) for the implementation of Chapter IV Sanitary and Phytosanitary Measures (SPS) to the Association Agreement.[31]

This is the first report on the implementation of the EU-Ukraine DCFTA, prepared as part of the *annual Report on implementation of FTAs concluded by the EU*. Apart from a general overview of the statistics and evolution of trade between both Partners, a progress in regulatory approximation in trade-related areas as well as activities of the Association

[29] It should be noted that the commitments in Title V (Economic and Sector Co-operation) of the AA also relate to regulatory approximation in several areas and hence contribute to the systemic reforms in the Ukrainian economy. Moreover, the regulatory approximation Annexes related to four sectors of services (financial services, postal and courier services, telecommunication and international maritime transport) are common for Title IV (Trade and Trade-related matters) and Title V of the AA.

[30] Council Decision (EU) 2017/43 of 12 December 2016 on the position to be adopted, on behalf of the European Union, in the EU-Ukraine Association Committee 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 Ukraine, of the other part, in relation to the update of Annexes XXI-A to XXI-P in the area of public procurement (OJ L 6, 11.01.2017) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017D0043&from=EN

[31] The *Comprehensive SPS Strategy* was approved by the Cabinet of Ministers of Ukraine on 24 February 2016. The Union position on the adoption of the Annex V to the Association Agreement at matter was adopted on 17 July 2017 (OJ L 195, 27.07.2017) and a formal decision by the Sanitary and Phytosanitary Management Sub-Committee on that matter will be taken before the end of 2017. For the list of EU legislation to be approximated by Ukraine see: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017D1391

Committee in Trade configuration and the Sub-Committees, established under the DCFTA to monitor the process of its implementation, are presented here.

2. METHODOLOGY USED FOR THE ANALYSIS

The analysis of the bilateral trade in goods between the EU and Ukraine is based on a comparison of the Eurostat data for 2016, i.e. the first year of DCFTA provisional implementation by both Partners with three preceding years. As regards trade in services and investment, the analysis is based on annual data for 2013-2015. It should be noted however, that trade flows dynamics cannot be attributed solely to the DCFTA implementation, as also other internal and external factors may influence bilateral trade. Though the figures provided below give an indication of how the DCFTA has worked so far.

3. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

3.1. Trade in goods

3.1.1. Scope of trade liberalization

The scope and timeline of tariff elimination/reduction in trade in goods between Ukraine and the EU is more complex and the longest in comparison to other DCFTA Partners. Pursuant to the provisions of the DCFTA, the EU and Ukraine are to establish a free trade area over a transitional period of a maximum of 10 years. Based on an asymmetry approach the transitional period for customs duty elimination will be applied by Ukraine until 2026 (in 2-11 equal stages) and will result in market opening for 96.5% tariff lines for products imported from the EU (97.7% in terms of import value). The EU will open its market earlier than Ukraine i.e. in 2023 for 95.8% of tariff lines (97.9% in value) for products imported from Ukraine also by applying similar staging. For certain categories of products both sides decided only to reduce customs duties by 20-60% in 6, 8 or 11 annual stages. Taking also into account the reduction of duties for certain products and the annual duty-free tariff rate quotas (TRQs) applied indefinitely by both sides, it means that certain number of products is excluded from full liberalization and will remain dutiable; nevertheless the market access will be improved for them. In case of Ukraine it concerns 367 products (animal and vegetable products, animal and vegetable fats and oils, prepared foodstuffs and beverages); on the EU side – 400 goods (live animals, vegetable products, prepared food, and certain chemicals).[32]

The specific commitments for Ukraine and the EU are described below.

The schedule of market opening by the Ukraine foresees that the country has liberalized access to its market for over 70% of EU products (including almost 38% tariff lines liberalized earlier on MFN basis) immediately after the start of DCFTA application or gradually in stages i.e. between 3 and 7 years (with exception of cars where 10-year

[32] Factual Presentation: Deep and Comprehensive Free Trade Area Concluded as a Part of the Association Agreement between the European Union and Ukraine (Goods and Services), Report by the WTO Secretariat, WT/REG353/1, 13 April 2017.

transitional period has been foreseen – see below). In general, longer protection is envisaged for agricultural products (Chapters 1-24 of the Combined Nomenclature - CN) and for several goods in those Chapters only certain reduction of tariffs (between 20% and 60%) will be accomplished after 5, 7 or 10 years (e.g. for some species of fish and fish products and sausages). Interestingly, the highest average preferential tariff at the end of implementation period will be sugars and sugar confectionary (CN Chapter 17).

Ukraine will protect its **car sector** during 10-year transitional period (it concerns several categories of passenger cars under CN 8703) and simultaneously has a right to apply during 15-year period a special safeguard measure in the form of higher (MFN) duty on cars imported from the EU if as a result of the reduction or elimination of customs duty under AA cars are imported into Ukraine in such increased quantities, in absolute terms (trigger levels apply) or relative to domestic production, and under such conditions as to cause serious injury to a domestic industry producing like products. Special conditions will also apply during 5 years to **worn clothing** and other worn articles (CN 6309 00 00) imported from the EU to Ukraine. To this end, as from 1 January 2017 Ukraine shall, within 5 years, gradually reduce duties on imports during the first four years and shall abolish them not later than the end of the fifth year. The minimum entry price will apply in that period.

As concerns agricultural goods, Ukraine applies (indefinitely) the **duty-free TRQs** for **3 product groups** imported from the EU: pork meat, poultry meat and sugar products (91 tariff lines on CN 8-digit level).

In terms of **export duties** applied on MFN basis to 5 categories of products (livestock, raw hides, certain oil seeds as well as waste and scrap of ferrous and non-ferrous metals), Ukraine committed eliminating them over a transitional period up to 2026 but also maintained the right to apply, during 15 years starting in 2017 (for sunflower seeds in 2016) a safeguard measure (for raw hide materials, sunflower seeds and certain metal waste and scrap) in the form of a surcharge to the export duty if their exports to the EU exceed a trigger level.

While anticipating the (provisional) application of the DCFTA that was signed on 27 June 2014, as well as in view of the unprecedented security, political and economic challenges faced by Ukraine and in order to support its economy, **the EU unilaterally started, on 23 April 2014, the reduction or elimination of tariffs on goods originating in Ukraine**. It was done in line with the schedule of concessions foreseen in Annex I-A of the Association AA/DCFTA.[33] In general, import duties for Ukrainian products covering around 90% of tariff lines were abolished (including 25% of tariff lines liberalized earlier on MFN basis) and

[33] It was done by means of autonomous trade measures introduced on the basis of Regulation (EU) No 374/2014 of the European Parliament and of the Council of 16 April 2014 on the reduction or elimination of customs duties on goods originating in Ukraine (OJ L 118, 22.04.2014) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0374&from=EN and later amended by the Regulation (EU) No 1150/2014 of 29 October 2014 (OJ L 313, 31.10.2014) http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R1150 As these autonomous trade measures were extended until 31 December 2015 (thereafter the DCFTA started to be provisionally applied), for the purpose of predictability the customs duties and access to TRQs for the extended period remained the same as for 2014.

almost all of them are to be subsequently liberalized in 3, 5 or 7 stages (the longest 7-year period has been foreseen for such products as glassware, fertilizers, goods from aluminium, certain motor vehicles, bicycles, certain radio and TV equipment).

The tariffs on imports of agricultural and food products from Ukraine were abolished by the EU at the start of DCFTA application with exception of **36 agricultural product groups** (more than 320 tariff lines - CN 8-digit level) which are (indefinitely) subject to annual **duty-free TRQs**: meat (beef, pork, sheep, and poultry), milk and dairy, eggs, honey etc.; plant products: grains (wheat, barley, oat, maize), mushrooms, garlic, processed food and other products: sugar and products, grape and apple juice, sweet corn, processed tomatoes, ethanol, cigarettes etc. The TRQ amount is allocated on a first-come, first-served basis except for some cases where a system of import licences is applied by the EU. After the quantity covered by zero duty has been exhausted the MFN rate applies. The EU maintains its **minimum entry price system** for products covered by 28 tariff lines (CN 8-digit level) i.e. for different types of fruits and vegetables e.g. apples and pears, tomatoes and cucumbers. Those products are subject to a specific duty in addition to its *ad valorem* tariff if their price is below the minimum entry price.

The EU and Ukraine agreed on **a review clause** related to trade in goods which may be requested by either Party **5 years after the entry into force of the Agreement** whereby both sides may consider accelerating and broadening the scope of the elimination of tariffs on trade between themselves. The decision on that matter should be taken by the Association Committee in Trade configuration.

3.1.2. Overall evolution of trade in goods in 2013-2016

According to Eurostat data for 2016, the **EU is by far Ukraine's first trading partner with the share of around 41% in its total trade** (about 44% in Ukraine's total imports and 38% in its total exports). Russia is the second partner representing about 11.4% of Ukraine's total trade. **Ukraine is the 26th trade partner of the EU** (with around 0.9% share in the EU's total trade).

Overall, **in 2016** - comparing to 2015 - the **total trade between the EU and Ukraine increased by 10.1%** (from EUR 26.9 billion to 29.6 billion) while **EU imports from Ukraine grew by 1.9%** (from EUR 12.8 to 13.1 billion) and **EU export to Ukraine increased by 17.6%** (from EUR 14.0 billion to 16.6 billion).[34] Apart from the on-going economic reforms (under pressure of International Monetary Fund (IMF) and the EU), it was also an effect of the favourable situation on global commodity markets and a drop in prices of energy resources as well as good weather conditions contributing to high grain harvests and hence increased exports of cereals. In spite of this positive results Ukraine's imports from the EU, similarly to its total trade, have not regained the levels of 2013, whereas Ukrainian exports to the EU almost returned to values recorded in 2013-2014 (see Table 1). This may be

[34] It should be noted that exports are of key importance for Ukrainian economy as they generate over 50% of its GDP.

a sign that the economic situation in Ukraine is stabilising (in 2016 GDP grew by around 2%) after the economic crisis of 2014-2015 when the illegal annexation of Crimea and the on-going conflict provoked by Russian Federation (RF) in Eastern Ukraine coupled with an unfavourable global economic environment (low commodity prices on global markets and slow GDP growth in emerging countries) and resulted in cumulative decline by over 16% of Ukrainian GDP and having a negative impact on foreign trade, including with the EU (less sharply though).

It also needs to be recalled that already in 2012-2014 **Ukraine has been facing certain trade restrictive measures imposed by Russia**. Moreover, as from 1 January 2016 Russian Federation suspended (indefinitely) the application of the Commonwealth of Independent States FTA, hence reintroduced MFN tariffs on imports from Ukraine (as a response to the start of provisional application of the EU-Ukraine DCFTA), introduced an embargo (extended until the end of 2018) on imports of agricultural products in the follow-up to Ukraine's adherence to EU sanctions against Russia as well as started to apply the road and railway transit restrictions on exports from Ukraine to the Central Asia.[35] All these restrictions strongly contributed to the drop in overall exports from Ukraine to the world, including to the Russian Federation (noted since 2012 but accelerated over last years) which used to be its first trading partner for more than two decades (drop in trade from EUR 40.5 billion in 2014 to EUR 32.9 billion in 2016). The reversal of the negative trend in exports from Ukraine to the EU should therefore be seen as a positive sign of a slow but successfull reorientation of its exports towards the EU.

The EU share in the total Ukrainian exports has been steadily increasing in the last few years, i.e. **from 26.5% in 2013** to 31.5% in 2014, 34.1% in 2015 and **37.9% in 2016**. The **EU share in Ukrainian imports** has also increased **from 35.1% in 2013** to 38.8% in 2014, 40.9% in 2015 and **to 43.9% in 2016**. The EU share in the total Ukrainian trade (imports plus exports) has similarly grown in 2013-2016 from 31.2% to 41.0%. Since 2013 the EU regularly reinforced its position as the first trading partner of Ukraine (which was not the case in 2012). This trend was supported by the EU autonomous trade preferences (ATMs) which were applied as from April 2014, in anticipation of the DCFTA (provisional) application.

[35] Transit can be carried out only through the territory of the Republic of Belarus and only via 2 checkpoints in the BY-RF border and 3 checkpoints in RF-Kazakhstan border. According to the Ministry of Economic Development and Trade of Ukraine (MEDT), the transit restrictions, trade embargo and the suspension of the CIS FTA by Russia result in annual decrease of Ukrainian exports by around USD 700 million and real loss in GDP by 0.65%.

Table 1: EU trade in goods with Ukraine, 2013-2016 (million EUR)

EU trade with UA	2013	2014	% change 2014/ 2013	2015	% change 2015/ 2014	2016	% change 2016/ 2015	% change 2016/ 2013
EU exports	23,889	16,986	-28.9	14,039	-17.3	16,503	17.6	-30.9
EU imports	13,882	13,731	-1.1	12,833	-6.5	13,078	1.9	-5.8
Total trade	37,771	30,717	-18.7	26,872	-12.5	29,581	10.1	-21.7
Trade balance	+10,017	+3,255	-	+1,206	-	+3,425	-	-

Source: Eurostat COMEXT.

The EU continues to have a positive trade balance with Ukraine as a result of the trade structure characterized by growing share of goods with higher value added in its exports (i.e. transport equipment, machinery and appliances, chemical products), whereas its imports from Ukraine are dominated by base metals, cereals and mineral products (see point 3.1.3.).

3.1.3. The structure of the EU-Ukraine trade

The **main product categories** (by Sections of Harmonized System Nomenclature – HS) **exported by the EU to Ukraine** in 2016 were: **machinery and appliances, chemical products, transport equipment as well as mineral products, plastics, rubber** and articles thereof. Machinery and appliances (Section XVI) accounted for 26.1% of the total EU exports to Ukraine and increased considerably on year-on-year basis (by 26.1% - from EUR 3.3 billion to 4.3 billion). Chemical product (Section VI) accounted for 16.8% (EUR 223 million) and their exports by the EU grew by 16.3% (from EUR 2.4 billion to 2.8 billion). Transport equipment (Section XVII) was the next in this ranking and accounted for 10.7% and its exports increased by 69% compared to 2015 (from EUR 1 billion to 1.7 billion). Mineral products (Section V) amounted to 6.5% (EUR 1.1 billion) but their exports dropped by 21% comparing to 2015, when they stood at EUR 1.4 million.

EU exports in most of the products sectors increased in 2015-2016 due - in large part - to a recovery of the Ukrainian economy which is slowly climbing back from a recession in 2015, when the gross domestic product (GDP) shrunk by 9.9% and the net foreign direct investments (FDI) decreased from EUR 8.2 billion in 2012 to 3 billion in 2015.

The traditional driving forces in Ukrainian exports are raw materials and semi-finished products mainly from the agro-food sector and metallurgical industry. The **main products in EU imports from Ukraine** in 2016 were **base metals, vegetable products i.e. mainly cereals, mineral products and machinery and appliances.** Base metals and articles thereof

(Section XV) accounted for 22.1% of the total EU imports from Ukraine (EUR 2.9 billion) and maintained almost the same level as in 2015. Vegetable products (Section II) accounted for 16.0% of the total EU imports (EUR 2.0 billion; down from EUR 2.6 billion in 2015). Mineral products (Section V) reached a slightly lower share than in 2015 amounting to 12.8% of the total EU imports from Ukraine (EUR 16.7 billion; approximately the same level as year before). EU imports of machinery and appliances have increased by 13.2% reaching EUR 1.5 billion and represented 11.5% of the total EU imports from Ukraine. From the categories of products most widely imported from Ukraine, machinery and appliances were characterised by the highest positive dynamic together with animal or vegetable fats and oils (Section III) recording a growth by 67% on year-on year basis and reaching EUR 1.1 billion in 2016.

The increased dynamic of exports of machinery and appliances from Ukraine to the EU should be seen as a positive sign as they represent a higher added value goods compared to the large portion of the remaining products mainly from agro-food sector, metallurgical industry and raw materials.

3.2. Establishment, trade in services and investments

3.2.1. Market access related to establishment and trade in services

In the DCFTA the EU and Ukraine laid down necessary arrangements for the progressive reciprocal liberalization of establishment and cross-border trade in services and for cooperation in electronic commerce. To this end they committed 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 few reservations by Ukraine) as well as liberalization of cross-border supply of services (by granting each other national treatment) with several limitations and reservations on both sides). In four services sectors (postal and courier services, telecommunication, financial services and international maritime transport services) both Parties recognized the importance of the gradual approximation of Ukraine's existing and future legislation to the list of the EU acquis (in case of financial services also to the international best practice and standards). The expansion of the internal market may be envisaged for those four sectors once Ukraine effectively implements the EU acquis (foreseen within 2 up to 7 years after the entry into force of the Agreement).

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

3.2.2. EU trade in services with Ukraine

After the decline in 2014 for similar reasons as trade in goods, the total bilateral trade in services between the EU and Ukraine increased by 5.2% in 2015 (to EUR 7.7 billion) compared to 2014 (EUR 7.3 billion).

Table 2: EU trade in services with Ukraine, 2013-2015 (billion EUR)

EU trade with Ukraine	2013	2014	% change 2014/2013	2015	% change 2015/2014
EU exports	5.1	4.7	-7.9	5.0	6.3
EU imports	2.9	2.6	-31.0	2.7	3.0
Total trade	8.0	7.3	-20.5	7.7	5.2
Trade balance	+2.2	+2.1	-	+2.3	-

Source: European Commission, DG Trade.

EU exports of services grew in that period by 6.3% (to EUR 5.0 billion) compared to 2014 (EUR 4.7 billion). EU imports increased in the same time by 3% (from EUR 2.6 billion to 2.7 billion). In accordance with the WTO statistics (2015) the structure of services exports by Ukraine (11.1 billion) to the world has been dominated by transport, telecommunications, computer and information services as well as other business services. On import side (9.7 billion) travel services, transport and other business services have been top ranking. In the analysed period the balance of trade in services was positive for the EU and stayed at similar level.

3.2.3. EU foreign investment with Ukraine

The **EU is the biggest foreign investor in Ukraine** accounting for more than 75% of the total inward stocks (though this share may be overstated given the share of Cyprus in inward foreign direct investment (FDI) stocks). According to Eurostat, in **2015 EU FDI stocks** in Ukraine amounted to approximately EUR 16.1 billion, down from 17.3 billion in 2014 and 21.6 billion in 2013. The investment flow from EU into Ukraine amounted to EUR 116 million in 2015 and was far from returning to 2013-2014 levels. A certain increases in 2015 are to a large extent explained by recapitalization of Ukrainian banks with foreign capital, whereas green-field investments remain at low level.

According to OECD data (October 2015), Cyprus[36] has traditionally been the biggest source (27.7%) - in terms of inward FDI stocks in Ukraine - followed by the Netherlands (13.0%), Germany (12.4%), Russian Federation (6.7%), Austria (6.0%) and UK (4.4%). In terms of sectorial structure in mid-2015 the total inward stocks were dominated by financial services (26.5%), manufacturing (26.2%), and trade and repair (13%).[37]

After the military conflict provoked by Russia in the Eastern Ukraine has started, the FDI, including from the EU, fell sharply and - due to continuing high political risk of investing -

[36] Investments from Cyprus and other tax havens are usually of Ukrainian (round-tripping) or Russian (transhipping of FDI transactions) origin.

[37] OECD Investment Policy Reviews, Ukraine 2016. http://www.oecd.org/countries/ukraine/oecd-investment-policy-reviews-ukraine-2016-9789264257368-en.htm

are far from recovering, despite the macroeconomic stabilization and some improvement in business climate in Ukraine.

Table 3: EU foreign direct investment with Ukraine, 2013-2015 (billion EUR)

Foreign direct investment stocks	**2013**	**2014**	**2015**
Ukraine in EU28 (inward)	1.3	3.0	0.4
EU28 in Ukraine (outward)	21.6	17.3	16.1
Stocks: balance	20.3	14.3	15.8
Foreign direct investment flows	**2013**	**2014**	**2015**
Ukraine into EU28 (inward)	0.6	0.4	-2,7
EU28 into Ukraine (outward)	0.0	-1.9	0.1
Flows: balance	-0.6	-2.3	2.7

Source: European Commission, DG Trade.

Notwithstanding the uncertainty around that conflict, Ukrainian authorities have to address the long-standing barriers that impact negatively the process of attracting foreign investors who are preoccupied with widespread corruption, lack of trust in judiciary, unpredictable currency and regulatory changes.

3.3. Reciprocal market access in public procurement

The DCFTA envisages mutual access to public procurement markets on the basis of national treatment at national, regional and local level for public contracts and concessions in the traditional sector as well as in the utilities sector. It provides for the progressive approximation (in 5 phases up to 2024) of the public procurement legislation in Ukraine with the EU public procurement *acquis*, accompanied by institutional reform and creation of an efficient public procurement system based on the principles governing public procurement in the EU. The implementation of each phase shall be evaluated by the Association Committee in Trade configuration, and, following a positive assessment, will be linked to the reciprocal granting of market access as set out in Annex XXI-A to the AA. The completion of the first phase (foreseen for 2016) and leading to reciprocal opening of market for supplies for central government authorities is pending.

3.4. Trade preferences utilisation rate

The preference utilisation rate (PUR) on imports into the EU from Ukraine had amounted to around 87% in 2014-2015 and increased to 89% in 2016. At HS Section level, the highest PURs are found in Animal or vegetable fats (Section III) at 99%, Articles of stone, plaster, cement, asbestos (Section XII) at 96% as well as Chemical products (Section VI) and Wood and wood products (Section IX) at 95%. The lowest overall PURs (below 50%) have been recorded in Arms and ammunition (Section XIX), Pearls (semi-)precious stones and metals (Section XIV), Animal and animal products (Section I) and Optical, photographic and precision instruments (Section XVIII).

3.5. Utilization of the annual duty free tariff rate quotas

In 2016, out of annual duty-free tariff rate quotas (TRQs) for 36 agricultural product groups imported from Ukraine to the EU only 11 were fully used and concerned following products: honey; oats; sugar; groats, pellets, grains; malt and gluten; preserved tomatoes; grape and apple juice; poultry meat; common wheat, flour and pellets; barley flour and pellets; maize, flour and pellets.

For some products such as: sheep, pork and beef meat, garlic, mushrooms, dairy products (e.g. buttermilk, cream, yogurt, milk cream and condensed milk, eggs and albumins) the TRQs were not utilised at all due to the lack of alignment with EU SPS requirements or enough marketing capacity.

4. ACTIVITIES OF THE IMPLEMENTATION BODIES BY MID-2017

The main body under institutional framework of the Association Agreement is the Association Council (at ministerial level) which is supported by the Association Committee (at senior civil servant level) in supervising and monitoring the application and implementation of AA. Due to the importance of the trade and trade related part of the AA (i.e. DCFTA), a dedicated **Association Committee in Trade configuration** (ACTC) has also been established. The ACTC is assisted by **four specialised Sub-Committees** at experts' level: the Sanitary and Phytosanitary Sub-Committee; the Customs Sub-Committee; the Geographical Indications Sub-Committee; and the Trade and Sustainable Development Sub-Committee.

The **Association Committee in Trade configuration met for the first time in Kyiv on 12-13 April 2016**, so only 3 months after the start of provisional application of the DCFTA both Parties analysed the statistics on bilateral trade flows and exchanged information on their respective trade policies. It was also an occasion to look at the state of play in all DCFTA chapters, including trade in goods, sanitary and phytosanitary 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, transparency and communication. The Ukrainian authorities presented the progress achieved in the approximation of its legislation to that of the EU and on the institutional capacity building in several areas, notably where these processes had already started before application of the DCFTA and were facilitated by the EU’s technical and financial assistance.

It was agreed that better coordination should be ensured between the Parties as concerns communication and information about challenges and opportunities stemming from DCFTA implementation to different Ukrainian and EU stakeholders. Both sides also discussed the trade issues of bilateral interest, notably on DCFTA-incompatible trade irritants applied by Ukraine such as wood export ban, increased export duties on metal scrap and the outstanding SPS measures. The ACTC meeting resulted in adoption of the Joint Operational Conclusions which have streamlined further work to be conducted by both Partners in terms of the DCFTA implementation.

As the internal adoption processes of the Rules of Procedure of the Sub-Committees have been completed at the beginning of 2017[38], the launching meetings of those association bodies have been scheduled for the first half of 2017.

The 1st meeting of the EU-Ukraine Sanitary and Phytosanitary Management Sub-Committee (SPS Sub-Committee) took place on 16 May 2017 in Kiev. During that meeting a Decision on Rules of Procedure of the SPS Sub-Committee was jointly adopted. Discussions touched upon the institutional structure and division of labour among competent authorities in the SPS area in Ukraine, the situation as regards export of animal products to the EU and the animal and public health situation in Ukraine. The Sub-Committee also exchanged views on the state of play of the implementation of the SPS Chapter of the DCFTA, including Ukraine's *SPS Strategy*, and also reviewed the EU's ongoing and planned financial-technical assistance in the SPS area.

The **1st meeting of the Sub-Committee on Geographical Indications** (GIs) took place on 18 May 2017 in Kyiv. During the meeting the Decision on Rules of Procedure of the Sub-Committee on GIs was jointly adopted. Both sides exchanged lists of new GIs for the purpose of considering their protection under the Agreement. Ukraine debriefed the EU on legislative updates as regards AA annexes related to GIs. The EU informed about the state of play on technical assistance to Ukraine and provided papers for stakeholder cooperation. Both sides discussed the issues related to the protection and enforcement of Geographical Indications under the DCFTA.

The **1st EU-Ukraine Sub-Committee on Customs** met in Kyiv on 15 June 2017. Apart from the joint adoption of the Rules of Procedure, both sides exchanged information among others on: implementation of rules of origin, progress in aligning the Ukrainian customs legislation with the Union Customs Code**;** resuming work by the Ukrainian Common Transit Project Group; the state of play as concerns Authorised Economic Operator, transit and protection of intellectual property rights (the adoption of the relevant laws by the Parliament of Ukraine is pending). The EU committed to assist Ukraine in customs legislative and implementation reforms under the Public Finance Management Support Programme for Ukraine.

[38] **Council Decision (EU) 2017/189 of 16 January 2017 on the positions to be adopted on behalf of the European Union within the Sanitary and Phytosanitary Management Sub-Committee, the Trade and Sustainable Development Sub-Committee, the Customs Sub-Committee and the Sub-Committee on Geographical Indications established pursuant to the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part, as regards the adoption of the Rules of Procedure of those Sub-Committees, OJ L** 29, 3.02.2017.

For information on the 1st meeting of the EU-Ukraine Sub-Committee on Trade and Sustainable Development see section 5.

5. IMPLEMENTATION OF THE PROVISIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

The Sub-Committee on Trade and Sustainable Development (TSD) met for the first time on 29-30 May 2017 in Brussels. Both Parties reviewed the state of play in the implementation of the TSD Chapter of the Association Agreement related to the ratification and implementation of international conventions on labour standards (notably the Conventions no. 81 and 129 on labour inspections) and on environmental aspects (in particular the implementation of the Espoo and the Aarhus Conventions), including the development of the green and circular economy. The pending adoption of a new Labour code was also discussed.

The cooperation to improve forest law enforcement and sustainable forest management, as well as promotion of trade in legal and sustainable forest products was extensively discussed. The EU presented concerns about the continuing wood export ban, including the lack of legislative progress on the draft law on forests (submitted to the Ukrainian Parliament in February 2017) and envisaging the removal of this trade restriction. The Ukrainian authorities pointed at the challenges faced in terms of forest ownership, policy and administration, as well as wood production, together with some potential ways to solve them. To this end the EU was informed about the established working group on reforming the forest resources management. The on-going cooperation with some EU Member States and potential future projects were also recalled and discussed in that context. Ukrainian authorities reiterated their commitment to intensify efforts in appointing members of the Group of Experts (acting if there is a need to conduct consultations on TSD matters) as well as members of the Advisory Group consisting of representatives of different groups of Ukrainian civil society.

The Parties met with the Joint Civil Society Forum at its first meeting to give an update on the state of implementation of the TSD Chapter of the DCFTA.

6. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

In view of the fact that Association Agreement establishes conditions for enhanced economic and trade relations leading towards **Ukraine's gradual integration in the EU internal market**, Ukraine agreed on ambitious legal approximation commitments in the DCFTA, notably in the areas that are instrumental for the effective benefiting from the opportunities created by the gradual market opening for goods, services and public procurement.[39] Elimination or reduction of tariffs by the EU would not positively impact on Ukrainian exports if the industrial goods do not comply with technical regulations, standards ensuring

[39] To this end the Action Plan on Implementation of the Association Agreement between Ukraine and the European Union and Its Member States for the Years 2014-2017 has been adopted by the resolution of the Cabinet of Ministers of Ukraine of 17 September 2014

http://www.3dcftas.eu/system/tdf/Decree_847_170914_Action%20Plan%20on%20AAg%20%281%29_0.pdf?file=1&type=node&id=84&force=

products safety for consumers and agricultural products do not respect food safety requirements ensured by SPS rules. To this end Ukraine embarked on reforms in those areas already before the start of the DCFTA application by using EU financial and technical assistance.

In accordance with the DCFTA commitments Ukraine prepared and submitted to the EU a list of EU acquis regarding sanitary, phytosanitary and animal welfare to which it intends to approximate its domestic legislation (***Comprehensive SPS Strategy)*** that was approved by the Cabinet of Ministers on 24 February 2016. After having got an endorsement by the EU it will be jointly adopted by a Decision of the SPS Management Sub-Committee before the end of 2017. The list of EU acquis to which Ukraine will approximate its legal framework on SPS will constitute a new Annex V to the Association Agreement. The legal approximation foreseen in this document will be conducted until 2021. The newly established State Service of Ukraine on Food Safety and Consumer Protection will play a crucial role in the *Strategy* implementation.

Several Ukrainian establishments have been authorised so far to export to the EU the following agricultural products: poultry meat and products thereof, table eggs for direct use (Class A) and for industrial use (Class B), eggs products, fishery products, honey, casings, various by-products not intended for human consumption, feedstuffs, straw pellets for combustion, fruits and vegetables, and - as of January 2016 – dairy products. When legislative approximation foreseen in the *SPS Strategy* is achieved as a result of the monitoring stipulated in the AA, this fact shall be deemed to be a request by Ukraine to initiate the process of recognition of *equivalence*[40] of relevant SPS measures. In terms of SPS measures applied towards goods imported from the EU, **Ukrainian authorities need to step up their efforts in lifting the remaining trade irritants** (notably the African Swine Fever (ASF) as well as the one related to the draft Order 71 on approving requirements for importing (sending) into the customs territory of Ukraine of live animals, their reproductive material, food products of animal origin and products not intended for human consumption).

Ukraine shall take the necessary measures in order to gradually achieve conformity with EU **technical regulations** and **standardisation, metrology, accreditation, conformity assessment procedures** and the **market surveillance system**. To this end it has started to incorporate the relevant EU *acquis* into its legislation and to make the administrative and institutional reforms that are necessary to implement the AA and - in the future - an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA).[41] This process is conducted on the basis of the *Strategy for the Development of the Technical Regulation System until 2020* and the related *Action Plan* adopted by Ukrainian Government

[40] The equivalence may be recognized in respect of: and individual or group of SPS measures, or a system applicable to a sector, subsector, commodities or group of commodities.

[41] ACAA will provide that trade between the EU and Ukraine in goods in the sectors that it covers shall take place under the same conditions as those applying to trade in such goods between the Member States of the EU. Until a product is covered under the ACAA, the relevant existing legislation of the Parties shall apply to it, taking into account the provisions of the WTO TBT Agreement.

in 2016. As concerns approximation process leading to **ACAA** Ukraine has decided to focus on **3 priority sectors** i.e. machinery, low-voltage equipment, and electromagnetic compatibility.

Having in mind that due to the relevant reforms, the ACAA is a long-term objective, both Parties have launched in July 2016 the **TBT Regulatory Dialogue** (as provided by Article 55 of AA)[42] as the appropriate technical cooperation forum for carrying out the detailed assessment of the Ukrainian system in order to verify its compliance (in terms of legislation its enforcement and institutional capacity) with the EU rules and standards. Only positive results of that assessment will allow for a start of negotiations on the ACAA.

A good progress has been achieved by Ukraine in building a transparent, non-discriminatory, competitive and open **public procurement system** (PP**).** The Public Procurement Law (almost fully compliant with the EU current legislation) was adopted at the end of 2015. Moreover, in 2016 Ukraine joined the WTO Government Procurement Agreement (GPA) and introduced a compulsory e-procurement in the public sector (on the basis of the earlier pilot scheme called ProZorro) which proves to be effective in enhancing efficiency and reducing corruption. In reference to the plans for legislative approximation and institutional capacity building as stipulated in the DCFTA, in February 2016 Ukrainian Government adopted an *comprehensive roadmap on public procurement.* The internal procedures have been completed by the EU and Ukraine as concerns adoption of the decision on the update of the regulatory approximation Annexes to the Association Agreement and a favourable opinion regarding the comprehensive roadmap on public procurement. The Association Committee in Trade configuration will adopt this decision at its meeting on 28-29 September 2017.

Ukraine made ambitious commitments in the DCFTA on alignment of its system of **protection of intellectual property rights** (IPR) to that of the EU. The progress in this area is monitored at technical level within the IPR Dialogue. The meeting of that Dialogue held on 8 June 2017 showed that further efforts are needed in order to accelerate the submission by the Ukrainian Government to the Parliament the draft laws which are needed to reform the IPR system. The delays occurred notably on the package of four laws (on Collective Management Organisations (CMOs); on the creation of the new IP office; on inventions and utility models; and on copyright and related rights). Adoption and enforcement of the laws which would implement Ukraine's commitments under the DCFTA would assist Ukraine to integrate better in the world trading system, to attract foreign investment and to prevent further major losses for right holders. It should be noted that Ukraine improved its system of fighting against internet piracy. The adopted Law on Cinematography introduces better controls to prevent illegal content being shown on websites based in Ukraine, and the activities of the cyber-police to enforce the law in good cooperation with international bodies is very encouraging.

[42] Two meetings of the TBT Regulatory Dialogue took place after its launch, i.e. in December 2016 and in March 2017.

In the context of approximation of the **competition policy** to the EU standards the Antimonopoly Committee of Ukraine is well advanced in setting up the framework for competition enforcement and state aid and merger control system. The priorities for future work include approving a *National Program on Competition and State Aid*. In years 2017-2022 full alignment of aid schemes with EU state aid rules is to take place.

In terms of progress in **regulatory approximation in four services sectors** in March 2016 Ukrainian authorities submitted a *Roadmap related to **postal and courier services*** which has been positively scrutinized by EU experts. A roadmap on the implementation of the regulatory commitments of Ukraine on **international maritime transport** was approved by Ukrainian authorities on 17 August 2017. As regards **telecommunication sector,** Ukraine has shown a keen interest to participate in the Digital Single Market, which comprises commitments that go well beyond the DCFTA. As concerns **financial services**, due to the last financial crisis and significant changes related to regulation of the EU financial sector (gradual creation of the Banking Union and Capital Market Union) and notably more centralized supervisory framework which does not have legal authority to act beyond the EU borders, it is not feasible for Ukraine to implement in full EU acquis in the area of financial services. On the other hand Ukraine can take inspiration from the EU law to design its own regulatory and supervisory frameworks conducive to financial stability. To this end a *Comprehensive Program of Ukraine Financial Sector Development until 2020* was submitted by Ukraine to the EU already in October 2015.

On 16 December 2015, Ukraine ratified the **WTO Trade Facilitation Agreement** which entered into force in February 2017 and contains commitments on simplifying border procedures and modernization of **customs** techniques and instruments and customs control.

In terms of enhancing its trade with the EU and other partners in the region by means of cumulation of rules of origin for goods, on 12 September 2016 Ukraine submitted a written request for accession to the **Regional Convention on pan-Euro-Mediterranean preferential rules of origin** (PEM Convention). Ukraine has a free trade agreement in force with several Contracting Parties to the Convention and therefore complies with the condition set out in Article 5(1) of the Convention to become a Contracting Party. As a result on 16 May 2017 the Joint Committee of the Convention adopted a decision that Ukraine shall be invited to accede to that Convention.[43]

[43] The decision of the Joint Committee of the PEM Convention was published in OJ L 191, 22 July 2017.

In view of the difficult economic and political situation in Ukraine the European Commission adopted on 29 September 2016 a Proposal for a Regulation on the introduction of **temporary autonomous trade measures** (ATMs) for certain agricultural and industrial products, supplementing the trade concessions available for Ukraine under Association Agreement.[44] The ATMs Regulation[45] entered into force on 1 October 2017. Its aim is to create additional opportunities for Ukrainian exporters by accelerating tariff elimination (as envisaged by the DCFTA) for 22 industrial products and by increasing amounts of annual duty-free TRQs for 8 agricultural products (common wheat, maize, barley, barley groats and pellets, oats, natural honey, processed tomatoes and grape juice). Due to the need of adoption of implementing regulations by the European Commission concerning TRQ management for common wheat, maize and barley, it was agreed with Ukrainian authorities that these preferential quota are to be applied as of 1 January 2018.

7. CONCLUSIONS

After more than one year of provisional application of the trade-related part of the Association Agreement i.e. **DCFTA** by both partners, one can say that its **implementation is on the right track. Bilateral trade has increased and the EU has reinforced its position as the first trading partner of Ukraine**. Notwithstanding the traditional exports of agricultural products, the success stories of Ukrainian companies finding access to the EU market range from a variety of sectors such as IT products, aviation industry (airplanes, aerial vehicles, drones for use in geodesy, topography and agriculture), production of boats and kayaks to fashion, radiation detectors, pet food, architecture and design. Some foreign companies envisage establishing automotive components plants in Ukraine which would also be a positive development that could result in increased exports of car parts in the future. Nevertheless, there is still a potential in further increasing exports by Ukrainian companies.

The regulatory approximation, which in several areas has already been launched by Ukrainian authorities before the start of the DCFTA, gained additional detailed framework in the form of roadmaps and strategies (e.g. in public procurement, SPS, postal and courier services and financial services). With the EU extensive financial and technical support coordinated by the **European Commission's Support Group for Ukraine**, the reforms in trade-related fields (technical regulations and standards, conformity assessment and market surveillance aiming at ensuring industrial products safety can be another example) start to bring effects. Nevertheless, Ukraine needs to make further efforts in IPR reforms (functioning of collective management organizations as concerns copyright and related rights) and in institutional aspects for the implementation of Trade and Sustainable Development Chapter.

The **reformatory efforts by public authorities need to be accompanied by export promotion and support notably to small and medium-size enterprises** (SMEs) which need investment in order to cope with the food safety and products safety requirements on EU

[44] COM(2016) 631 final, 2016/0308 (COD), 29 September 2016 https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-631-EN-F1-1.PDF

[45] Regulation 2017/1566 of 13 September 2017.

market. The EU4Business projects[46], including DCFTA Facility for SMEs (EUR 200 million for Georgia, Moldova and Ukraine) will be instrumental in this respect. Moreover, the Government of Ukraine has been working on an **Export Promotion Strategy** and the Export Promotion Office was established in March 2017 that is not only a consultation and advisory body to the Ministry of Economic Development and Trade but also the one-stop-shop to help Ukrainian exporters in reaching new markets. The Ukrainian authorities also adopted an SME Strategy in May 2017 and are elaborating an Action Plan to implement it. The EU expects to support both initiatives under the 2018-2020 Single Support Framework.

In horizontal terms further reform efforts are needed in flanking policies related to **strengthening the rule of law and the business environment**, which is still negatively affected by prevalent corruption, as well as inconsistent policymaking. Indeed, transparency and predictability of the legal framework as well as effective enforcement of legislation and protection of business property are **crucial for stimulating development of entrepreneurship domestically as well as the inflow of foreign investments** which are needed for diversifying and modernizing the economy.[47] Getting rid of trade irritants which might be linked to the vested interests (wood export ban) is very important.

[46] Small and medium-sized enterprises (SMEs) in the EU's Eastern Partnership region have the potential to create jobs and drive economic growth. Obstacles such as limited access to finance, burdensome legislation and difficulties entering new markets are hindering their progress. The European Union's EU4Business breaks down these barriers with finance, support and training to help small businesses realize their full potential. EU4Business support is delivered together with other organizations such as the European Bank for Reconstruction and Development and the European Investment Bank. http://www.eu4business.eu/

[47] According to the 2017 World Bank Doing Business Index 2017 (covering 190 countries) Ukraine's position was 80th (up from 83rd in 2016). In the 2016 Transparency International – Corruption Perception Index (covering 176 countries) Ukraine's position remains very low 131sd (down from the 130th place in the 2015 edition).

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-CHILE ASSOCIATION AGREEMENT

1. INTRODUCTION

The trade pillar of the EU-Chile Association Agreement entered provisionally into force on 1 February 2003. No significant amendments have been made to the Agreement since its entry into force. Although the Agreement includes review clauses on agriculture and on services, attempts between 2006 and 2010 to upgrade it through these clauses failed, as the narrowly sectoral approach did not allow a balanced outcome.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

2.1.1. Overall evolution since the FTA provisional entry into force

Bilateral trade in goods between 2002 and 2016 almost doubled in value, increasing 97 % in total. Overall, the rise is substantially sharper for EU exports, which increased 170% over the period, compared to a 50% grow in EU imports from Chile. Chile's share in the total EU trade has remained stable since 2003, at around 0.5% of the total EU trade, with a 0.7% peak in 2006.

Merchandise trade EU28 with Chile (million euro)

Chile	Base	Latest	Growth	
	2002	2016	total	average
EU28 imports	4.913	7.367	49,9%	2,9%
EU28 exports	3.172	8.572	170,2%	7,4%
Balance	-1.741	1.205		
Total trade	8.085	15.939	97,1%	5,0%

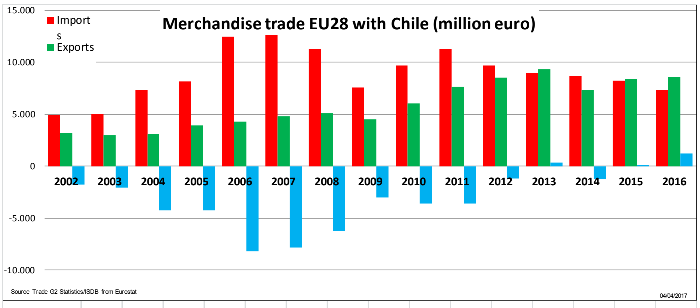
Source Trade G2 Statistics/ISDB

The evolution of bilateral trade in goods can be divided into three distinct periods, with marked differences:

1. 2003-2007 was characterised by a substantial increase in EU imports, a more moderate growth in EU exports and an increasing trade deficit.
2. 2008-2011 saw an initial fall in EU imports, followed by comparable growth rates in EU imports and EU exports and a smaller trade deficit. In 2011 bilateral trade reached a historic high of EUR 18.9 billion.

3. Since 2012 EU imports have slightly fallen, EU exports have remained relatively stable and bilateral trade has been close to balance, with a slight trade surplus for the EU (except in 2014), which is due to price effects rather than quantities.

Since the entry into force of the Agreement in 2003, Chile enjoyed an abundant trade surplus, reaching an accumulated EUR 43.8 billion, with only 2013 and 2015 producing a small trade surplus for the EU, and a larger one worth EUR 1.2 billion in 2016.

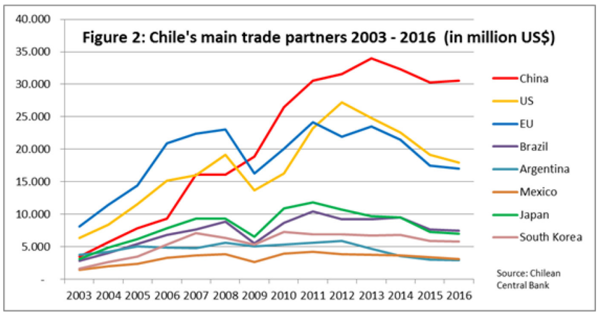


2.1.2. Trade flows in 2016

In 2016 EU-Chile bilateral trade fell by 4% in value compared to 2015, reaching 15.9 billion. The EU experienced a trade surplus worth EUR 1.2 billion, the third and largest trade surplus in the EU's favour since 2003. While EU exports increased 3% year-on-year, EU imports fell by 10%. The main driver in the decrease in imports is the crisis of the Chilean mining industry. Copper imports, which currently represent little more than a third of the total EU imports from Chile, fell by 15% in 2016.

2.1.3. Performance compared to third trading partners

Despite the *prima facie* strong bilateral growth rate since 2003, overtime the EU has progressively lost market share in Chile to other trading partners. Between 2003 and 2009 the EU was Chile's 1st trading partner. The EU was overtaken by China in 2009, by the US in 2011, and is currently Chile's 3rd trading partner. Whilst China's share in Chile's total trade continues to increase (partly due to China's increasing imports of Chilean copper), the gap with the US has narrowed recently.



An external ex-post assessment of the impact of the FTA commissioned by DG TRADE in 2012 concluded that the FTA had helped to prevent the EU market share in Chile from falling substantially further, thereby mitigating the crowding-out effect of the FTAs concluded by Chile with 3rd parties since 2003. A 2017 ex-ante external study commissioned by DG TRADE to support the impact assessment on the modernisation of the Agreement confirmed that in relative terms there is clear erosion in bilateral trade since 2003 in favour of third partners.

2.2. Trade in Services and Investment

Bilateral trade in services in 2015 stood at EUR 5.7 billion (EUR 3.8 billion in exports and EUR 2 billion in imports), compared to EUR 5.1 billion in 2014. Between 2010 and 2015 EU exports of services increased 27%, while EU imports increased 29%.

EU28 services trade with Chile (million euro)

	2010	2011	2012	2013	2014	2015
EU28 imports	1.514	1.333	1.517	1.584	1.744	1.958
EU28 exports	2.972	3.193	3.058	3.093	3.390	3.777
Balance	1.458	1.861	1.541	1.509	1.647	1.819
Total trade	4.487	4.526	4.574	4.676	5.134	5.735

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

The EU remains Chile's first FDI provider, with outward FDI stocks worth EUR 42.4 billion in 2015. It should be noted, however, that EU FDI flows in 2015 (EUR 3.4 billion) were less than half the outward flows registered in 2014. The decrease in outflows is largely due to the crisis in the mining industry, which has historically represented over 45% of the total FDI in Chile. But it should be noted that this is a regional/global trend, and Chile remains the 3rd recipient of FDI in Latin America, after Mexico and Brazil. The sharp recent fall in FDI inflows from Chile, which recorded a negative EUR 741 million in 2015, may be explained by lower growth rates in Chile.

Foreign direct investment EU28 with Chile (million euro)

	Inward			Outward		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
Stocks	995	1.305	328	27.564	40.698	42.408
Flows	846	180	-741	4.727	7.580	3.378

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

2.3. Preference Utilisation Rate

In 2016 the use of preferences on EU imports from Chile was 95%, a high rate that has remained stable over recent years.

Use of preferences on imports into EU from Chile

	2013	**2014**	**2015**	**2016**
use as % eligible	93%	94%	95%	95%

Includes all preferences (FTA, GSP, bilateral)

Source Trade G2 Statistics/ISDB

The use of preferences for EU exports to Chile was 73.9% in 2016 (adjusted utilisation rate).

Use of preferences on EU exports to Chile (adjusted utilisation rate)

	2013	**2014**	**2015**	**2016**
use as % eligible	78.3%	77.9%	75.7%	73.9%

Source Trade G2 based on Chilean national statistics

3. ANNUAL TRADE COORDINATORS MEETING AND TRADE-RELATED SUB-COMMITTEES

The 14th meeting of the Trade Coordinators Meeting of the EU-Chile Association Agreement took place in Santiago de Chile on 9 November 2016. It was preceded by meetings of all the trade-related subcommittees created by the Agreement except for the Joint Committee on Wines and Spirits.

The Committee on Standards, Technical Regulations and Conformity Assessment took place on 27 October 2017, the Special Committee on Customs Cooperation and Rules of Origin on 8 November 2017 and the Joint Management Committee on Sanitary and Phytosanitary Measures on 8-9 November 2017.

3.1. Trade-related sub-committees

- The **Special Committee on Standards, Technical Regulations and Conformity Assessment Procedures** allowed the EU to question Chile on the amendment to the law on nutritional labelling, the classification of meat cuts (solved in the meantime), the barriers faced by EU exports of dry meat with starch, and the lack of alignment to international standards of a proposed Chilean regulation on cables.
- The **Special Committee on Customs Cooperation and Rules of Origin** reached an agreement on the update of the Spanish version of the product specific rules for the Harmonised System 2012, and allowed for an exchange of views on aspects of the verification and validity period of the proof of origin, and clarification on the reference numbers used by approved exporters.
- The **Joint Management Committee on Sanitary and Phytosanitary Matters** reviewed the implementation of the Action Plan agreed in 2015. Fruitful discussions took place on the best way to process EU MS applications for access to the Chilean market, import requirements for apples and stone fruits, progress in negotiations of harmonised certificates, and the recent problems with additives in processed meat products and dairy products.

3.2. Trade Coordinators Meeting

Relevant colleagues reported on the outcome of the trade-related sub-committees. Trade Coordinators reviewed the most recent bilateral trade and investment flows, and exchanged information on relevant multilateral developments and on trade negotiations with third partners. EU highlighted a number of issues related to government procurement, urging Chile to make progress to ensure compliance with the obligations arising from the existing Agreement. Chile expressed concern about the recognition of the Geographical Indication "Pisco" in EU legislation. Finally, Chile informed about the outcome of the 1st EU-Chile Joint Consultative Committee, which had taken place in Santiago on 4-5 October 2016.

4. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The main open issue on FTA implementation is related to some of the existing obligations on government procurement, which Chile is yet to implement. Although Chile has made some progress (e.g. creating a common procurement portal and registry), a number of pending issues remain, and the EU continues to urge Chile to make progress, to ensure full compliance with its obligations, and to possibly adopt interim measures in case legislative changes are needed.

5. CONCLUSIONS

As in previous years, the process of implementation through the work of the various trade-related sub-committees and the Trade Coordinators Meeting has worked very well, dialogue is fluid and potential problems have been generally addressed early on. The key issue that remains unresolved is the above-mentioned list of pending obligations for Chile on public procurement.

Although in absolute terms the evolution of bilateral trade and investment is at first sight overall positive, Chile has concluded numerous trade agreements since 2003, and the EU continues to lose market share in Chile to the benefit of other trading partners.

The trade pillar of the EU-Chile Association Agreement was considered a highly ambitious FTA at its entry into force. But after 14 years of implementation it has a number of shortcomings that represent a burden for EU operators. These include: (1) limited liberalisation in agriculture and food products, (2) outdated rules of origin and customs and trade facilitation provisions, (3) lack of sufficient disciplines to address remaining non-tariff barriers for industrial and agri-food products, (4) market access limitations for services sectors of key EU interest, (5) lack of comprehensive investment liberalisation disciplines, (6) outdated public procurement rules and limited coverage in terms of entities, (7) limited provisions on intellectual property rights, and (8) lack of protection of Geographical Indications on foodstuffs. Moreover, the existing Agreement lacks investment protection provisions for all EU investors (BITs in force cover only 16 MSs) and Trade and Sustainable Development provisions.

Against this background in 2013 the EU and Chile agreed to explore options for a comprehensive modernisation of the existing FTA. The 2015 Trade for All Communication highlighted the modernisation of the EU-Chile FTA as one of the concrete initiatives to put forward. A scoping exercise was successfully concluded with Chile in January 2017, and the Commission is expected to adopt a proposal for a negotiating authorisation and directives in mid-2017.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE TRADE PILLAR OF THE EU-MEXICO GLOBAL AGREEMENT

1. INTRODUCTION

The Global Agreement which entered into force in 2000 covers political dialogue, cooperation and trade relations. It includes a trade liberalisation component, the 'EU-Mexico Free Trade Agreement (FTA)' covering trade in goods (which entered into force in 2000) and partially trade in services (which entered into force in 2001).

At the EU-CELAC Summit in Santiago on 26-27 January 2013, the EU and Mexico agreed 'to explore the options for a comprehensive update of the Economic Partnership, Political Coordination and Cooperation Agreement between the EU and Mexico. The negotiations for modernising the EU-Mexico Global Agreement were launched mid-2016. The first round of negotiations, which was of a preparatory nature, took place on 13-14 June 2016 in Brussels. The second round took place on 21-25 November 2016 in Mexico City.

2. EVOLUTION OF TRADE

2.1. Trade in Goods

2.1.1. Overall evolution since the FTA provisional entry into force

The EU-Mexico FTA contributed to achieving the strong growth in bilateral trade and investment between the Parties that has taken place in recent years.

Bilateral trade in goods between 2002 and 2016 more doubled in value, increasing 145 % in total, and since the EU-Mexico FTA came into force (in 2000), bilateral trade in goods has increased by 205%[48]. Overall, the rise is substantially sharper for EU exports, which increased 416% over the period, compared to a 29% grow in EU imports from Mexico.

Merchandise trade EU28 with Mexico (million euro)

	Base	Latest	Growth	
	2002	2016	total	average
EU28 imports	15.345	19.803	29%	2.87%
EU28 exports	6.572	33.918	416%	20%
Balance	-8.773	14.116		
Total trade	21.917	53.721	145%	10.5%

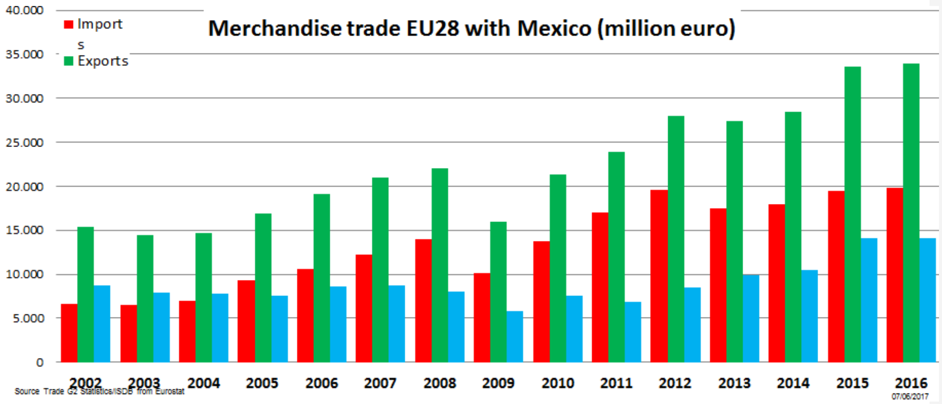
Source Trade G2 Statistics/ISDB

[48] From EUR 17.4 billion in 1999 to EUR 53.1 billion in 2016

The evolution of bilateral trade in goods can be divided into distinct periods, with marked differences:

1. 2002-2004 was characterised by a stable trade flows, without significant evolution.
2. 2004-2009 was characterised by a substantial increase in EU exports and EU imports but the EU's trade surplus with Mexico remained stable.
3. 2009 saw a stronger fall in EU imports and less important fall in EU exports leading to a smaller EU's trade surplus with Mexico.
4. Since 2010 EU imports and EU imports have increased at a higher pace, with stronger growth of EU exports. The trade surplus for the EU almost doubled during this period (until 2016).

Since 2002, the EU has enjoyed a very significant trade surplus, reaching an accumulated EUR 134.6 billion. The annual trade surplus was EUR 14.2 billion both in 2015 and 2016.



2.1.2. Trade flows in 2016

In 2016, bilateral trade between the EU and Mexico increased by 1.1 % compared with 2015, and totalled EUR 53.7 billion.

In line with the sector's performance in 2015, and contrary to Mexico's performance with the rest of its trading partners, the auto sector performed well in the bilateral trade relations, registering an overall 2.7% increase. The increase of Mexico's auto-related exports compensated for Mexico's decreased imports from the EU in that sector. Trade in agricultural products (both primary and processed foods) registered an 8.2% growth, just under Mexico's average with the rest of the world.

2.1.3. Performance compared to third trading partners

The total trade with Mexico amounted to almost USD 761 billion in 2016 , which represents a 1.9% drop compared to 2015 (USD 776 billion), slightly lower than the 2.6% drop in 2015. This is the second consecutive year, since the crisis in 2009, where Mexico registers a drop in overall trade. The key difference this time around is that both manufactured and oil-related exports fell. The overall trade deficit totalled USD 13.1 billion, which is USD 1.4 billion less than the previous year.

The US maintains its position as Mexico's main trading partner with 63.4 % of the total trade even though overall US-Mexico trade (USD 482.2 billion in 2016) decreased by 2.7% compared to 2015 when it totalled USD 495.7 billion. Although exports on both sides decreased in 2016, the fall was mainly fuelled by the 34% drop of Mexican crude and refined oil exports to the US. China remained Mexico's second biggest trade partner with 9.8% (USD 75 billion) of overall trade. The EU is third, with 8.1% (USD 61.7 billion) of trade. Both the EU and China maintained the same overall trade share compared with 2015 (0.1% difference in both cases). Trade with Canada, which fell 2.1% year on year, maintained its 2.6% share.

2.2. Trade in Services and Investment

Historically, European investments have always been important in Mexico but since the FTA came into force, the average yearly investment flow originating in the EU has tripled. The main foreign investor remains the US, with 45.8% of the total FDI over the period 2000-2016 but the EU follows second with 37%. In 2016, Mexico attracted USD 26.7 billion of foreign investments, which represents a 19.4% decrease compared with 2015. Of the USD 26.7 billion in FDI flows, 61% belonged to the manufacturing sector and 25% to services. The EU's FDI represents 31% of the total FDI stock in Mexico, behind the US with 39%. Israel is third with USD 2 billion worth of investments, followed by Japan with USD 1.5 billion. Over 90% of the EU's contribution came from three member states (Spain, Germany and Belgium). The total accumulated EU FDI in Mexico since 2000 has now reached USD 167 billion and represents 37% of Mexico's total accumulated FDI.

Bilateral trade in services in 2015 stood at EUR 14.4 billion (EUR 9.4 billion in exports and EUR 5.0 billion in imports) compared to EUR 12.3 billion in 2014. This represents an increase of 19%. Similarly, between 2010 and 2015 EU exports of services increased by 54%, while EU imports increased 47%.

EU28 services trade with Mexico (million euro)

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
EU28 imports	3.371	3.572	3.617	3.697	4.034	4.968
EU28 exports	6.110	7.114	7.657	7.923	8.322	9.399
Balance	2.739	3.542	4.040	4.226	4.288	4.432
Total trade	9.481	10.685	11.274	11.620	12.356	14.367

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

2.3. Preference Utilisation Rate

In 2016 the use of preferences on EU imports from Mexico was at 68%.

3. ANNUAL TRADE COORDINATORS MEETING AND TRADE-RELATED SUB-COMMITTEES

The EU and Mexico is engaged in an intensive negotiation process for modernising the Global Agreement. Given this process no formal meetings of the institutions under the existing agreement were organised in 2016. As a result, Mexico and the EU have profited from the negotiation meetings to take up a number of trade irritants in the margin.

4. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The main open issue on FTA implementation is related to some of the existing obligations on sanitary and phytosanitary requirements, where the position of Mexico and the EU diverge Although Mexico has made some recent although limited progress (e.g. in the area of pig meat exports), a number of SPS obstacles continue to hinder EU exports of agri-food products. The Commission continues seeking progress on these issues.

5. CONCLUSIONS

The EU-Mexico trade flow has experienced a strong and constant over-the-average growth since the entry into force of the Agreement with the exception of EU exports of agricultural products. In 2016, this feature was confirmed. The most recent statistical data shows that the trade flow between Mexico and the EU is highly dynamic with strong annual increase, up to 19% in services in 2015.

Despite these positive developments, there is no doubt that the EU-Mexico Global Agreement is outdated and does not address some of the important trade and investment issues relevant today in the way other comprehensive agreements, concluded since then by the EU or Mexico, do. As a consequence, there is an unfulfilled bilateral trade and investment potential on both sides which results in lost opportunities to capture welfare, labour and wage benefits. This is why the negotiations for modernising the EU-Mexico Global Agreement were launched mid-2016 and why the EU, as the 2015 *Trade for All* Communication highlighted, lists the modernisation of the EU-Mexico Global Agreement as a concrete initiative. The areas for modernisation include in particular sanitary and phyto-sanitary requirements, trade in goods, services and public procurement.

ANNUAL INFO SHEET ON IMPLEMENTATION OF THE EU-NORWAY FREE TRADE AGREEMENT

1. INTRODUCTION

1.1. EU-Norway FTA

On 1 July 1973, a Free Trade Agreement between Norway and the EU entered into force. It foresees the progressive abolition of customs duties and the creation of a Joint Committee. It concerns **goods only** and is one of the oldest trade agreements signed by the EU. It is accompanied by a number of protocols:

- Protocol No 1 concerning the treatment applicable to certain products
- Protocol No 2 concerning products subject to special arrangements to take account of differences in the cost of agricultural products incorporated therein
- Protocol No 3 concerning the definition of the concept of "originating products" and methods of administrative cooperation
- Protocol No 4 concerning certain provisions relating to Ireland
- Additional protocol concerning trade in fish and fishery products between Norway and the European Union

1.2. EEA agreement

Although the bilateral EU-Norway trade agreement is still in force, it has been in practice superseded in many respects by the Agreement on the European Economic Area (EEA), which entered into force on 1 January 1994, and brings the EU Member States and the three EEA EFTA States — Iceland, Liechtenstein and Norway — together into the "Internal Market". The EEA agreement ensures the free movement of goods, services, capital and persons between Norway and the EU and is the backbone of EU-Norway cooperation. Members of the EEA fully apply the whole *acquis communautaire* related to the "four freedoms" through dynamic incorporation of the relevant legislative acts into the Protocols and Annexes of the EEA Agreement via Joint Committee Decisions.

The EEA Agreement does **not cover** the common agricultural and fisheries policies, the customs union, the common trade policy, the common foreign and security policy, the field of justice and home affairs, the economic and monetary union (EMU).[49]

[49] Article 19 of the EEA Agreement encourages further liberalisation of agricultural trade. Negotiations to this end started in 2015 and are currently in the finalisation phase.

2. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

2.1 Trade in Goods

Merchandise trade EU28 with Norway and Extra-EU28 2002-2016

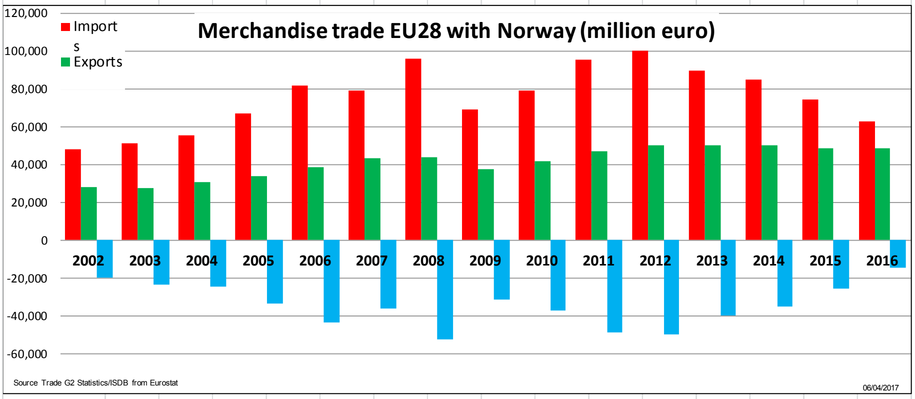
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Merchandise trade EU28 with Norway (million euro)														
Imports	48,059	51,085	55,341	67,199	81,922	79,295	95,945	68,918	79,026	95,325	99,843	89,559	85,065	74,128	62,943
Exports	28,162	27,671	30,786	33,746	38,380	43,470	43,719	37,492	41,933	46,819	49,930	50,080	50,168	48,741	48,379
Balance	-19,897	-23,414	-24,556	-33,453	-43,542	-35,824	-52,226	-31,426	-37,093	-48,506	-49,913	-39,479	-34,897	-25,387	-14,564
	Merchandise trade EU28 with Extra-EU28 (million euro)														
Imports	937,036	934,974	1,027,392	1,183,909	1,368,254	1,450,340	1,585,231	1,235,636	1,531,518	1,729,980	1,798,757	1,687,440	1,692,185	1,729,207	1,707,748
Exports	885,313	861,923	945,185	1,049,477	1,152,485	1,234,482	1,309,147	1,093,961	1,354,055	1,554,511	1,684,928	1,736,371	1,702,915	1,789,154	1,745,479
Balance	-51,723	-73,051	-82,207	-134,432	-215,768	-215,858	-276,084	-141,675	-177,463	-175,469	-113,829	48,931	10,731	59,947	37,731
	Share Norway in total EU28 trade with Extra-EU28														
Imports	5.1%	5.5%	5.4%	5.7%	6.0%	5.5%	6.1%	5.6%	5.2%	5.5%	5.6%	5.3%	5.0%	4.3%	3.7%
Exports	3.2%	3.2%	3.3%	3.2%	3.3%	3.5%	3.3%	3.4%	3.1%	3.0%	3.0%	2.9%	2.9%	2.7%	2.8%
Total (I+E)	4.2%	4.4%	4.4%	4.5%	4.8%	4.6%	4.8%	4.6%	4.2%	4.3%	4.3%	4.1%	4.0%	3.5%	3.2%

Source Trade G2 Statistics/ISDB from Eurostat COMEXT 06/04/2017

Merchandise trade Norway with EU28 and World 2002-2016

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Merchandise trade Norway with EU28 (million euro)														
Imports	26,146	25,262	27,702	31,026	35,398	40,352	41,272	32,460	36,936	40,918	43,670	43,787	42,781	41,833	40,912
Exports	49,308	46,758	51,855	67,425	74,460	80,464	97,745	66,679	79,740	93,615	101,809	95,680	88,471	75,397	62,952
Balance	23,162	21,496	24,153	36,399	39,061	40,112	56,474	34,220	42,804	52,697	58,139	51,892	45,690	33,565	22,040
	Merchandise trade Norway with World (million euro)														
Imports	36,121	35,407	38,943	44,595	51,193	58,578	61,391	48,959	58,328	65,221	67,961	66,375	65,963	65,799	65,497
Exports	64,006	60,393	66,219	83,395	97,262	99,509	116,783	83,724	98,566	115,162	125,331	114,906	106,559	93,122	80,415
Balance	27,885	24,986	27,277	38,800	46,069	40,931	55,392	34,765	40,238	49,941	57,370	48,531	40,596	27,323	14,918
	Share EU28 in merchandise trade of Norway with world														
Imports	72.4%	71.3%	71.1%	69.6%	69.1%	68.9%	67.2%	66.3%	63.3%	62.7%	64.3%	66.0%	64.9%	63.6%	62.5%
Exports	77.0%	77.4%	78.3%	80.8%	76.6%	80.9%	83.7%	79.6%	80.9%	81.3%	81.2%	83.3%	83.0%	81.0%	78.3%
Total (I+E)	75.4%	75.2%	75.7%	76.9%	74.0%	76.4%	78.0%	74.7%	74.4%	74.6%	75.3%	76.9%	76.1%	73.8%	71.2%

Source Trade G2 Statistics/ISDB from IMF DoTS 06/04/2017



Merchandise trade EU28 with Norway (million euro)

Norway	Base 2002	Latest 2016	Growth total	Growth average
EU28 imports	48,059	62,943	31.0%	1.9%
EU28 exports	28,162	48,379	71.8%	3.9%
Balance	-19,897	-14,564		
Total trade	76,222	111,322	46.0%	2.7%

Source Trade G2 Statistics/ISDB

No data on FTA validity available

Merchandise trade EU28 with Extra-EU28 (million euro)

Extra-EU28	Base 2002	Latest 2016	Growth total	Growth average
EU28 imports	937,036	1,707,748	82.2%	4.4%
EU28 exports	885,313	1,745,479	97.2%	5.0%
Balance	-51,723	37,731		
Total trade	1,822,349	3,453,227	89.5%	4.7%

2.2 Trade in Services and Investment

EU28 services trade with Norway (million euro)	2010	2011	2012	2013	2014	2015
EU28 imports	11,187	12,010	12,774	14,303	15,972	16,229
EU28 exports	21,400	22,570	24,886	27,097	28,085	28,016
Balance	10,213	10,560	12,112	12,794	12,113	11,787
Total trade	32,587	34,579	37,661	41,400	44,056	44,244

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

EU28 services trade with Extra-EU28 (million euro)	2010	2011	2012	2013	2014	2015
EU28 imports	460,537	480,514	520,023	543,503	602,159	685,657
EU28 exports	568,697	615,157	684,889	721,251	772,531	831,529
Balance	108,160	134,643	164,865	177,748	170,372	145,872
Total trade	1,029,235	1,095,671	1,204,912	1,264,755	1,374,690	1,517,185

Foreign direct investment EU28 with Norway (million euro)	Inward			Outward		
	2013	2014	2015	2013	2014	2015
Stocks	68,179	71,376	75,988	66,994	77,436	84,531
Flows	1,007	3,376	1,152	8,268	6,648	10,236

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign direct investment EU28 with Extra-EU28 (million euro)	Inward			Outward		
	2013	2014	2015	2013	2014	2015
Stocks	4,130,346	4,758,479	5,841,914	5,456,192	6,000,194	6,894,054
Flows	506,799	98,740	466,881	546,778	58,287	529,496

2.3 Preference Utilisation rate

Use of preferences on imports into EU from Norway	2013	2014	2015	2016
use as % eligible	74%	72%	71%	66%

Includes all preferences (FTA, GSP, bilateral)

Source Trade G2 Statistics/ISDB

3. ISSUES ADDRESSED IN THE ANNUAL JOINT COMMITTEE/TRADE COMMITTEE MEETING

In practice, since the signing of the EEA agreement, the bilateral FTAs have been less active and no **FTA Joint Committee** meetings have been called in the last years. Joint committee decisions, often of technical nature and limited in number, are taken by written procedure.

The **EEA Joint Committee** meets six to eight times per year. Four subcommittees assist the Joint Committee (on the free movement of goods, the free movement of capital and services including company law, the free movement of persons and horizontal and flanking policies). They mainly deal with the incorporation of the *acquis*.

Bilateral trade issues are often raised on a case-by-case basis, notably at the occasion of high level meetings.

A recurring trade irritant since 2012 was linked to the **reclassification and tariff switch** by the Norwegian Customs Authorities of several products under different HS tariffs codes. In 2012, Norway indeed announced an increase of import duties by switching from specific to ad valorem duties for six tariff lines of agricultural products (cheese, beef and lamb meat). The increase is significant (up to 429%). In the same year, Norway has also reclassified a garden type of Hortensia, which resulted in an increase of the import duty from 0 to 72%. These tariff measures were addressed in the framework of the EU-Norway Article 19 negotiations, concluded on negotiators' level on 5 April 2017.

4. SPECIFIC AREAS OF IMPORTANCE

The integration into the Internal market via the EEA agreement is the main achievement of the overall EU-Norway relations and the main driver of our trade relations.

Norway however suffers from a backlog in taking over the *acquis*, which is causing problems. One recent example was the delay in taking over EU organic legislation. As a consequence, Norwegian organic salmon could not be certified against the EU organic legislation and could not bear the EU organic logo. Some Member States decided to ban organic salmon from Norway. This was solved when Norway adopted equivalent legislation.

In 2015, negotiations between EU and Norway were concluded on the Additional Protocol to the Agreement between the European Economic Community and the Kingdom of Norway (i.e., to the FTA Agreement). Trade concessions on imports of fishery products from Norway were revised and agreement was reached on Norway's financial contribution to the EEA.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

5.1. Agricultural products

Agriculture and fisheries are not covered by the EEA agreement, which however encourages further liberalisation of agricultural trade through its article 19. Negotiations started in 2015 and have been concluded successfully at negotiators' level in April 2017. The concessions consist of 36 fully liberalised tariff lines and tariff rate quotas to be opened by both sides. This will offer new trade opportunities for EU and Norwegian exporters of agricultural products. The impact will be duly monitored.

5.2. Processed agricultural products

Trade in processed agricultural products is regulated by Protocol 3 to the EEA agreement (and by Protocol 2 to the FTA, which still offers a more preferential treatment than the EEA for few products). Protocol 3 EEA foresees the possibility to levy customs duties based on the costs of the basic agricultural products in the EU and in Norway. In practice, EU exports of processed agricultural products are hindered by high customs tariffs. Despite the fact that the Protocol foresees annual consultations to make sure that the terms are adapted to market developments and new concessions, there have been only two adaptations since the entry into force of the EEA Agreement in 1994.

The EU is ready to engage in discussions on further liberalisation of trade in processed agricultural products. This was discussed at three meetings between the autumn 2012 and December 2014. At that last meeting, Norway said that such negotiations might only be envisaged if and when Article 19 negotiations on trade in agricultural products would be successfully concluded – which eventually happened in April 2017.

5.3. Geographical Indications

The last EU-Norway bilateral agreement under Article 19 of the EEA Agreement contains also a commitment of the parties to encourage trade of agricultural products with Geographical Indications (GIs). The GIs negotiations were launched on 20 November 2013 but were suspended at the request of the Norwegian side following the 5^{th} negotiating round on 5 April 2016. The EU is ready to resume these negotiations.

5.4. Trade irritants

Individual companies or business associations often highlight **burdensome customs** procedures when exporting to Norway. The issue will have to be further examined and if appropriate raised with our Norwegian partners.

6. CONCLUSIONS

Norway and the EU are very close trading partners: the figures illustrate it. Norway is the EU's sixth top trading partner and the EU is Norway's number one trading partner.

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 relations in some of the areas not covered by the EEA agreement.

Politically, Norway and the EU are close allies. Norway actively aligns itself with EU foreign policy instruments, including the EU's sanction policy towards Russia and is also subject to the Russian agricultural ban, which has severely hit its salmon, herring and mackerel producers. Nonetheless, Norway has been generally able to compensate for the negative effects of the ban on its fisheries exports, by expanding their exports to other markets.

In multilateral trade fora, notably WTO, the EU and Norway very often defend the same positions.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-SERBIA FREE TRADE 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 overall policy towards the Western Balkan countries' Stabilisation and Association process. Under this process, all Western Balkans countries, including Serbia, have common futures to 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 from **1 July 2008**. This Agreement established a free-trade area over a transitional period of six years. As regards the EU, in 2010, 97.5% of tariff lines were already duty-free, representing 96% of the value of imports from Serbia. By 2016, Serbia liberalised 95.6% of tariff lines for imports from the EU.

The Agreement covers products in all Chapters of the Harmonised System. Only few exceptions, concerning few agricultural and fishery products, are not fully liberalized, and subject to preferential quantitative concessions.

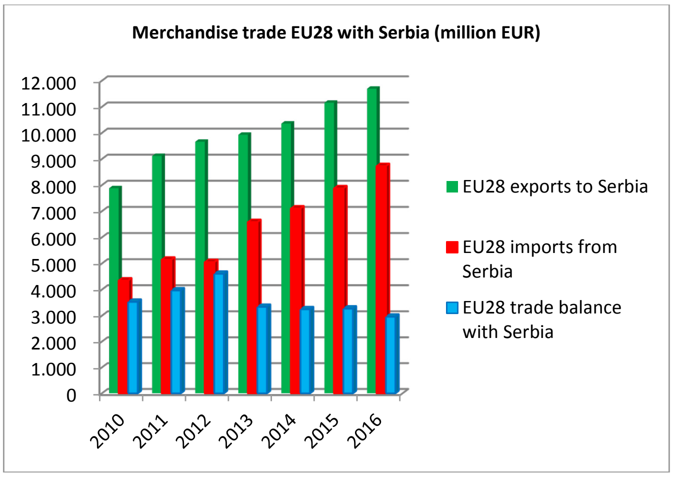
2. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

2.1 Trade in Goods

In 2007, the total trade between the EU and Serbia amounted to EUR 12.5 billion. In 2016, eight years after the entry into force of the agreement - this figure has now reached EUR 20.4 billion, **an increase of 62.4%**.

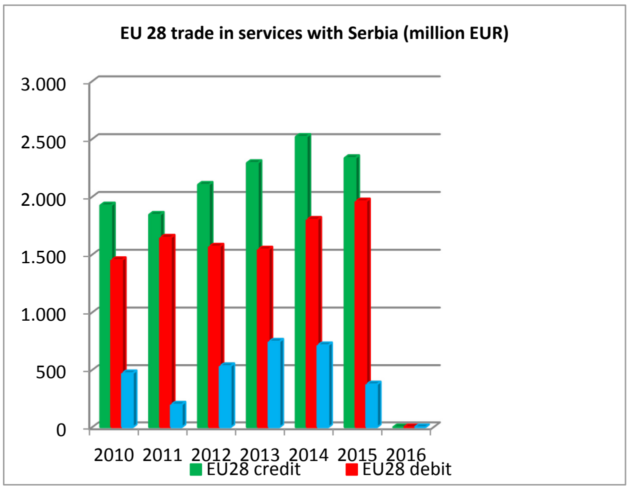
EU 28 trade in goods with Serbia (mio €)

Current account \ TIME	2010	2011	2012	2013	2014	2015	2016
EU28 exports to Serbia	7,881	9,116	9,660	9,927	10,357	11,154	11,692
EU28 imports from Serbia	4,349	5,147	5,053	6,588	7,110	7,880	8,732
EU28 trade balance with Serbia	**3,532**	**3,969**	**4,606**	**3,339**	**3,247**	**3,274**	**2,961**

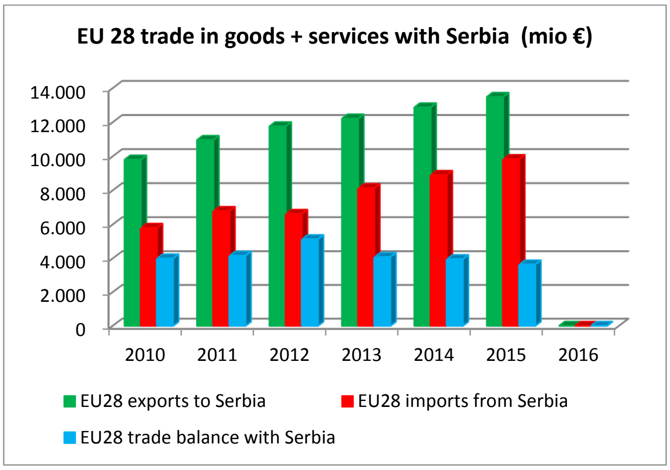


2.2 Trade in Services and Investment

EU 28 trade in services with Serbia (mio €)							
	2010	2011	2012	2013	2014	2015	2016
EU28 credit	1.927	1.846	2.106	2.294	2.520	2.337	:
EU28 debit	1.454	1.648	1.571	1.545	1.803	1.962	:
EU28 balance	473	198	535	748	717	375	:



EU 28 trade in goods + services with Serbia (mio €)							
	2010	2011	2012	2013	2014	2015	2016
EU28 exports to Serbia	9.807	10.962	11.765	12.221	12.877	13.490	:
EU28 imports from Serbia	5.803	6.795	6.624	8.133	8.912	9.842	:
EU28 trade balance with Serbia	4.005	4.167	5.141	4.088	3.964	3.649	:



EU 28 FLOWS direct investments with Serbia (mio €)							
Current account \ TIME	2010	2011	2012	2013	2014	2015	2016
EU28 in Serbia	525	1.433	-861	582,5	465,4	26,2	:
Serbia in EU28	-496	81	-129	2,7	301,7	14,3	:
EU28 trade balance with Serbia	1.021	1.352	-732	579,8	163,7	11,9	:

2.3 Preference Utilisation rate

EU28 imports goods from Serbia					
trade preference coverage	2010	2011	2012	2013	2014
% of tariff lines	95,5%	97,3%	97,6%	97,6%	97,6%
% of imports goods in value	97,3%	96,9%	96,9%	97,6%	98,9%

3. ISSUES ADDRESSED IN THE ANNUAL TRADE COMMITTEE MEETING

Commercial issues are discussed on an annual basis in the context of Sub-committee on Trade, Industry, Customs and Taxation. The last meeting took place on 7 February 2017, during which the positive trade trends were again highlighted, with the **EU remaining**

Serbia's first trade partner with a share of nearly **64% of its global trade**. Serbia's decision to discontinue the nearly two-year long safeguard measures against EU originating imports of dairy and pork products as of 1 January 2017 was welcome and the importance to respect the smooth implementation of the SAA was emphasised. Other trade issues addressed include the importance for Serbia to finalise its WTO accession; the need to effectively and consistently implement a risk-based methodology for the import control of goods to avoid systematic controls at the border and concerns about the excise discrimination against whisky and other EU spirits.

4. SPECIFIC AREAS OF IMPORTANCE

The EU has repeatedly encouraged Serbia to finalise its accession to the WTO as it will anchor economic reform and trade liberalization carried out in the context of the EU Stabilisation and Association Process. In addition, **WTO accession** is a pre-condition or requirement for the conclusion of the External Relations Chapter (Chapter 30) of its EU accession negotiations[50].

Serbia applied for WTO membership in 2005. Serbia's WTO membership remains dependent on the adoption of a WTO and EU *acquis*-compliant law on genetically modified organisms and on the completion of market access negotiations with a few WTO members.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The most pressing open issues remain the excise discrimination against whisky and other EU spirits that puts EU exports of spirits at a competitive disadvantage. The excise tax regime favours the domestic spirit rakija, taxed 2.5 times lower than whisky. This issue was once again raised in the 4th meeting of the EU-Serbia Stabilisation and Association Committee in Belgrade on 27 April 2017.

6. CONCLUSIONS

Serbia and the EU are very close and growing trade partners **having increased their total trade by over 60% since the entry into force of the trade agreement**. The EU is the country's main trading partner by far, accounting for 63.6 % of the total exports and 62.3 % of the total imports of goods. The EU continued to be the main source of foreign investment too, with a share in net FDI of 82 % in 2015 and more than three-quarters of the cumulative FDI stock.

[50] The negotiating position of the EU is being finalised and the chapter should be open in the third quarter of 2017

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-SOUTH AFRICA (SA) TRADE, DEVELOPMENT AND CO-OPERATION AGREEMENT (TDCA)

1. INTRODUCTION

The TDCA was signed on 11 October 1999, started being applied on 1 January 2000 and entered into force on 1 May 2004. Its full implementation has been effective since the end of 2012. After the last three EU enlargements, the 10+2+1 new EU Member States became contracting parties in 2004, 2007 and 2016 respectively.

The Agreement was amended in 2006 to phase out and eliminate the duties on some automotive products, and was complemented in 2002 and 2010 by two separate agreements, respectively on "trade in wine and spirits" as well as on "cheese".

The trade and trade-related provisions of the TDCA were replaced by the EU-SADC Economic Partnership Agreement as ruled therein in Article 111 and Protocol 4. Hence, as from the entry into provisional application of the new agreement on 10 October 2016, the trade and trade-related provisions of the TDCA were repealed.

2. EVOLUTION OF TRADE

2.1 Trade in goods

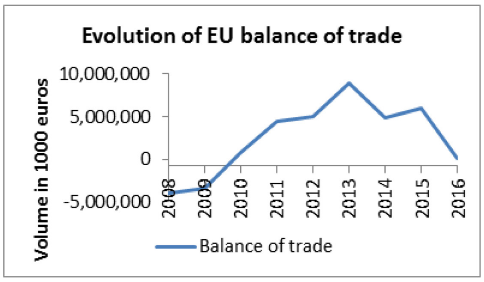
The agreed tariff elimination schedules were complemented over a period of 12 years (92% of EU tariff lines, 72% of SA tariff lines), while the tariff rate quotas on some agricultural products were managed under a first-come/first-served basis.

In 2016, the EU remained SA's first trade partner (representing 31% of SA imports – from DE, FR and UK in decreasing order -, followed by China, USA, India and Saudi Arabia; and 23% of SA's exports – to DE, UK and BE in decreasing order -, followed by China, USA, Botswana and Namibia). SA ranked #14 in imports into the EU (1.4% of the overall imports) and #18 as EU export destination (1.3% of overall exports).

Looking at the evolution over the last 8 years, the peak of imports into the EU from SA in 2008 decreased at its lowest level in 2013 to catch up again afterwards but not to same levels as 2016; while EU exports to South Africa peaked in 2011 to slightly decrease but still above 2008 levels. It is interesting to note that the trade balance – very much in favour of SA in 2008 - reached a positive peak for the EU in 2013 to decrease again on an almost parity level today.

EU and South Africa

Flows in 1000 euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
Imports	24,617,581	19,251,614	20,421,687	21,759,953	20,513,640	15,560,273	18,512,838	19,398,914	22,885,853
Exports	20,593,995	15,860,395	21,287,156	26,232,404	25,580,178	24,481,388	23,317,861	25,432,140	22,976,987
Balance of trade	-4,023,586	-3,391,219	865,469	4,472,450	5,066,538	8,921,115	4,805,023	6,033,227	91,134

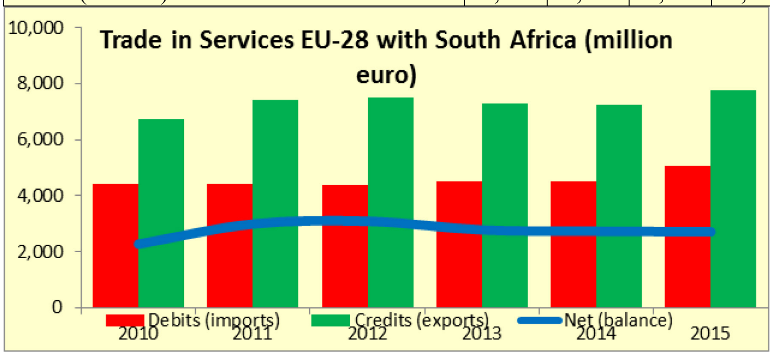


2.2 Trade in services and Investment

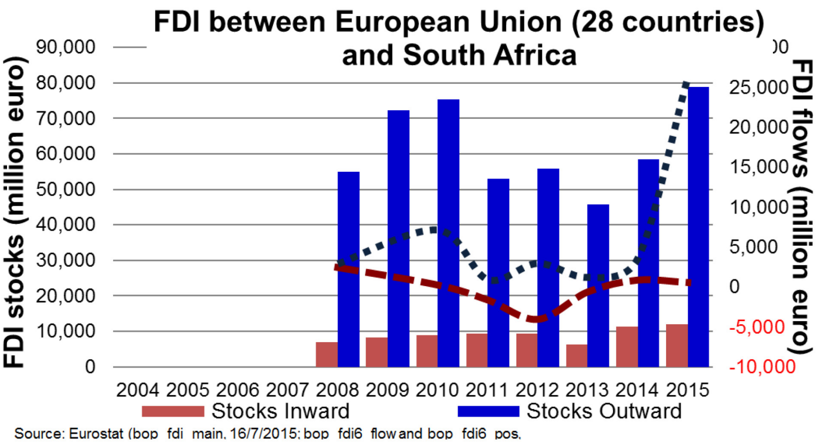
Trade in services is covered by the TDCA only in so far it calls upon the Parties to observe GATS obligations, to endeavour to extend the scope of the TDCA with a view to further liberalising trade in services (it never happened) and to foster co-operation in general and in the area of banking, insurance and other financial services. The TDCA does not contain any provision on investments.

From 2010 to 2015, imports of services into the EU increased by 14% while exports by 16%. The trade balance has not fluctuated significantly and remains in favour of the EU.

Services	2010	2011	2012	2013	2014	2015
Debits (imports)	4,437	4,437	4,399	4,501	4,509	5,057
Credits (exports)	6,711	7,431	7,491	7,284	7,241	7,769
Net (balance)	2,274	2,994	3,092	2,783	2,732	2,712



With regard to investment, the EU remained in 2016 the SA's undisputed dominant partner, representing 78% of FDI SA stocks (NL ranking first, followed by UK and DE).



2.2 Preference utilisation rate

With regard to the utilisation rates in 2016 of the preferences granted by the EU in the framework of the TDCA, 29.2% of overall imports from SA entered duty-free (against 58.4% entering duty free because already at a 0% MFN rate), 1% with a preferential rate and 0.8% under TRQs management.

3. ISSUES ADDRESSED IN THE TDCA TRADE CO-OPERATION COMMITTEE (TCC)

The TCC had been meeting regularly on an annual basis alternatively in Pretoria and in Brussels. The 2016 meeting was dominated by discussions about the transition to the new trade regime under the EU-SADC EPA, the investment environment in SA following termination by the latter of Bilateral Investment Treaties also with EU Member States, and the several irritants affecting the bilateral trade relationship. In this last respect, SPS issues ranked high on the agenda, ranging from the recognition of principle of regionalisation (for avian influenza in the EU, and for FMD in SA), to SA game – including ostrich – and SA citrus. The ongoing safeguard investigation by SA on imports of poultry originating in SA was also extensively discussed.

4. SPECIFIC AREAS OF IMPORTANCE

Trade in agricultural products has remained the most sensitive area in EU-SA bilateral relations, with SA challenging our interpretation of human and animal risk and our SPS requirements. EU SPS requirements for game, ostriches, horses and citrus have ranked at the top of bilateral dialogues under the TDCA. Additionally, imports of poultry from the EU have also been cause of serious concerns to the domestic industry, which managed to obtain the application of anti-dumping duties on three EU Member States in 2015, to close imports from 10 EU Member States on the same year because of avian influenza and the refusal to accept the containment measures adopted in the EU, and to initiate a safeguard investigation under Article 16 of the TDCA. Additionally, issues relating to trade in wines and spirits had to be addressed in a separate agreement, raising the obligation taken by the EU to provide an assistance fund of EUR 15 million to SA.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

All areas mentioned in the previous point remain open at this stage, and are being dealt with in the framework of the EU-SADC EPA. With specific regard to the assistance of EUR 15 million promised under the wine and spirits agreement, discussions are currently ongoing on the development of a EUR 10 million programme to be financed under the Development Co-operation Instrument as well as of a EUR 5 million programme funded under the Partnership Instrument.

6. CONCLUSIONS

The TDCA has, all in all, being assessed positively by both EU and SA stakeholders and created a platform on the basis of which the EU-SADC EPA could be built.

ANNUAL INFO SHEET ON THE 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. The trade relations between the EU and Switzerland are among the closest. For Switzerland, the EU is by far the most important trading partner (with more than 50% of exports and 70% of imports going to or coming from the EU). For the EU, Switzerland is overall trading partner number 3 (number 2 for services). The EU trade in goods surplus with Switzerland amounted to more than EUR 20 billion in 2016 (third biggest EU surplus worldwide) while the services surplus reached EUR 44 billion in 2015 (biggest EU surplus worldwide).

EU-Switzerland FTA of 1972

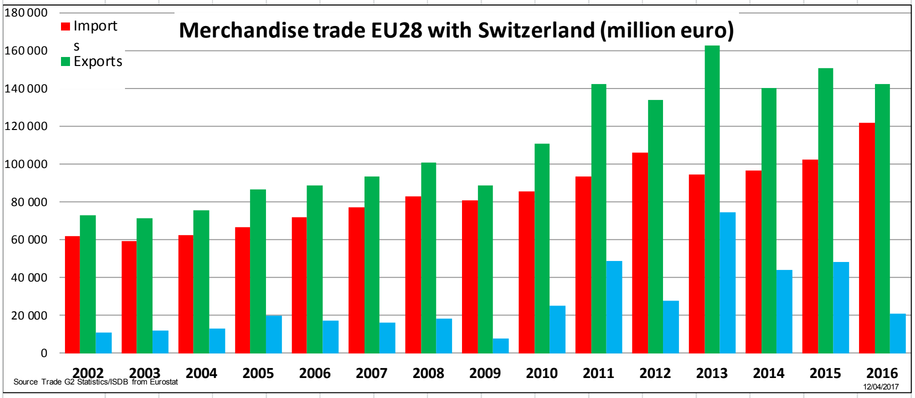
The cornerstone of EU-Swiss relations is the free trade agreement of 1972. It concerns **goods only** and is one of the oldest trade agreements signed by the EU. It does not contain provisions on services, investment, IPR or government procurement. No dispute settlement mechanism is foreseen beyond the 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"). These include: free movement of persons, technical trade barriers, public procurement, agriculture and air and land transport (road and rail). In addition, a scientific research agreement fully associated Switzerland into the EU's framework research programmes. A further set of sectoral agreements was signed in 2004 (known as "Bilaterals II") covering, inter alia, Switzerland's participation in Schengen and Dublin, and agreements on taxation of savings, processed agricultural products, statistics, combating fraud, and participation in some EU programmes and agencies.

The EU-Swiss relationship is therefore characterised by a complex web of approximately 120 bilateral sectoral agreements.

2. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

2.1 Trade in Goods



Merchandise trade EU28 with Switzerland (million euro)				
Switzerland	Base 2002	Latest 2016	Growth total	Growth average
EU28 imports	61 863	121 627	96,6%	4,9%
EU28 exports	72 856	142 488	95,6%	4,9%
Balance	10 993	20 860		
Total trade	134 719	264 115	96,0%	4,9%

Source Trade G2 Statistics/ISDB

No data on FTA validity available

Merchandise trade EU28 with Extra-EU28 (million euro)				
Extra-EU28	Base 2002	Latest 2016	Growth total	Growth average
EU28 imports	937 036	1 707 748	82,2%	4,4%
EU28 exports	885 313	1 745 479	97,2%	5,0%
Balance	-51 723	37 731		
Total trade	1 822 349	3 453 227	89,5%	4,7%

2.2 Trade in Services and Investment

	EU28 services trade with Switzerland (million euro)					
	2010	2011	2012	2013	2014	2015
EU28 imports	46 441	47 380	50 873	54 018	63 984	72 550
EU28 exports	77 091	82 150	96 288	100 055	110 376	116 649
Balance	30 650	34 770	45 416	46 037	46 392	44 099
Total trade	123 532	129 531	147 161	154 072	174 360	189 198

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

	EU28 services trade with Extra-EU28 (million euro)					
	2010	2011	2012	2013	2014	2015
EU28 imports	460 537	480 514	520 023	543 503	602 159	685 657
EU28 exports	568 697	615 157	684 889	721 251	772 531	831 529
Balance	108 160	134 643	164 865	177 748	170 372	145 872
Total trade	1 029 235	1 095 671	1 204 912	1 264 755	1 374 690	1 517 185

Foreign direct investment EU28 with Switzerland (million euro)						
	Inward			Outward		
	2013	2014	2015	2013	2014	2015
Stocks	491 505	501 643	626 849	676 816	691 774	828 900
Flows	18 309	26 916	75 469	20 142	-32 962	51 164

Source Trade G2 Statistics/ISDB from Eurostat BOP statistics

Foreign direct investment EU28 with Extra-EU28 (million euro)						
	Inward			Outward		
	2013	2014	2015	2013	2014	2015
Stocks	4 130 346	4 758 479	5 841 914	5 456 192	6 000 194	6 894 054
Flows	506 799	98 740	466 881	546 778	58 287	529 496

2.3 Preference Utilisation rate

Use of preferences on imports into EU from Switzerland				
	2013	2014	2015	2016
use as % eligible	92%	91%	86%	83%

Includes all preferences (FTA, GSP, bilateral)

Source Trade G2 Statistics/ISDB

3. ISSUES ADDRESSED IN THE ANNUAL JOINT COMMITTEE MEETING

At the 62nd meeting of the Joint Committee under the EU-Swiss FTA, which took place in Bern on 23 November 2016, the main points on the agenda have been the following:

- **Processed agricultural products:** Both parties exchanged reference prices for basic agricultural products, concluding technical discussions among experts that will result in a new compensatory duties being imposed on imports of EU processed agricultural products into Switzerland as of Spring 2017. The level of compensation granted to the Swiss was slightly reduced in comparison to previous years, upon request of the EU.
- **Anti-dumping:** Both parties exchanged views with regard to the use of preferential/non-preferential rules of origin in the context of anti-dumping measures.
- **Flanking measures**: The EU considers that certain aspects of the so-called "flanking measures", which accompany the Free Movement of Persons Agreement are disproportionate and an impediment to trade in services.
- **Steel surveillance:** Switzerland raised questions about the EU's steel surveillance measures.
- **"Swissness" rules:** EU asked questions about the practical implementation of Swissness rules as of 01/01/17 and notification to WTO.
- **FTAs:** Both parties informed about concluded and negotiated FTAs.
- **Company tax reform in Switzerland:** the abolition of certain tax regimes in the context of the company tax reform in Switzerland was discussed.
- **Reform VAT regime** for low value consignment both in Switzerland and in the EU was raised as there are reflexions on both sides on this topic, with possible impact notably on e-commerce.

In addition to the yearly meeting of the FTA joint committee, about a dozen joint committees under other bilateral agreements take place on a regular basis but there is no overarching committee which oversees bilateral economic relations in their entirety.

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 EU *acquis*. On the basis of the sectoral bilateral agreements, Switzerland has however access to two of them: free movement of goods (with the exception of agricultural products and 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 EU and Swiss legislation in the sector up to the date of the agreements' signature without the obligation to take on new EU legislation dynamically. However, the Swiss are taking over – on a contractual or even on an autonomous basis - part of the EU *acquis*, for example in the area of recognition of professional qualifications.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The main issues have been highlighted by the Council in its conclusions of 28/02/2017 on Switzerland: *"Switzerland is the EU's third largest economic partner and the EU is Switzerland's main trading partner. While today the bilateral trade relationship generally works smoothly to the benefit of both partners, there are a number of restrictions on access to* *the Swiss market for operators from the EU, notably in the agri-food and services sectors. These restrictions need to be addressed in order to remedy asymmetries in bilateral economic relations. The Council is concerned by an inconsistent application of certain agreements and the introduction by Switzerland of subsequent legislative measures and practices, at federal or cantonal level, that are incompatible with those agreements, in particular the FMPA. The Council calls upon Switzerland to abrogate such flanking measures and to refrain from adopting new measures incompatible with the Agreement".*

5.1. Agriculture

Liberalisation of agricultural products is very limited (the most notable exception being cheese which is broadly liberalised). Although there was a commitment in 2002 to progressively further liberalise, the negotiations stalled in 2009. In addition, a protocol annexed to the FTA in 2004 foresees a rather burdensome, and asymmetric, mechanism to compensate Switzerland for the very significant price differential between the EU and Switzerland as regards some inputs to processed agricultural products. It has also led in the past to significant increases in duties on imports of processed agricultural products into Switzerland from the EU. A recent study shows that Swiss agri-food exports to the EU have increased much more (around 150%) than EU exports to Switzerland (around 50%)[51].

5.2. Services

There is no overall services agreement between the EU and Switzerland. But there are services-related liberalisation commitments in a number of sector specific agreements such as land and air transport or FMOPA. While the EU and Switzerland have a mandate to negotiate a services agreement, negotiations have never really taken off.

5.3. Trade barriers

The main trade barriers for EU businesses in Switzerland are linked to the service sector, in particular the implementation of the EU-Swiss Free Movement of Persons Agreement (FMOPA). The declared objective of the flanking measures is to monitor the respect of minimum working conditions in Switzerland and, where deemed necessary, to provide for sanctions to prevent an erosion of (comparatively very high) Swiss salaries. The EU considers these market access barriers as burdensome and disproportionate. Three new barriers were reported for Switzerland in 2016. Two concern the services sectors: new VAT registration rules for companies and new registration requirement for artisan workers. The third is a significant tariff increase for *seasoned meat*, following a border measure reclassifying these products.

5.4. Dispute settlement

The bilateral trade relationship lacks any reliable dispute settlement mechanism.

6. CONCLUSIONS

The EU-Swiss relations, since 2014 overshadowed by the popular vote "against mass immigration", ended the year 2016 on a positive note. The vote on 16 December 2016 by the Swiss Parliament of the Federal Act on Foreign Nationals was indeed welcomed by the EU, now awaiting further details on implementation. This is however creating positive dynamics overall. The next step will hopefully bring progress on the institutional agreement between the

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51 https://ec.europa.eu/agriculture/external-studies/2016-bilateral-trade-agreements_en

European Union and Switzerland that has been negotiated for the last three years, to provide legal certainty in EU-Swiss bilateral relations.

The institutional setting for EU-Swiss bilateral trade relations remains complex with the coexistence of an old FTA and sectoral agreements partially addressing trade issues. Clearly, the lack of a credible dispute settlement mechanism – together with gaps in the sectoral coverage (agriculture, services) - are among the most important shortcomings of the otherwise very dense bilateral trade relationship.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-TURKEY CUSTOMS UNION

1. INTRODUCTION

The contractual relations between the EU and Turkey date back to 1963 when the European Economic Community (i.e. the EU`s predecessor) and Turkey signed an Association Agreement (the "Ankara Agreement"), in which both parties agreed to progressively establish a Customs Union over a period of several years. An Additional Protocol was signed in November 1970 setting out a timetable for the abolition of tariffs and quotas on industrial goods circulating between the parties. The final phase of the Customs Union was completed on 1 January 1996 by the EU-Turkey Association Council Decision No 1/95, which is currently in force.

The Customs Union ensures free circulation of all industrial goods and certain processed agricultural products between the EU and Turkey. It also established a requirement for Turkey`s alignment to the EU`s customs tariffs and rules, commercial policy, competition policy, intellectual property rights, as well as to the EU`s technical legislation related to the scope of the Customs Union. The Customs Union with Turkey therefore goes well beyond the traditional free trade agreements which the EU has concluded with other third countries.

In addition to the Customs Union, the EU and Turkey concluded two further bilateral preferential trade agreements. The Agreement between the European Coal and Steel Community (ECSC) and Turkey on trade in products covered by the Treaty establishing the ECSC established a free trade agreement for coal, iron and steel products, along with relevant competition rules. Association Council Decision No 1/98 (amended by Decision No 2/2006) 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.

2. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

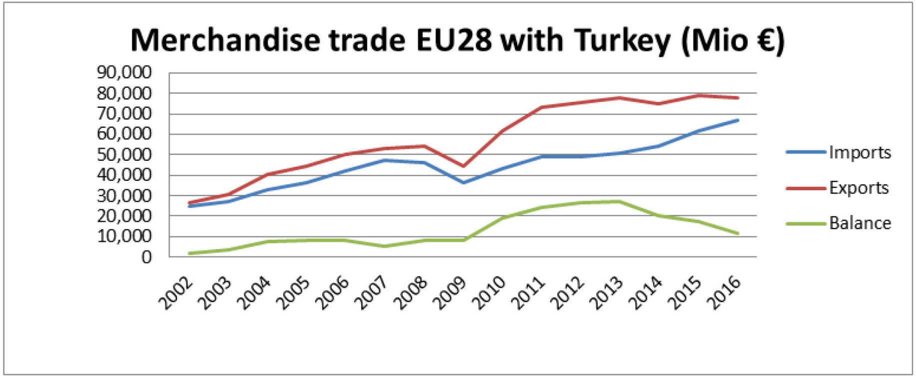
The Customs Union has led to substantial increase in trade between the EU and Turkey. Since its entry into force in 1996, the value of bilateral trade increased more than fourfold[52]. The rise in foreign direct investment to Turkey from the EU has been similarly significant, as has been the deeper integration in production networks between Turkish and European firms. Turkey is now the EU's 4th biggest export market and 5th largest trading partner overall, whilst the EU is by far Turkey's most important trading partner.

2.1 Trade in Goods

Trade in goods between the EU and Turkey has seen a sharp increase over the last two decades. In 2016, the EU exported goods worth EUR 78 billion to Turkey and imported products worth EUR 66.6 billion. The EU's biggest export category in 2016 was machinery and appliances (27.9% of overall exports), followed by transport equipment (20.6%) and

[52] World Bank: Evaluation of the EU - Turkey Customs Union, March 2014

chemical products (11.3%). Turkey`s biggest export sector was transport equipment (23.8%), followed by textiles and textile articles (21.6%) and machinery and appliances (17.4%). The following graph shows the overall evolution of trade in goods since 2002.



2.2 Trade in Services and Investment

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 services, the latest data available are for the year 2015 and show that the EU has a negative balance with Turkey, reflecting the high barriers to enter the Turkish market as well as the net surplus of EU visitors to Turkey.

EU28 services trade with Turkey (million euro)						
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
EU28 imports	14,336	15,054	14,584	15,253	15,883	16,392
EU28 exports	8,233	9,147	9,501	10,441	10,873	12,245
Balance	-6,103	-5,907	-5,084	-4,813	-5,010	-4,148
Total trade	22,569	24,201	24,085	25,694	26,755	28,637
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

As for investment, the EU is by far the biggest source of foreign direct investment (FDI) in Turkey, with the total FDI stock exceeding EUR 75 billion in 2015 (the latest available data) and more than EUR 10 billion of European investment in Turkey in 2015 alone.

Foreign direct investment EU28 with Turkey (million euro)						
	Inward			Outward		
	2013	**2014**	**2015**	**2013**	**2014**	**2015**
Stocks	7,841	8,510	6,962	57,275	66,655	75,874
Flows	2,848	1,349	-746	2,576	3,964	10,277
Source Trade G2 Statistics/ISDB from Eurostat BOP statistics						

2.3 Preference Utilisation rate

One of the specific features of the Customs Union is the free circulation of goods between the partner countries, without the need to prove compliance with the rules of origin, thereby significantly reducing the overall cost of trade. It also makes it easier for traders to benefit from the preferential arrangements. The below mentioned utilisation rate relates to trade of products covered by preferential agreements, including all industrial goods and certain agricultural and fishery products. All other products are subject to the applicable duties in line with the provisions of both sides under the World Trade Organisation.

Use of preferences on imports into EU from Turkey				
	2013	**2014**	**2015**	**2016**
use as % eligible	92%	93%	93%	93%
Includes all preferences (FTA, GSP, bilateral), Source Trade G2 Statistics/ISDB				

3. ISSUES ADDRESSED IN THE CUSTOMS UNION JOINT COMMITTEE MEETINGS

The 33rd Customs Union Joint Committee (CUJC) meeting took place on 25 May 2016 in Ankara and the 34th CUJC meeting was held on 11-12 May 2017 in Brussels. It discussed issues linked to the proper functioning of the Customs Union, notably as regards:

- 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 but put into free circulation in the EU, increased duties on sweet corn, surveillance measures of certain products, export restrictions of copper and aluminium, unnecessary testing requirements and customs procedures, import licenses for old-second hand-renovated goods. Issues related to agricultural trade have also been raised here and in the sub-committee on agriculture.
- Turkey's alignment to EU technical legislation in areas which are essential for the functioning of the Customs Union.

- Update on recent EU trade policy developments, in particular as regards negotiations of free trade agreements with third countries, linked to Turkey's obligation to align with the EU's commercial policy.
- The non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States including the Republic of Cyprus.

4. SPECIFIC AREAS OF IMPORTANCE

In 2016, the Turkish economy was affected by the aftermath of the attempted coup d'état of 15 July. This, combined with a series of terrorist attacks, had an impact on the business environment, number of foreign visitors and domestic consumption. Nevertheless, in 2016, Turkey's GDP grew by 2.9%.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Turkey has introduced various trade and market access barriers which also affect European companies. A number of these measures are in breach of the Customs Union rules. The European Commission has been raising and addressing these barriers in various fora, including the Customs Union Joint Committee and other bilateral meetings.

6. CONCLUSIONS

Turkey's obligation to align to the EU's common customs tariff, as well as to EU technical legislation which are important for the free movement of goods, go much beyond classic trade agreements and thus make the bilateral trade relationship unique. The Customs Union has therefore led not only to significant increase in bilateral trade over the last 20 years, but also to important investment and production links between the two parties. However, the economic and trading environment has changed substantially since the creation of the Customs Union and it has become less well equipped to deal with the modern day challenges of trade integration.

The European Commission has therefore adopted, on 21 December 2016, a proposal to modernise the Customs Union to improve its functioning and to further extend the scope of the bilateral preferential trade arrangements in line with modern free trade agreements and the *Trade for All* Communication, thus also covering areas such as services, public procurement, specific rules for SMEs and sustainable development, as well as further liberalisation of agricultural products. It will also contain an effective dispute settlement mechanism to address the increasing number of trade and market access problems faced by European companies. Moreover, it aims at improving Turkey's involvement and information as regards EU trade policy towards third countries and technical legislation in line with its obligations to align to the EU common customs tariff and the EU acquis.

The proposal was accompanied by an Impact Assessment[53] and also took into account the results of a public consultation which was held between 16 March and 9 June 2016.

[53] COM SWD(2016) 475 final, 21.12.2016, available here:

http://ec.europa.eu/smart-regulation/impact/ia_carried_out/docs/ia_2016/swd_2016_0475_en.pdf

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-ALGERIA FREE TRADE AGREEMENT

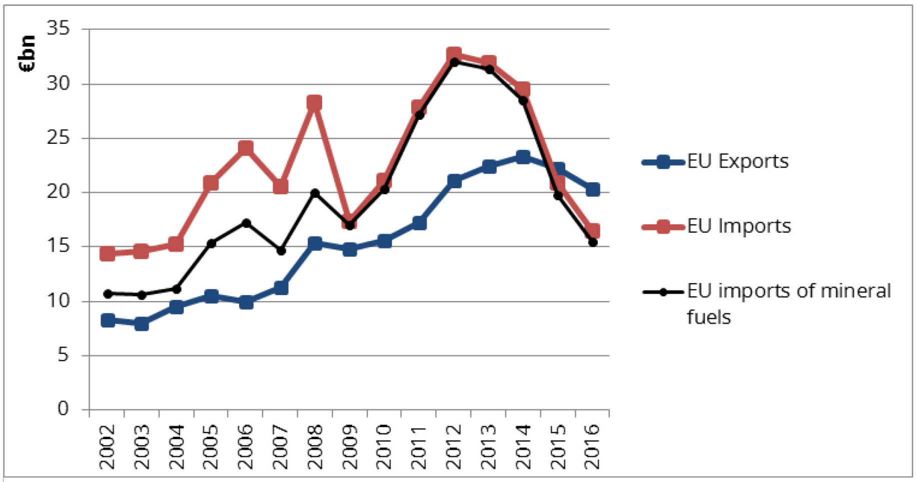
1. INTRODUCTION

The EU and Algeria established a free trade area under the EU-Algeria Association Agreement, signed in 2002 and entered into force on 1 September 2005. 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 therefore full implementation of the EU-Algeria free trade area is now foreseen for 2020. Market opening for agricultural products concerns a limited number of tariff lines subject to full liberalisation, Tariff Rate Quotas (TRQs), or a reduction of MFN rates on both side. The Agreement also features provisions on investment and services, although far less reaching than those on goods.

Algeria is also a member of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin, which it signed in 2012 and notified the EU of ratification in January 2017. Algeria is negotiating its accession to the WTO.

2. EVOLUTION OF TRADE

2.1 Trade in Goods



Trade in goods between the EU and Algeria has intensified within the free trade area established by the Association Agreement: in 2016, the total two-way trade amounted to EUR 36.9 billion, an increase of 48.6% from its 2004 value of EUR 24.8 billion, the year preceding the entry into force of the Association Agreement. Two-way trade peaked in 2012 at EUR 53.9 billion.

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EU exports to Algeria grew by 113.6% between 2004 and 2016. In 2016, EU exports to Algeria were mainly made of machinery and transport equipment (35.3%), chemicals (14.9%) and agricultural products (14.3%). The three biggest EU exporters to Algeria were: France, Italy and Spain. As regards Algeria's exports to the EU, mineral fuels amounted to 94.0% of the total exports[54]. The three biggest EU export markets for Algeria were: Italy, Spain, and France.

EU imports from Algeria are dominated by trade in oil and gas – mineral fuels amount to over 90% of Algeria's exports to the EU –, which has a significant impact on overall volumes. EU imports from Algeria 8.2% between 2004 and 2016, from EUR 15.2 billion to EUR 16.5 billion (with a peak of EUR 32.7 billion in 2012, which represented a 115.1% increase compared to 2004). Since 2012, the sharp decline of oil prices has led to a sharp fall in the value of Algeria's exports to the EU. After many years of surplus, Algeria registered its first limited trade deficits with the EU in 2015 and 2016, of EUR 1.3 billion and EUR 3.9 billion respectively. Trade deficits are expected to diminish or at least stabilise in upcoming years thanks to the rise of oil prices.

The EU was Algeria's first partner for merchandise trade in 2016, accounting for 53% of Algeria's total trade, before China (10%), the United States (7%), and Turkey (4%). The EU is Algeria's first export market: 67% of Algerian exports were directed towards the EU in 2016, followed by the United States (8%), and Brazil (4%). The EU is also Algeria's first source of imports, with 44% of Algerian imports originating from the EU. Algeria is the EU's first trading partner amongst all Euromed countries: in 2015 (latest available data), 32.8% of Euromed exports to the EU originated from Algeria, and Algeria was the destination of 22% of all EU exports to Euromed countries. This privileged position is mainly due to the prevalence of hydrocarbons in EU-Algeria trade flows.

2.2 Trade in Services and Investment

The total trade in services between the EU and Algeria remained stable from 2010 to 2015, from EUR 4.6 billion to EUR 4.8 billion. In 2015, Algeria exported EUR 1.6 billion in services to the EU and the EU exported EUR 3.2 billion in services to Algeria.

FDI flows between the EU and Algeria remained relatively low and volatile between 2013 and 2015, with most investments coming from the EU to Algeria (EUR 1.5 billion in 2015, for the total stock of EU FDI of EUR 16.4 billion). The weakness of EU-Algeria FDI flows is mainly due to the overall concern regarding the business climate in the country. Algeria currently ranks 156th out of 190 countries in the Wold Bank ranking Doing Business 2017, up seven ranks from 2016.

2.3 Preference Utilisation rate

Algeria had an average utilisation rate of preferences of 95% in 2016. For EU exporters to Algeria, the preference utilisation rate was 64.8% in 2013 (latest available year).

[54] 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 computation and/or reporting methods.

Regarding agricultural TRQ, Algeria's 2016 fill rate was low for a limited number of products such as couscous (19%) and remained nil or close to zero for the majority of products, such as tomato juice, fruit juices, yogurt apricots, strawberries, or wine.

3. ISSUES ADDRESSED IN THE SUB-COMMITTEE MEETINGS

The last Sub-Committee on Trade, Industry, and Services was held in May 2016. Major trade irritants were addressed, chiefly the new quantitative restrictions under a non-automatic licensing regime in force since January 2016 (see 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 longstanding issues were also mentioned, such as restrictions to imports of medicines or vehicles and the issue of ship-owners' disbursement accounts. Notwithstanding these issues, the EU recalled its commitment to support Algeria's accession to the WTO.

The last Sub-Committee on Agricultural and Fisheries Products was held in October 2015. No major issues were addressed apart from SPS issues, following the 2014 and 2015 epidemics of *aphthae epizooticae* in Algeria. Several technical assistance programmes were also discussed, as well as potential ways to reinforce EU technical assistance to Algeria in the field of conformity assessment.

The last EU-Algeria Sub-Committee on Customs Cooperation was held in February 2015. Parties discussed the development of their respective customs legislation and procedures, problems concerning the implementation of the rules of origin, the fight against counterfeit goods.

4. SPECIFIC AREAS OF IMPORTANCE

The recent fall in oil prices has significantly impacted Algeria's finances. Algerian authorities have resorted to administrative measures to restrict imports, with a view to limiting trade deficits and foreign exchange shortage. The EU has reacted forcefully to these trade-restrictive measures and has communicated its concerns to the Algerian authorities, insisting on compliance with the provisions of the Association Agreement. Algeria has argued that the present economic conjuncture justifies exceptional measures. Algeria has also recognised the need for economic reforms in order to encourage greater economic diversification and to foster investment. Several steps have already been taken in that direction, in the "New Algerian Model for Growth" set forth by the government.

The Partnership Priorities adopted by the EU and Algeria at the Association Council of 13 March 2017 mention cooperation for the socio-economic development of Algeria, including trade and access to the European single market. The EU and Algeria also conducted a joint evaluation of the Association Agreement in 2016-17. The findings of the evaluation are that Algerian efforts and EU assistance should focus on the following areas: diversification and competitiveness of the Algerian economy, improvement of the business climate, and facilitation of investments. A number of trade related reforms were discussed and Algeria was encouraged to commit to the improvement of business climate, new financing mechanisms for SMEs, a fine-tuning of subsidies, and the reduction of red tape.

The EU is providing support to Algeria through various trade-related assistance programmes such as DIVECO I, II (*Programme d'appui à la diversification de l'économie*), P3A I and II (*Programme d'appui à la mise en oeuvre de l'Accord d'Association*), or PADICA

(*Programme d'appui à la diversification industrielle et à l'amélioration du climat des affaires*), implemented in partnership with the Algerian authority for trade promotion (ALGEX). Such programmes aim to strengthen export competitiveness, to modernise the legal framework, to diversify the economy, and to improve the business climate in Algeria. The EU is also supporting Algeria in preparation of negotiations on an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA), in sectors identified as key priorities by Algerian authorities such as construction materials, domestic appliances and low voltage electric goods. This work has been conducted since 2013 through TAIEX missions, resulting for instance in twinning programmes involving the Algerian authority for certification and accreditation (ALGERAC). Additional programmes, such as PASSEM (*Programme d'appui spécifique à la surveillance et à l'encadrement du marché*), focus on specific areas, such as market surveillance and consumer protection.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Several market access issues remain in Algeria, primarily the non-automatic licensing regime for imports, imposed on an increasing number of products, among which: automobile vehicles, steel rebar and iron rod (since 2016). In April 2017, the import licence scheme was extended to a new set of products, bringing the total to 22 sets of products: besides those already covered in 2016, the list now features wood, ceramic and several foodstuffs (notably fruit, certain meats and certain cereals). Other trade-related issues include: the ban on imports of medicines for which exists a locally-produced equivalent; technical standards; particularly stringent mandatory security devices for vehicles, coupled with obligatory inspections. The EU has engaged in an active political and technical dialogue with Algerian authorities on these issues.

Another long-standing issue is the business climate in Algeria, and the reluctance to relax restrictions on foreign investment. Numerous obstacles to foreign investment remain and most notably the horizontal '49%/51%' cap that applies across the board to all sectors. The Algerian government has recently shown some willingness to consider changes, notably through the repeal of the relevant provision from the new Investment Code, which was vocally advertised. While the rule remains enshrined in the Budget Law 2009 and 2012, this may render easier for the Algerian government to amend the provision in the future. Such a blanket foreign equity cap sends negative signals to potential investors and further delay 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

There has been a positive overall trend in EU-Algeria trade since entry into force of the Association Agreement, although Algeria's heavy dependency on hydro-carbons has held back any significant diversification of its exports, and led to Algeria registering its first negative trade balance with the EU in 2015 and 2016, at a time when oil prices reached an all-time low. Efforts by the Algerian government to diversify its economy should therefore be supported by the EU. At the same time, pressure should be stepped up on Algeria in order to dissuade the country from continuing with the implementation of trade restrictive measures, notably on the non-automatic licensing scheme discussed above. So far, no additional negotiations have been opened between the EU and Algeria regarding potential agreements on liberalisation of trade in agricultural and fisheries products, on liberalisation of trade in services or on a Dispute Settlement Protocol.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-EGYPT FREE TRADE AGREEMENT

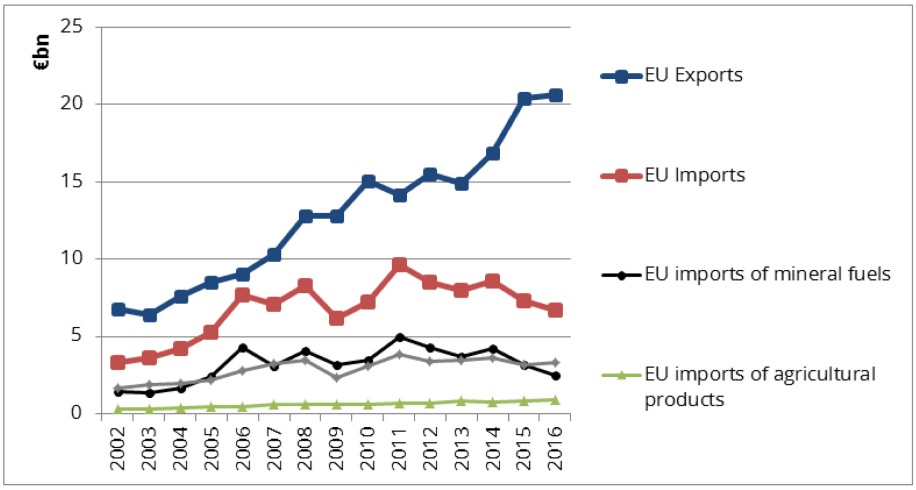
1. INTRODUCTION

The EU and Egypt established a free trade area as part of the EU-Egypt Association Agreement, signed in 2001. The Agreement was provisionally applied from 21 December 2003 and officially entered into force on 1 June 2004. It provides for a reciprocal liberalisation of trade in goods, with elements of asymmetry in favour of Egypt: all industrial products covered by the Agreement could be exported by Egypt to the EU tariff-free from the day of entry into force of the Agreement, while Egypt benefitted from a transitional period of 3 to 15 years to dismantle tariffs depending on products. To this day, tariffs applied to most industrial products have been dismantled by Egypt, with the exception of certain automotive imports, for which the transitional period runs until January 2019. This agreement, which already included preferential arrangements on agricultural, processed and fisheries products, was complemented by an agreement on additional liberalisation in agricultural and fisheries products signed in October 2008, and entered into force on 1 June 2010. In November 2010, the EU and Egypt signed a protocol establishing a Dispute Settlement Mechanism, for which the ratification process is still pending. Negotiations were launched on liberalisation of trade in services but have not yet been completed.

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 Commission received from the Council a mandate to negotiate a DCFTA with Egypt in November 2011, but Egypt has shown little interest so far.

2. EVOLUTION OF TRADE

2.1 Trade in Goods



EU exports increased 207.4% between 2002 and 2016, from EUR 6.7 billion in 2002 to EUR 20.6 billion in 2016. In 2016, the EU mainly exported machinery and transport equipment (37.9%), chemicals (15.7%), fuels and mining products (12.6%), and agricultural products (12.0%) to Egypt. The three biggest EU exporters in Egypt were: Germany, Spain, and Italy

EU imports increased by 103% between 2002 and 2016, from EUR 3 billion in 2002 to EUR 6.7 billion in 2016. A reduction in Egyptian exports from 2011 onwards has resulted in a widening trade imbalance between the EU and Egypt. This decrease is largely imputable to the fall of oil prices (fuels accounted for more than one third of Egyptian exports to the EU). EU imports of agricultural products and in non-fuel industrial products remained stable since 2011, increasing slightly during 2016 – most notably agricultural imports increased by 4.3%. There are encouraging trends in 2017, as Egypt's exports to the EU market surged by 26.1 % in the first quarter.

Trade deficit with the EU remains limited compared with the one Egypt has accumulated with other trading partners over the same period. In 2016, EU imports were made of fuel and mining products (43.2%), chemicals (13.2%), and textiles and clothing (12.3%). In 2016, the EU was Egypt's main trading partner, accounting for 34% of the total Egyptian trade. The three biggest importers of Egyptian products in the EU were: Italy, Germany and Spain.

2.2 Trade in Services and Investment

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

The EU remains the biggest investor in Egypt but EU foreign investment in Egypt remains highly volatile, with divestments exceeding investments by EUR 1.6 billion in 2015, for a remaining the total stock of EUR 41.5 billion of EU investments in Egypt. Overall, Egypt underperforms as regards its business climate, only ranking 122nd out of 190 in the World Bank ranking Doing Business 2017, up 4 ranks from 2016.

2.3 Preference Utilisation rate

Egypt had an average utilisation rate of preferences of 96% in 2016. For EU exporters to Egypt, the preference utilisation rate was 50.9% in 2013 (latest available year).

Regarding agricultural TRQs, Egypt's 2016 fill rate was high for a limited number of products such as broken rice (100%) and sweet oranges (74%), intermediate for other products such as garlic (57%) or strawberries (45%), but remained nil or close to zero for the majority of products, such as cucumbers, brown rice, cereal preparations, etc. It is worth mentioning that, apart from 49 products under TRQ, other agricultural exports from Egypt to the EU enter duty-free on the European market. So far, Egypt has made little use of its TRQs and has requested assistance on SPS issues to fully benefit from existing provisions of the FTA.

3. ISSUES ADDRESSED IN THE JOINT COMMITTEE MEETINGS

The last Sub-Committee on Industry, Trade, Services, and Investment was held in February 2015. Bilateral issues addressed during the sub-committee include: the ongoing process for Egypt's tariff dismantling on industrial products according to the timeline set forth by the EU-Egypt Association Agreement – for which most deadlines have been met with some concerns as regards future completion of tariff dismantling for automotive products set for 2019 in light of the possible future adoption of an Automotive Development Strategy introducing tax incentives for local car industry, progress made on the preparation of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA - see 4), and various long-standing and new trade irritants (see 5). Multilateral issues were also mentioned, such as efforts to improve regional trade integration or the accession of Egypt to the WTO Trade Facilitation Agreement.

During the last Sub-Committee on Agricultural and Fisheries products (February 2016), several issues were discussed, among then SPS issues, the creation of the Egyptian Food Safety Authority, and EU technical assistance aimed at improving Egyptian testing and certification capacities and approximation of Egyptian standards with EU *acquis*.

The last Sub-Committee on Customs Cooperation was held in Cairo in March 2015. Main issues discussed were related to the modernization process of customs administrations and simplification of customs legislation and procedures, including computerization. Other important issues were related to the origin of goods, the PEM Convention, as well as risk based customs control.

4. SPECIFIC AREAS OF IMPORTANCE

Since 2015, the Egyptian economic slowdown and currency crisis have had serious consequences on trade. Facing growing trade deficits and a shortage of foreign exchange, the Egyptian government implemented a series of administrative measures aimed at restricting imports in 2015 and 2016 (see 5). In November 2016 Egyptian authorities liberalized the exchange rate and adopted an economic reform programme supported by the IMF. Demand for imports remains unchanged, and the import bill has significantly increased due to the depreciation of the Egyptian Pound, while it was not compensated by equivalent increase of exports Exported manufactured goods have a high import component, and petroleum products, which make up around 30% of Egyptian exports, are factored in US dollars, therefore not benefitting from lower exchange rates. Indirectly, devaluation of the local currency contributed to increasing food subsidies and decreasing energy subsidies at the same time. Services receipts are limited. Tourism, while steadily recovering, remains far lower than mid-2015 levels. Despite expansion of Suez Canal, the revenue, dependent on global trade flows, is stagnant. Social and economic costs of the consolidation (inflation, borrowing costs) risk slowing down the reform momentum. Price pressures are exacerbated by high unemployment rates (13% overall).

In the context of the revised European Neighbourhood Policy, EU-Egypt Partnership Priorities were adopted in July 2017 and will guide future bilateral cooperation, including on trade matters. Trade-related assistance in Egypt has been conducted mainly under the 20 million euro Trade and Domestic Market Enhancement Programme (TDMEP), structured around two components i) foreign trade and trade agreements and ii) industrial policy and quality infrastructure. The programme delivered significant results, such as the creation of a policy unit within the trade ministry and the adoption of a trade and industrial development strategies. The TDMEP has also assisted Egypt on the establishment of a proper regulatory environment on ACAA including National Quality Policy, market surveillance strategy, horizontal and sector legislation, and supporting the alignment of quality infrastructure bodies.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

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

Other ongoing trade irritants are arbitrary customs valuations by the Egyptian authorities, problems with acceptance of origin declarations by importers, restrictive labelling requirements, mainly affecting the textile and ceramic tiles sectors and SPS issues, mainly affecting wheat importers. The EU is also closely following the drafting of a future tax incentives scheme targeting the automobile sector. The draft text of the legislation has yet to be disclosed by the Egyptian government, but several aspects of the future scheme may be at odds with Egypt's commitments under the WTO and the Association Agreement, notably in terms of discrimination against imports and trade-related investment measures.

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

6. CONCLUSIONS

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 taking full benefit 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. Implementation issues are now mainly focused on the abovementioned trade irritants, for which the EU and Egypt are engaged in an active dialogue, both at the political and technical level. Facilitating trade has been made one of the priorities under the Partnership Priorities adopted by the EU and Egypt in 2017 which should cover issues such as reduction of trade barriers as well as technical assistance on SPS and ACAA-related fields. Negotiating a DCFTA remains a medium-long term objective to be followed when Egypt is ready for it.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-ISRAEL FREE TRADE AGREEMENT

1. INTRODUCTION

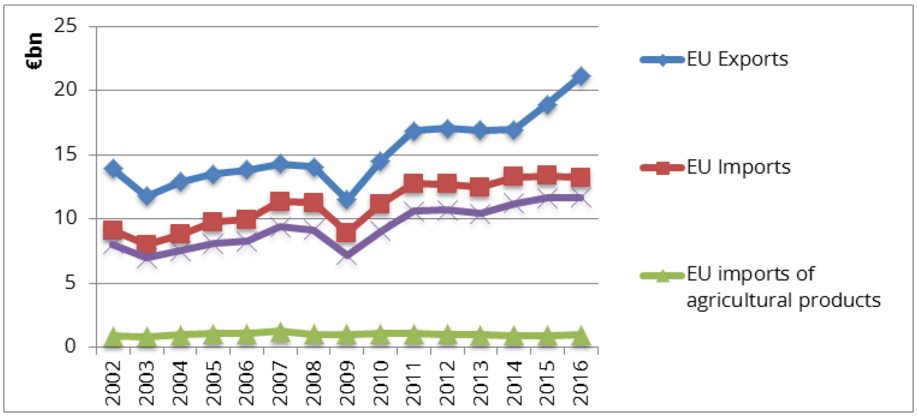
The EU and Israel have an Association Agreement, creating a Free Trade Area, provisionally applied since 1996 and fully entered into force on 1 June 2000 The Association Agreement liberalised two-way trade in industrial goods. The liberalisation process was asymmetrical with the EU eliminating tariffs from the first day of the agreement, while Israel enjoyed a 12 year transition period which was completed in 2013. The Association Agreement included selected arrangements on agri-food trade. The EU and Israel however subsequently upgraded the Free Trade Area with further liberalisation of agricultural, processed agricultural and fish products, in force since 2010. Israel has expressed some limited interest in using the Agreement's review clause which has not yet been activated.

The EU and Israel have an Agreement on Conformity Assessment and Agreement (ACAA) on pharmaceuticals, in force since January 2013, which facilitates trade on both sides.

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.

2. EVOLUTION OF TRADE

2.1 Trade in Goods



Since the Association Agreement came into force, the value of imports and exports between the EU and Israel has increased in both directions. In 2002, the first year in which data is available, the value of trade in goods was EUR 23.1 billion and by 2016 it was EUR 34.3 billion representing an increase of 48%.

The value of EU exports to Israel has risen by 52% from EUR 13.9 billion in 2002 to EUR 21.4 billion in 2016. With the exception of 2009 (financial crash), EU exports to Israel have demonstrated fairly consistent growth, reaching an all-time high of EUR 21.4 billion in 2016. In 2016, the most important groups for export by value were machinery and transport equipment (45.4%), chemicals (16.2%), and other semi manufactured products (12.3%). The four largest exporters to Israel from the EU28 were Germany, the United Kingdom, Belgium and Italy.

The value of EU imports from Israel has risen from EUR 9.1 billion in 2002 to EUR 13.2 billion in 2016, representing a 45% rise. Imports from Israel have been steady with an overall upward trend, the only year in which imports fell heavily was 2009 (financial crash). In 2016 the most important groups for import by value were chemicals (39.2%), manufacturing and transport products (21.3%), other semi-manufactured goods (12.7%) and other manufactured goods (10%). In 2016, the four largest importers from Israel within the EU28 were the United Kingdom, Belgium, Netherlands and Germany.

It should be noted that the value of EU exports to Israel has increased more than in the other direction. The EU's annual trade surplus with Israel has therefore increased over the same period. The annual trade balance in the EU's favour was EUR 4.8 billion in 2002 compared to EUR 7.9 billion in 2016.

In 2016, the EU was Israel's first trading partner, representing 32% of Israeli trade. Israel is the EU's 25th largest trading partner and the 3rd largest one in the Euro-Mediterranean region after Algeria and Morocco. The EU was the largest importer into Israel holding a 37% market share, ahead of China and the US both on 11%. The EU was Israel's second largest export market in 2016 receiving 26% of Israeli exports, slightly behind the USA on 29%.

2.2 Trade in Services and Investment

In 2015 trade in services between the EU and Israel was worth EUR 12 billion. In the last 5 years, there has been an overall increase in the value of services imported from Israel from EUR 3.2 billion in 2010 to EUR 4.7 billion in 2015. In the same period there has been an increase in EU export of service to Israel from EUR 3.8 billion in 2010 to EUR 7.3 billion in 2015.

On FDI flows there is no consistent image either on volume or on partner country. Figures show fluctuations every year and no trend can be identified. Despite the lack of consistency, it can be seen that FDI flows between the US and Israel clearly exceed those between the EU and Israel. However, 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.[55]

According to The World Bank Doing Business Index 2017 which ranks 190 countries, Israel, an OECD member, was ranked 52nd in the world – down three places on the previous year.

2.3 Preference Utilisation rate

In 2016 Israel's use of the preferential utilisation rates was 90%. In the same year the EU's preferential utilisation rate was 79.4%.

Israel has made good use of its TRQ access. In 2015 Israel used 100% of its tariff rate quota on new potatoes, sweet peppers, and wine of fresh grapes. They used 100% of the original quota on fresh clementines, mandarins and wilkings and 32.75% of the supplementary quota.

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

Israel also used a significant level of the tariff rate quota on tomatoes other than cherry (68.41%) and glues based on starch or on dextrines or other modified starches (88.86%).

3. ISSUES ADDRESSED IN THE ANNUAL (JOINT COMMITTEE/TRADE COMMITTEE) MEETING

The most recent EU-Israeli Sub-committee on Industry, Trade and Services met in December 2016. A range of bilateral issues were discussed including the state of EU-Israeli trade under the Association Agreement and the experience of the ACAA on Pharmaceuticals already concluded. Regarding trade barriers, the recent resolution of a previous distinction between "new" and "old" Member States (pre and post-2004) for import of pharmaceuticals into Israel was noted with satisfaction and the need to resolve a similar distinction still existent for medical devices was stressed by the EU. A number IPR issues were also raised, including on the protection of biological medicines. Both parties provided an update on their ongoing bilateral and multilateral trade negotiations – positive collaboration on TiSA was also recorded.

The EU-Israeli Sub-Committee on Agriculture and Fisheries also met in December 2016. A range of issues were discussed including the current trade in agricultural products between the two partners and related issues, such as sanitary and phytosanitary regulations in both directions. On agricultural issues, Israel provided an update on changes to agricultural policy and the EU stressed the importance of GIs. Organic issues were also discussed including the ongoing process of reviewing the regulation on organic farming. Israel sought reassurance that there would be no gaps between the EU's new regulation on organic farming and the current bilateral relationship – the EU reassured Israel that the five year transition period from 2020 would allow for any necessary adjustments. Israel also expressed its request to extend the current arrangement to aquaculture products to which the EU clarified that any modification of current arrangements would have to be done through a bilateral agreement. On fisheries, there was discussion on sustainable Mediterranean fisheries and the EU provided an update on its Maritime Spatial Planning. Israel signalled its intention to request EU technical support in several areas, such as the sustainable use of pesticides and flood risk prevention, while Israel also offered technical support to the EU on tackling lumpy skin disease.

The latest EU-Israel Customs Cooperation and Taxation Subcommittee took place in June 2016. Parties informed each other of the development of their customs legislation and on the enforcement by customs of IPR. There was also an exchange of views on the VAT treatment of digital services. The PEM Convention on Rules of Origin was also discussed.

4. SPECIFIC AREAS OF IMPORTANCE

The EU and Israel continue to work together on the implementation of the ACAA. Following this success, Israel will consider additional areas on which to focus. To this end, the Israeli authorities have made an increasing number of requests for technical assistance from the EU in the form of TAIEX workshops and Twining programmes – the only type of capacity building assistance the EU provides to Israel being a developed country. In a wide range of areas (including environment, energy, statistics and agriculture) EU regulatory practice (norms, standards and procedures) is shared with the Israeli authorities to help specific policy formulation and implementation. For trade, it is particularly important to continue to provide support for ongoing market reforms, in particular those that relate to the opening of the Israeli domestic market – such as in the areas of agricultural policy, accreditation, import authorization procedures, conformity assessments and standard setting etc. – as this could also improve market access conditions for EU operators.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

No significant roll back of commitments on the Association Agreement has been recorded; however there are a number of persistent trade irritants. These include the discriminatory treatment of Member States who joined since 2004 which particular reference to restrictions on import authorization of medical devices. Other technical barriers to trade include the lack of data protection (IPR) on biological medicines, and the rigid regime of kosher certification of slaughtered meat. A number of technical meetings are to take place to look into these issues. Discussions between the EU and Israel on a Dispute Settlement Agreement under the Association Agreement are still to be finalised.

The EU is trying to support the ongoing and challenging market reforms needed through sharing its best practices on issues such as import procedures, conformity assessments, agricultural support policy, etc. In a general way the EU's technical assistance programmes help policy formulation in Israel. TAIEX workshops and Twinings assistance projects are increasingly demanded by the authorities in wide ranging areas such as energy efficiency, telecommunication, vocational training, and veterinary standards.

6. CONCLUSIONS

Overall the value of trade between the EU and Israel has increased during the period of implementation of the Association Agreement. This is true in both directions. Goods continue to account for the majority of trade, although services and foreign investment are also present. Trade fell in both directions in 2009 due to the financial crisis. It should be noted, however, that it has recovered and exceeded pre-crash levels in both directions, and has remained strong despite wider regional instability. There have been some recent successes in resolving trade irritants (e.g. for pharmaceuticals), which is a path that we aim to continue on to further strengthen our trade relations. The EU and Israel continue to cooperate in bilateral and multilateral trade talks.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-JORDAN FREE TRADE AGREEMENT

1. INTRODUCTION

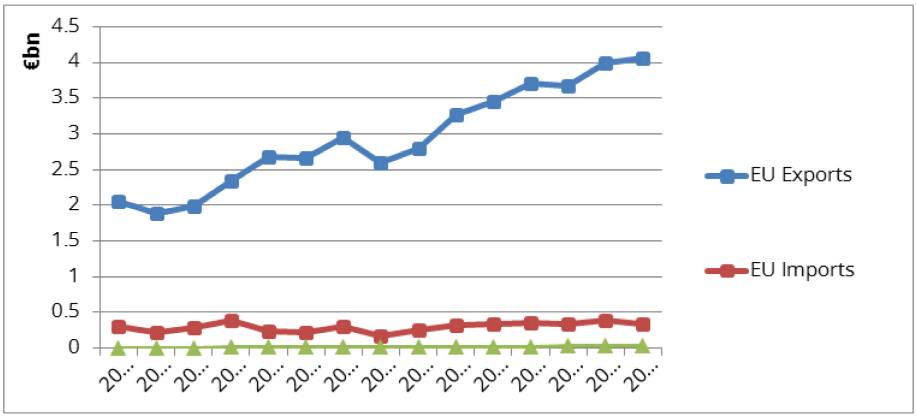
The EU and Jordan have an Association Agreement, creating a Free Trade Area, which was signed on 24 November 1997 and entered into force on 1 May 2002. The Association Agreement liberalized two-way trade in goods, with asymmetrical transition periods in favour of Jordan which allowed Jordan to phase in tariff reductions over a 12 year period, although tariff dismantling has already been completed by Jordan. The EU and Jordan upgraded the Association Agreement in 2006 with an 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. This was followed by a protocol establishing a bilateral Dispute Settlement Mechanism in 2011.

Jordan is a member of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) which it signed in 2011 and notified the EU of its ratification in 2013.

In 2011 the EU Council 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



The value of trade between the EU and Jordan has increased in both directions since the Association Agreement came into force. Since 2002, the first year for which data is available and also the year the Agreement came into force, there has been an overall growth in trade in goods in both directions. In 2002 the value of trade in goods was EUR 2.4 billion and in 2016 it was EUR 4.4 billion - a growth of 83%.

The value of EU exports to Jordan has risen by 95% from EUR 2.1 billion in 2002 to EUR 4.1 billion in 2016. Exports to Jordan have risen year-on-year with the exception of 2009 (financial crisis) and 2014; which may be a reflection of regional instability. In 2016 the value of exports reached an all-time-high of EUR 4.1 billion. The most important exports sectors were agricultural machinery and transport equipment (32%), agricultural products (21.6%) and chemicals (15.3%). In 2016 the three largest exporters to Jordan from the EU28 were Germany, Italy and France.

The value of EU imports from Jordan has risen from EUR 314 million in 2002 to EUR 338 million in 2016 – an increase of EUR 24 million or 8%. Within the lifespan of the agreement however the value of imports has fluctuated. In 2015 imports reached an all-time high of EUR 386 million, but have since declined. In 2016 the most important import sectors, were chemicals (31%), machinery and transport equipment (20.8%), agricultural products (11.9%), fuels and mining products (11.7%) and clothing (10.2%). In 2016 the three largest importers of products from Jordan among the EU 28 were Italy, Netherlands and the United Kingdom.

The value of EU exports to Jordan has increased more than in the other direction. This has increased Jordan's trade deficit with the EU over the same period. This is broadly consistent with Jordan's overall trade pattern. As the largest supplier to Jordan, the EU is also the trading partner with which it has its largest trade deficit – EUR 3.6 billion (35%) of its EUR 10.3 billion total deficit. In 2016 the EU was Jordan's largest trade partner, representing 19% of its total trade. The EU was the largest importer into Jordan with a 24% market share. It was however only Jordan's 8th largest export market behind the US, India and regional players including Saudi Arabia, Iraq and the UAE.

2.2 Trade in Services and Investment

In 2015 trade in services between the EU and Jordan was worth EUR 1.2 billion. In the last 5 years, there has been an overall decline in the value of services imported from Jordan from EUR 0.6 billion in 2010 to EUR 0.5 billion in 2016; no doubt explained by the protracted instability in the region. In the same period there has been an increase in EU export of services to Jordan from EUR 0.6billion in 2010 to EUR 0.9 billion in 2015. Jordan's exports of services are dominated by services in the travel sector, while Jordan's imports of services are dominated by the transport sector.

In 2015, the flow of Foreign Direct Investment (FDI) between the EU and Jordan amounted to EUR 145 million, of which EUR 167 million was the flow into Jordan and EUR 22 million was a disinvestment from the EU. The total FDI stocks were EUR 3.06 billion (EUR 2.6 billion EU FDI in Jordan and EUR 454 million Jordanian FDI in the EU). According to the World Bank 2017 ease of doing business index which ranks 190 countries, Jordan ranked 118th in the World for overall ease of doing business – up one place on last year.

2.3 Preference Utilisation rate

In 2016 Jordan's use of the preferential utilisation rates was 68%. Data on the EU's use of preferential utilisation rates in not available for Jordan.

Regarding agricultural TRQs, Jordan's 2016 fill rate of the two TRQs was minimal. It used 0.02% of the virgin olive oil tariff rate quota and 0% of its cut flower bud quota.

3. ISSUES ADDRESSED IN THE ANNUAL (JOINT COMMITTEE/TRADE COMMITTEE) MEETING

The most recent EU-Jordan Sub-Committee on Industry, Trade and Services met in 2015, ahead of the recent relaxation of Rules of Origin (see below). Much of the sub-committee discussion focused on the Syrian refugee crisis and the Jordanian preference to revise the Rules of Origins applicable under the EU-Jordan Association Agreement. Progress to improve Jordan's investment climate was also noted. On-going trade related assistance and capacity building was also discussed.

The Agriculture and Fisheries Sub-Committee last met in October 2015 in Brussels and discussed: a possible expansion of Jordan's protection of geographical indications, possibly under the DCFTA; organic farming on which Jordan provided an update on legislative amendments; and further technical assistance and capacity building for Jordan in agriculture field. Jordan is heavily dependent on imports; discussions covered fish farming, an update on trade fish flows and the importance of tackling illegal fishing. Further co-operation on SPS issues was discussed. Jordan also outlined the impact of the Syrian Refugee Crisis on the agricultural sector.

The latest EU-Jordan Customs co-operation sub-committee met in June 2015. Issues discussed included the simplification, rationalization and harmonisation of customs legislation, code and procedures. Other points of discussion were Jordan's strategic plan on Jordanian customs to improve their efficiency. The action plan to improve the safety and security of imported goods was also discussed and the PEM Convention on Rules of Origin.

4. SPECIFIC AREAS OF IMPORTANCE

The protracted Syrian crisis has had serious consequences for the Jordanian economy and its trade. The closure of traditional trade routes has resulted in significant losses and downscaling of production for the export market. The presence of more than 1.3 million Syrians refugees in Jordan has compounded the unemployment crisis. In the absence of meaningful reform to the regulatory environment, attracting foreign investments to offset the negative trend has proven difficult. In order to address the problems caused by the Syrian Refugee Crisis, the EU is providing Jordan with a package of support of which the trade angle is a simplification of the rules of origin applicable to trade between the two partners. This initiative was agreed in July 2016 and will apply until the end of 2026. Under the initiative, Jordanian exporters to the EU can now benefit from the same rules of origin for manufactured products as those applied by the EU for Least Developed Countries, provided that certain conditions are met. These rules are simpler than those that would otherwise apply under the Association Agreement. This simplification applies to 52 product groups. To qualify to use the simpler rules, production must take place in one of 18 designated industrial zones and Syrian refugees must also account for no less than 15% of a manufacturer's workforce in the first 2 years of the scheme and 25% from the third year.

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

Jordan is working on approximation with the EU *acquis*. The Jordan Food and Drug Administration was active in early 2017 on undertaking steps for alignment to technical regulations and SPS standards. Two missions were conducted and a further one is planned to determine the needs and potential assistance required to approximate Jordan to the relevant EU acquis. Trade-related assistance projects to improve the trade and investment climate include a EUR 55 million Private Sector Development programme comprising a budget support component, technical assistance to the Government and company-level assistance for the private sector. There is a further project to support entrepreneurship in the north of Jordan, the region most strongly affected by the influx of refugees. It aims to stimulate innovation and increasing the competitiveness of Jordanian exports and to deliver on the aims of the Rules of Origin initiative.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

There are no significant open issues or follow-up actions relating directly to the current agreement. There is however a continuing difference of view concerning Jordan's commitments on the import conditions for alcoholic drinks, arising from the interaction between the initial Association Agreement and the subsequent Agreement on additional liberalisation of trade in agricultural, processed agricultural and fisheries products. There are a number of other ongoing issues which restrict trade and investment in Jordan and prevent Jordan from taking full advantage of the FTA. These include a lack of clear trade and development policies in Jordan, administrative weaknesses and a lack of commitment from the private sector which still prefers to satisfy neighbouring markets rather than to invest in reaching the EU (which remains a highly regulated and demanding market). In addition, production costs are high due to water shortages, electricity prices and transportation costs, which reduce the competitiveness of goods. The EU is an open and extremely competitive market for Jordanian companies.

DCFTA negotiations have not yet started, however the importance of the DCFTA to improving the resilience of the Jordanian economy was recognised in the Partnership Priorities. In the last Sub-Committee on Industry, Trade and Services, Jordan indicated that they preferred to deal with further liberalization of agriculture, processed agriculture, fisheries and processed fisheries products under the DCFTA.

6. CONCLUSIONS

Overall the value of trade between the EU and Jordan has increased since the Association Agreement came into force. This is true in both directions. Goods continue to account for the majority of trade, although services and foreign investment are also present. EU exports to Jordan have grown faster than Jordanian exports to the EU so the Jordanian trade deficit with the EU has increased in the same period, no doubt exacerbated by regional developments. The Syria Crisis has closed many traditional trade routes for Jordan. The Decision on relaxation of Rules of Origin, adopted in July 2016, was designed to boost Jordanian exports into the EU and to support integration of Syrian Refugees into the Jordanian economy. It has not yet delivered as hoped, however further actions are planned to raise awareness and promote the business opportunities it affords.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-LEBANON FREE TRADE AGREEMENT

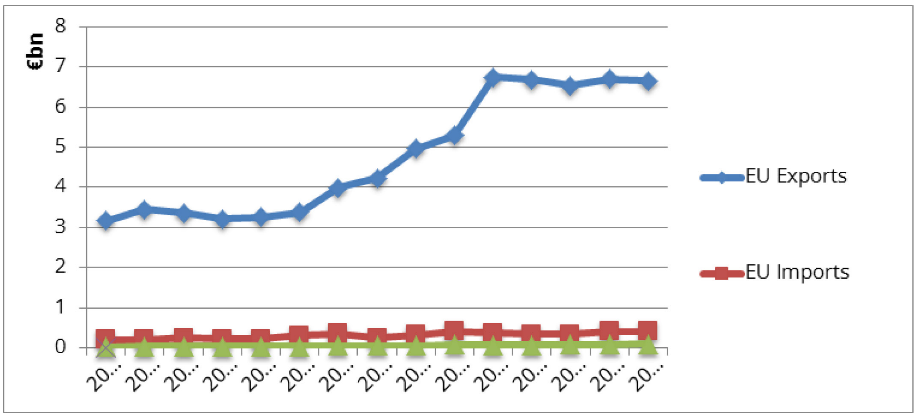
1. INTRODUCTION

The EU and Lebanon have an Association Agreement, creating a Free Trade Area, which was provisionally applied on 1 March 2003 and fully entered into force on 1 April 2006. The Association Agreement liberalised two-way trade in industrial goods with an asymmetrical transition period of 12 years in favour of Lebanon. The phased liberalisation of industrial products by Lebanon started in 2008 and was completed in 2015. From the first day of provisional application, it also granted tariff-free access to the EU for most Lebanese agricultural and processed agricultural products (89% enter tariff and quota free) with only 27 agricultural products facing a specific tariff treatment, mostly Tariff Rate Quotas (TRQs). On the other hand, agricultural liberalisation by Lebanon has been more limited. In 2010 the EU and Lebanon signed an additional protocol on a Dispute Settlement Mechanism, which has not yet entered into force, pending the ratification by the Lebanese Parliament.

Lebanon has signed the Regional Convention on Pan-Euro-Mediterranean preferential rules of origin (PEM Convention) in 2014, but the ratification procedure is still ongoing.

2. EVOLUTION OF TRADE

2.1 Trade in Goods



Since the Association Agreement was provisionally applied, the value of imports and exports between the EU and Lebanon has increased in both directions. In 2002, the year before the Association Agreement was provisionally applied, the value of trade in goods was EUR 3.4billion and by 2016 it was EUR 7.1 billion representing an increase of 109%.

The value of EU exports to Lebanon has risen by 109% from EUR 3.2 billion in 2002 to EUR 6.7 billion in 2016. Exports to Lebanon reached an all-time high of EUR 6.7 billion in 2012. Since then they have held steady with slight year-on-year fluctuations. The most important groups for export by value were fuel and mining products (25.8%), machinery and transport equipment (21.3%), agricultural products (16.0%), and chemicals (14.8%). The three largest exporters to Lebanon from the EU28 were Italy, Germany and Greece.

The value of EU imports from Lebanon has risen from EUR 0.2 billion in 2002 to EUR 0.4 billion in 2016, representing a 100% rise. 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. Imports have again improved in 2015 and 2016. In 2016 the most important groups for import by value were agricultural products (24.5%), fuels and mining products (22.7%), semi-manufactured products (16.6%) and chemicals (11.2%). In 2016, the three largest importers from Lebanon within the EU28 were Germany, France and the United Kingdom.

It should be noted that the value of EU exports to Lebanon has increased more than in the other direction. This has roughly doubled Lebanon's annual trade deficit with the EU over the same period. The annual trade balance in the EU's favour was EUR 3.0 billion in 2002 compared to EUR 6.2 billion in 2016.

Since 2012 the EU has ranked as Lebanon's first trading partner. In 2016 the EU represented 42% of Lebanese trade. The EU has become a less important export destination in relative terms with its share of Lebanese exports falling in the last couple of years. The increasing importance of regional export markets such as Saudi Arabia or the UAE highlights the need for removing regional barriers and encouraging regional trade.

2.2 Trade in Services and Investment

In 2015 trade in services between the EU and Lebanon was worth EUR 2.4 billion. In the last 5 years, there has been an overall increase in trade in service in both directions. The import of services from Lebanon has risen from EUR 0.9 billion in 2010 to EUR 1 billion in 2015. The export of services has risen from EUR 1.2 billion to EUR 1.5 billion in the same period. The annual trade balance on services in the EU's favour has increased from EUR 2 billion to EUR 2.5 billion.

According to the Ministry of Economy and Trade, in 2016 the services sector represented around 69% of Lebanese GDP and employed more than 76% of the total labour force. The most prominent service sectors included trade (retailing and wholesale), construction, tourism, telecommunications and financial services. According to The World Bank Doing Business Index 2017 which ranks 190 countries, Lebanon ranked 126nd in the world on the ease of doing business – down four places on last year.

2.3 Preference Utilisation rate

In 2016 Lebanon's preference utilisation rate was 71%. In the same year the EU's preferential utilisation rate was 74%.

Regarding agricultural TRQs, Lebanon's 2016 fill rate was low. It used 41.96% of the virgin olive oil and crude oil quota and 6.22% of its table grape quota, but across the remaining quotas Lebanon used less than 1% or 0%.

3. ISSUES ADDRESSED IN THE ANNUAL (JOINT COMMITTEE/TRADE COMMITTEE) MEETING

The EU-Lebanon Sub-Committee on Industry, Trade and Services met in October 2016. The key issues discussed were the need to further increase Lebanese trade integration with the EU and international community including through Lebanon's agreement to the PEM convention, Agadir Agreement, and WTO membership bid – which the EU supports. The EU and Lebanon created a Joint Working Group on Trade and Investment to further facilitate trade and reduce existing non-tariff barriers for goods (including industrial and agri-food) and services. Ways to improve the competitiveness of the services sector will also be explored. The EU also noted the obligation not to impose trade related measures without consultation. The first Joint Working Group on Trade and Investment met in March 2017.

The EU and Lebanon Sub-Committee on Agriculture and Fisheries last met in November 2012 and discussed preparations for the new European Neighbourhood Policy Action Plan, including the agricultural angle. Lebanon provided the EU with an update on its work to promote quality production, food safety and to introduce geographical indicators. It also provided an update on its SPS work. The EU welcomed Lebanon's progress and offered further technical support. Agricultural trade levels and trade issues were also discussed.

The latest EU-Lebanon Customs Cooperation and Taxation Subcommittee was held in December 2014. The main issues discussed were the latest developments in customs legislation and procedures, including IPR, rule of origin and risk based customs control. On taxation, the main issues were related to modernisation and simplification of the tax administration as well as the Code of Conduct for business administration. Lebanon presented some areas of customs where it could benefit from technical assistance.

4. SPECIFIC AREAS OF IMPORTANCE

The protracted Syrian crisis has had serious consequences for Lebanon. The conflict has exacerbated the security, political and economic issues facing the country. It has resulted in a decline in tourism, (private) investments and economic activities. This has culminated in economic growth falling sharply from the 7%-9% growth rates experienced between 2008 and 2010 to 1.5% and less in the last years; the lowest growth performance since the 2006 conflict. The unstable political environment (even though some good news came with the election of a President on October 2016, following a 29-month deadlock) and budgetary constraints (exacerbated by the high debt levels, currently at 144% of GDP) have made it difficult for the country to address issues such as poverty, unemployment and 'brain drain'. Furthermore, Lebanon is characterised by regional socio-economic disparities with almost 30% of the population living under the poverty line and 8% under the extreme poverty line. The numbers of Syrian refugees has significantly increased in the period 2013-2014. Refugees currently constitute about one third of the population and, while spread throughout the whole country, the highest concentrations are recorded in Northern Lebanon and in the Beqaa. Lebanon is seeking further support from the EU in order to boost the Lebanese economy and cope with the spill-over effects of the Syrian Crisis.

Following the commitments undertaken by the EU and Lebanon in the Partnership Priorities and Compact to address the factors hindering trade towards the EU, a Joint Working Group (JWG) on Trade and Investment was set up with the aim to address the factors hindering trade towards the EU and to help Lebanon to upgrade its local production standards (see under 3). In particular, the two meetings of the working group that have been held so far (the last in July 2017) focused on sanitary and phyto-sanitary standards (SPS) and pharmaceutical issues, in view of upgrading quality standards and good manufacturing practices (GMPs) of the sector. Lebanon will receive assistance under TAIEX. There are a number of trade related assistance projects to improve the trade and investment climate. In 2009, the EU launched its

EUR 14 million 'Reinforcement of Private Sector Competitiveness' Programme (PSD14) to address private sector's constraints. The programme had three main objectives: (i) to improve the business environment, (ii) to promote the capacity of the private sector to grow and develop and (iii) to facilitate the conformity of Lebanese products with international standards. The EU is currently financing a EUR 15 million programme on improving value chains in agriculture and wood processing, with the aim to improve quality of Lebanese products and boost the competitiveness of the targeted sectors. Trade barriers were also discussed, the most important being a planned additional tax on Lebanese imports of wines, spirits and tobacco; eventually, in September 2017, the Lebanese Constitutional Council declared it as not constitutional and the corresponding measure has been dropped.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The EU and Lebanon are committed to increase the dialogue on trade, with the view to find pragmatic solutions and help Lebanon to take advantage of trade opportunities provided by the Association Agreement. The JWG on Trade and Investment will meet at a technical level at least three times a year. It will have an important role in shaping future assistance and advocates for strategic trade reforms (horizontal reforms, sector reforms, business climate, quality standards etc.). Specific issues to be addressed cover, but are not limited to: facilitating exports of Lebanese 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. Under this JWG the EU and Lebanon have already agreed to set up an Action Plan with defined milestones for establishing a Lebanese food safety system that complies with basic principles and international standards. In the long-term, the EU might consider designing a comprehensive SPS programme built around 5 key components: food legislation; food control management; official controls and inspections; laboratory systems and training.

Lebanon is still in the process of applying to the WTO. The EU will continue to support and encourage Lebanon towards WTO membership and membership of the Agadir Agreement.

6. CONCLUSIONS

Overall the value of trade between the EU and Lebanon has increased since the Association Agreement came into force. This is true in both directions. Goods continue to account for the majority of trade, although services and foreign investment are also present. Despite the overall increase in the value of trade, it must be recognised that the trade balance has favoured the EU. The total increase in EU exports to Lebanon has overshadowed trade in the other direction. To this extent the Lebanese trade deficit with the EU has increased in the same period.

Services are the main driver of Lebanon's economy. Enhancing the competitiveness of the Lebanese service sector could lead to economic growth in selected sectors of strategic importance for the country. Trade in services is gaining more importance in the global trade, especially in terms of value added, investment and employment in developing countries. There is therefore untapped potential on services whose growth could have positive spill-over effects into other areas of the economy. At the same time, there are a number of ongoing issues which restrict trade and investment in Lebanon and prevent Lebanon taking full advantage of the FTA. The private sector, in particular SMEs, forms the cornerstone of the Lebanese economy and is the main source of job creation in Lebanon. Despite its dynamism and high resilience, the businesses suffer from an inadequate business environment (an example being the unreliable provision of energy, whose system is in need of a reform), weak infrastructure and lack of structural reforms.

Lebanon also remains constrained by the spill-over of the Syrian conflict. The Syrian crisis has closed traditional trade routes for both Lebanese imports and exports and it is therefore not surprising that exports to the EU have stagnated; imports from the EU are on the rise. As a result of the refugee crisis, a high number of Syrian migrants are now present in Lebanon. The EU and Lebanon continue to consider further collaboration to ease the strain of the refugee crisis in Lebanon. There will be further work on helping Lebanon reach the EU acquis, for example on SPS and Pharma. There will also be efforts to consider further areas of co-operation and support.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-MOROCCO FREE TRADE AGREEMENT

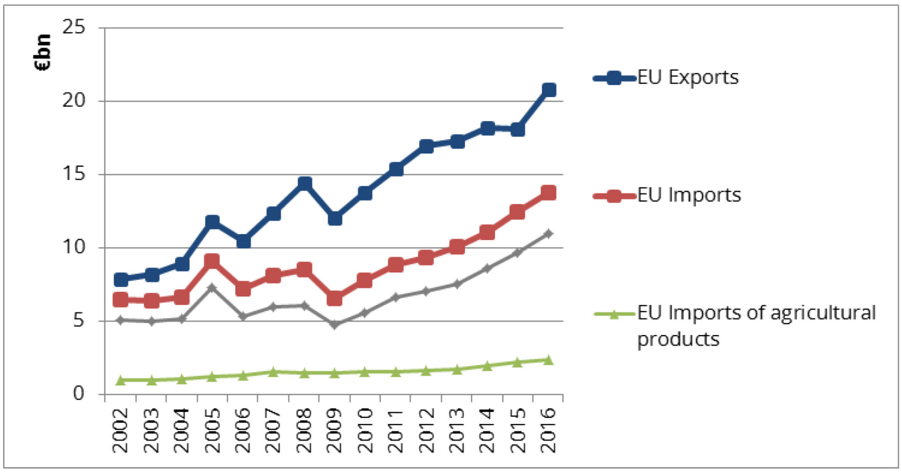
1. INTRODUCTION

The EU and Morocco established a free trade area as part of the EU-Morocco Association Agreement, signed in 1996 and entered into force on 1 March 2000. The Agreement provides for a reciprocal liberalisation of trade in goods, with elements of asymmetry in favour of Morocco: since the day of entry into force of the Agreement, all industrial products covered by the Agreement could be exported by Morocco to the EU tariff-free, while Morocco benefited from a transitional period of 12 years. Since March 2012, the transitional period for Morocco to reduce its tariffs on industrial products to zero was completed. The EU and Morocco also signed an agreement on additional liberalisation of trade in agricultural and fisheries products, which came into force in 2012. Trade for industrial products is now entirely liberalised, while market opening for agricultural products is also substantial with only a few products subject to Tariff Rate Quotas (TRQs) on each side.

A protocol establishing a Dispute Settlement Mechanism was agreed upon by the EU and Morocco, and came into force in 2012. Morocco also signed the Regional Convention on pan-Euro-Mediterranean preferential rules of origin on 18 April 2012. The ratification process is still pending. Negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) have started in 2013.

2. EVOLUTION OF TRADE

2.1 Trade in Goods



Trade in goods between the EU and Morocco has increased significantly over the period since the FTA entered into force: trade flows have consistently grown since the entry into force of the agreement and more than doubled over the past 15 years, from EUR 14.3 billion in 2002 to EUR 34.6 billion in 2016 (+142%).

EU exports rose by 113% between 2002 and 2016. In 2016, EU exports to Morocco were mainly made of machinery and transport equipment (40.4%), fuels and mineral products (12.4%), and agricultural products (10.0%). The three biggest EU exporters in Morocco were: Spain, France, and Germany.

EU imports increased by 165% between 2002 and 2016. This tendency is particularly reflected for industrial products and manufactured goods (+121%), while important progress has been made in terms of EU imports of Moroccan agricultural products (+118% between 2002 and 2016). In 2016, EU imports were made of machinery and transport equipment (40.4%), agricultural products (23.0%), and textiles and clothing (20.3%). The three biggest EU importers were: Spain, France, and Italy.

The agreement has proven mutually beneficial. While the first years of implementation of the EU-Morocco FTA led to an increasing trade surplus for the EU, this trend has now stabilized. From 2010 onwards the EU-Morocco trade balance remained steady. In 2016, the EU was Morocco's first partner for trade in goods, accounting for almost 60% of Morocco's total trade. Other trading partners fell far behind the EU, such as China (8%), the United States (7%), and Russia (4%).

2.2 Trade in Services and Investment

The total trade in services between the EU and Morocco has positively evolved between 2010 and 2015, from EUR 7.5 billion in 2010 to EUR 8.6 billion in 2015. The EU is Morocco's first partner for trade in services and investment. Moroccan exports of services to the EU have progressed by 11% between 2010 and 2015 and EU exports of services to Morocco have increased by 19% over the same period. In 2015, the EU exported EUR 3.6 billion in services to Morocco and Morocco exported EUR 4.9 billion in services to the EU.

EU-Morocco FDI flows remained relatively steady between 2013 and 2015, despite some volatility, resulting in the total EU FDI stock of EUR 15.2 billion in Morocco at the end of 2015. 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 EU investors, especially in the automotive, aeronautics and the electronics sectors. Morocco now ranks 68th out of 190 in the World Bank ranking "Doing Business 2017", up seven ranks compared to 2016. These positive developments efficiently mitigated more contrasted results in traditional sectors (textiles, clothing, and tourism).

2.3 Preference Utilisation rate

Morocco had an average utilisation rate of preferences of 95% in 2016. For EU exporters to Morocco, the preference utilisation rate was 52% in 2016.

Regarding the 6 agricultural TRQs applied by the EU under the Association Agreement, Morocco's 2016 fill rate was high for a limited number of products such as tomatoes (100%) and courgettes (89%), intermediate for other products such as clementines (50%), cucumbers (45%) or strawberries (30%), but remained low for garlic (7%). An additional TRQ (non-agricultural) on fructose remained unused by Morocco in 2016 (fill rate of 0%). Morocco is the largest exporter of vegetables to the EU. The total trade in agricultural products between the EU and Morocco amounted to EUR 3.6 billion in 2016.

3. ISSUES ADDRESSED IN THE JOINT COMMITTEE MEETINGS

The last Sub-Committee on Industry, Trade, and Services was held in December 2013. The discussion touched upon the ongoing preparations of the negotiations of the ACAA (agreement on conformity assessment and acceptance of industrial products). Significant progress has been made by Morocco, notably as regards approximation to the EU *acquis*, standardisation, and accreditation. The future EU-Morocco DCFTA (ALECA in French) was briefly mentioned, with a reference to ongoing round of negotiations. Several trade barriers were addressed, such as tariff dismantling for used products, export restrictions on algae, registration scheme of cosmetic products, tax on imported wood.

The last Sub-Committee on Agricultural and Fisheries Products (June 2015) was the occasion for both parties to mutually acknowledge the progress made in terms of bilateral exchanges of agricultural and fisheries goods since the entry into force of the agreement on 1 October 2012. A state-of-play of the utilisation rate of TRQs by Morocco and by the EU was also given. Both parties expressed their satisfaction regarding the successful completion of negotiations for the EU-Morocco Agreement for the Protection of Geographical Indications (GIs), and greenlighted the opening of the signature and ratification process.

The last Sub-Committee on Customs Cooperation took place in November 2015. Among others, the Parties discussed mutual recognition of Authorised Economic Operators (AEOs), fight against corruption, exchange of data and origin matters (post-release verifications, the revision of the PEM Convention on rules of origin).

4. SPECIFIC AREAS OF IMPORTANCE

After a relative slowdown in 2016, Morocco's economic indicators are rather positive for 2017, driven by growing exports and a strong agricultural season, chiefly as regards crops, for which the national production is expected to increase by 200% this year. The IMF expects a 4.4% growth for the Moroccan economy in 2017, notably thanks to the recovery of Morocco's main trade partners, including the EU. Morocco also benefited from the good economic performance of new industrial sectors (automobile, aeronautics, and electronics). Such sectors have enjoyed a fast-paced development in recent years, driven by the investment-friendly industrial policy adopted by the Moroccan government, which resulted in the country considerably improving its business climate.

The EU is providing support to Morocco through several programmes. The programme *'Réussir le statut avancé'* (RSA I and II) supports Morocco's efforts in terms of legislative convergence with the EU *acquis,* in particular in areas which will be targeted by the future DCFTA and ACAA (e.g. electrical appliances, toys, machinery, construction products, etc.). In November 2016, the EU and Morocco launched a cooperation programme on sustainable growth, in cooperation with several other actors (e.g. EIB, ERDB). The programme will provide important financial support, distributed according to three objectives: (1) enhancing the competitiveness of Moroccan companies in accordance with the industrial strategy set forth by Moroccan authorities for 2014-2020, (2) strengthening Moroccan export capacities to ensure a better access to the European market for Moroccan companies, and (3) fostering the transition towards a low-carbon economy by supporting the implementation of the Moroccan strategy for sustainable development (SNDD). The ultimate goal is to prepare Morocco's economy for the future DCFTA.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

In recent years, Moroccan authorities have adopted some more restrictive trade measures. The new Foreign Trade Law dedicates 12 articles out of 34 to the protection of national production. Public procurement procedures have been modified so as to increase the percentage of local component required to apply for tender (notably as regards renewable energies). Since July 2016, EU companies and Moroccan importers reported an increasing number of administrative procedures limiting effective market access in Morocco, notably in the sector of car parts. The EU is currently addressing this issue through informal bilateral dialogue with Moroccan authorities, waiting for regular bilateral trade-related work to resume.

Building on the EU-Morocco Association Agreement, the EU and Morocco launched negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) on 1 March 2013. Four negotiating rounds have taken place so far. The DCFTA will both expand the existing free trade area into new areas as well as deepening it in a number of areas that are already included but in a relatively superficial way. Negotiations cover areas such as access to public procurement, disciplines on non-tariff measures, harmonization of standards and regulations towards the EU acquis, sanitary and phytosanitary measures, intellectual property rights, consumer protection, competition, investment, trade in services and sustainable development.

Negotiations for the DCFTA have been on hold since 2014, following Morocco's request for a pause aimed at enabling Moroccan authorities to carry out impact assessment studies as well as further internal consultations with stake holders before a future round. The results of these studies have not yet been made public by Morocco. More recently, Morocco has put all contacts with the EU on hold following the ruling of the General Court and subsequent appeal ruling by the European Court of Justice (ECJ) on the territorial scope of the EU-Morocco Association Agreement and its protocols on additional liberalisation of trade in agricultural and fisheries products. This has also affected the work of the Trade Sub-Committee and other bodies established under the Association Agreement. The ratification of the Agreement for the Protection of Geographical Indications (GIs) is still pending.

6. CONCLUSIONS

The overall impact of the FTA on EU-Morocco trade has been very positive, bringing both economies closer and rapidly intensifying exchanges in goods, services, and investments. As a result, the EU is the leading trade partner of Morocco, with over 50% of the total Moroccan trade (56% of imports and 44% of exports) being made with the EU. EU-Morocco bilateral talks now focus on finding a mutually acceptable solution to the consequences of the ECJ ruling of 21 December 2016, before the regular work of Sub-Committees established under the Association Agreement or any negotiations for the DCFTA can resume.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE INTERIM EU-PALESTINE FREE TRADE AGREEMENT

1. INTRODUCTION

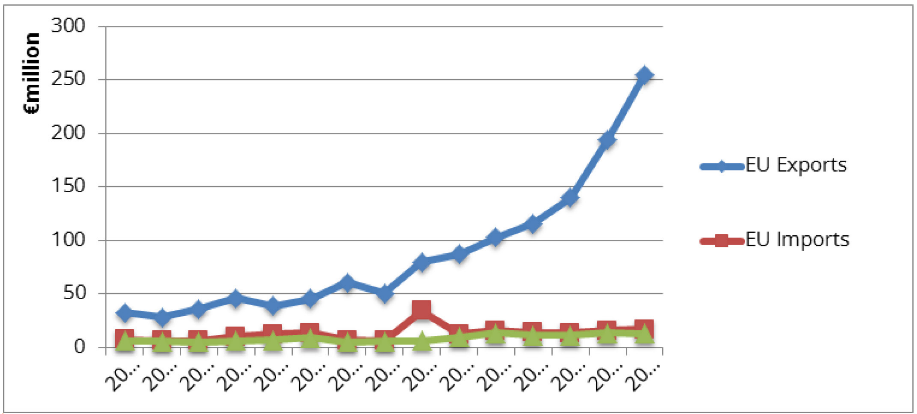
The EU and Palestine[56] have an Interim Association Agreement, creating a Free Trade Area, which was signed in 1997 and entered into force on 1 July 1997. The Interim Association Agreement liberalized two-way trade in industrial goods by providing duty-free and quota-free access for industrial goods traded in both directions. There was also some limited liberalization 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. There was an update to the agreement in 2005 before a significant update the Agreement was signed in 2011 to further liberalize trade in agricultural, processed agricultural, fish and fishery products. The EU removed all tariffs and quotas on agricultural products and PAPs imported into the Community for a period of ten years, which is renewable. Palestine continues to maintain a number of tariffs and quotas on selected agricultural and PAP products. The updated agreement is in place for a period of ten years.

Products from Israeli settlements in Palestinian territory however do not benefit from the preferential tariff agreement under the EU-Israeli or EU-Palestine Association Agreement.

Palestine is a member of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) which it signed in 2013 and notified the EU of its ratification in 2014.

2. EVOLUTION OF TRADE

2.1 Trade in Goods



The value of trade between the EU and Palestine has increased since the Association Agreement came into force. Since 2002, the first year for which data is available, there has

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[56] 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

been an overall growth in trade in goods in both directions. In 2002 the value of trade in goods was EUR 41 million and in 2016 it was EUR 271 million - a growth of 561%.

The value of EU exports to Palestine has risen by 670% from EUR 33 million in 2002 to EUR 254 million in 2016. Between 2002 and 2009 EU exports to Palestine showed year on year variations but have grown steadily year on year since 2010. In 2016 the value of exports reached an all-time-high of EUR 254 million. The main export markets are machinery and transport equipment (53.9%), agricultural products (23.4%) and chemicals (11.9%). In 2016 the three largest exporters to Palestine from the EU28 were Germany, Italy and Spain.

The value of EU imports from Palestine has risen from EUR 8 million in 2002 to EUR 17 million in 2016 – an increase of EUR 9 million or 113%. Within the lifespan of the agreement however the value of imports has fluctuated. In 2009 it reached an equal all-time low of EUR 6 million before demonstrating remarkable recovery in 2010 to reach an all-time high of EUR 35 million. It has since fallen and fluctuated year on year. In 2016 the most important import sectors were agricultural products (77.2%) and chemicals (9.9%). In 2016 the three largest importers of products from Palestine among the EU 28 were the United Kingdom, Italy and France.

Agricultural products represent the majority of EU imports from Palestine, accounting for EUR 13 million or 76.5% of the total EUR 17 million imported in 2016. Palestine exports a limited number of agricultural products including: tropical fruit, nuts and spices, bulbs, roots, live plants, vegetables and olive oil. Overall the level of agricultural export has grown since the EU-PA Agricultural Agreement of 2012, rising from EUR 8 million in 2012 to its current value. The biggest increase has been in olive oil which has risen from 400% from EUR 1 million to EUR 4 million in the same period, with an all-time high of EUR 5 million in 2015. Export levels of vegetables, bulbs, roots and live plants have remained relatively static over the same period and even fell slightly in the last year.

It should be noted that the value of EU exports to Palestine has increased more than in the other direction. This has increased Palestine's trade deficit with the EU over the same period. Palestinian exports remained largely at that same level despite full preferential market access to the EU market. This is largely due to trade restrictions linked to the Israeli occupation, as well as competition issues and the need to meet EU standards, including SPS and technical standards.

In 2016 the EU was Palestine's second largest trade partner behind Israel, representing 12% of its total trade. The EU was the second largest importer into Palestine behind Israel with a 13% market share. It was Palestine's third largest export market behind Israel and Jordan, representing 2% of Palestine's exports.

2.2 Trade in Services and Investment

In 2015 trade in services between the EU and Palestine was worth EUR 110 million which represents an increase on EUR 92 million in 2010. There have been year-on-year fluctuations in the value of services imported from Palestine which have declined slightly overall. In 2011 imports reached a high of EUR 64 million and in 2015 stood at EUR 40 million. With the exception of 2012, there has been a year-on-year increase in services exported to Palestine which in 2015 stood at EUR 70 million. No data is available on foreign direct investment by country of origin.

According to the World Bank 2017 ease of doing business index which ranks 190 countries, Palestine ranked 140th in the World for overall ease of doing business – down two places on last year.

2.3 Preference Utilisation rate

In 2016 Palestine's preference utilisation rate was 81%. The EU's preferential utilisation rate for the same year is not available.

3. ISSUES ADDRESSED IN THE ANNUAL (JOINT COMMITTEE/TRADE COMMITTEE) MEETING

The most recent EU-Palestinian Sub-committee on Trade and Internal Market, Industry, Agriculture and Fisheries, and Customs last met in May 2017. 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 to materialise 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 were 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 restricted by its relationship with Israel. Several reports have identified a number of key trade barriers including Israeli control over Palestinian trade routes which gives Israel control over import duties and VAT, internal restrictions on the movement of people and goods by physical barriers (such as checkpoints) and the cost of bureaucratic process – including transaction costs imposed at Israeli checkpoints. Such restrictions contribute to the increased dependency of the Palestinian economy on Israel which in 2015 accounted for 55% of Palestinian imports and absorbed 86% of Palestinian exports. The reactivation of the Joint Economy Committee in charge of follow-up of the Paris Protocol that has not met since 2009 would be an important step in achieving progress.

While discussion on approximation to the EU acquis is ongoing, better analysis is needed. The sectors of interest are pharmaceuticals and construction, but in the latter Palestine only wants to focus on some products. A gap analysis in the two sectors would help understand whether an ACAA in the sectors is desirable and if further support to improve the quality of infrastructure is needed.

Trade-related support to Palestine includes the "EU support to trade policy formulation and WTO accession" programme which foresees the delivery of a National Trade Policy Document and supports the application for observer status at the WTO. Furthermore, the EU financed the National Export Strategy, formulated by the PA and Paltrade, which identified 12 potential export growth sectors. An action plan was rolled out mapping the specific activities needed for its implementation.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

There are preliminary discussions between the EU and Palestine to upgrade the interim Association Agreement to a full Association Agreement. There are also discussions ongoing on approximation to the acquis including through ACAAs.

The ongoing situation with Israel remains a key barrier in EU-Palestinian trade. The EU continues to promote the usefulness of trilateral discussions on trade to facilitate progress and is trying to set up another trilateral meeting. The Union for Mediterranean Trade Ministerial in 2010 adopted a package of measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners on a bilateral and regional basis and was followed by an informal Trade Trilateral Working Group (European Commission, Israel and Palestine). It is planned to continue this work to facilitate trade of Palestinian products.

6. CONCLUSIONS

Overall the value of trade between the EU and Palestine has increased during the Association Agreement. Trade flows are however uneven. The trade balance continues to increase in favour of the EU as the value of Palestinian exports to the EU remains negligible. The on-going situation with Israel remains a key issue in EU-Palestinian trade relations and continues to be addressed in the trade discussions with both parties.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-TUNISIA FREE TRADE AGREEMENT

1. INTRODUCTION

The EU and Tunisia established a free trade area as part of the EU-Tunisia Association Agreement (AA), signed on 17 July 1995 and entered into force on 1 March 1998. The Agreement provided for a reciprocal liberalisation of trade in goods, with elements of asymmetry in favour of Tunisia: since the day of entry into force of the Agreement, all industrial products covered by the Agreement could be exported by Tunisia to the EU tariff-free, while Tunisia benefited from a transitional period of 12 years. Since Tunisia started implementing the agreement in 1996, i.e. 2 years before its official entry into force, all tariffs and non-tariff measures mentioned in the EU-Tunisia AA were entirely dismantled by 2008, and the EU-Tunisia free trade area was fully implemented two years ahead of schedule. Trade of industrial products is entirely liberalised, while market opening of agricultural products has been more limited. As regards fisheries products, the EU has opened its market (with only one product subject to Tariff Rate Quotas) while the Tunisian market remains closed. The EU and Tunisia signed a protocol establishing a Dispute Settlement Mechanism, which came into force in 2011.

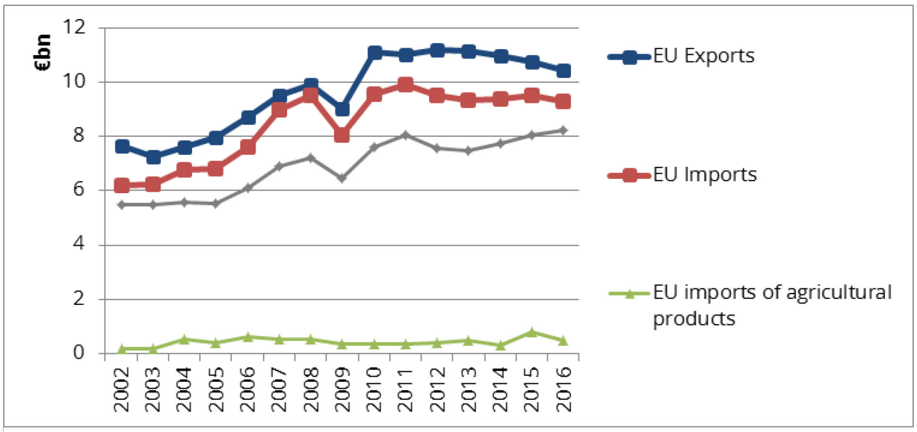
The Regional Convention on Pan-Euro-Mediterranean preferential rules of origin was signed by Tunisia on 16 January 2013 and notified on 1 January 2015.

Negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) have started in 2015.

2. EVOLUTION OF TRADE

2.1 Trade in Goods

Trade in goods between the EU and Tunisia has increased significantly over the period since the Agreement entered into force: between 2002 and 2016, the total trade in goods increased by 43%, from EUR 13.9 billion in 2002 to EUR 19.8 billion in 2016.



EU exports rose by 36% between 2002 and 2016. In 2016, EU exported machinery and

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transport equipment (37.0%), textiles and clothing (12.0%), chemicals (11.9%), and fuels (7.5%). The three biggest EU exporters were: France, Italy, and German.

EU imports rose by 51% between 2002 and 2016. A closer look at EU-Tunisia trade trends shows that Tunisia's exports of non-fuel industrial products (machinery, transport equipment, textiles and clothing) increased steadily over the period, while agricultural products have remained at a rather low level and slightly decreased in recent years. In 2016, EU imports were made of machinery and transport equipment (41.9%), textiles and clothing (24.3%), and agricultural products (6.6%). The three biggest EU importers were: France, Italy, and Germany. The EU is Tunisia's main trading partner. In 2016, the EU accounted for 73.7% of Tunisian total exports of goods, and 53.1% of its total imports[57].

Overall, the agreement has proven mutually beneficial. Tunisia's trade deficit with the EU is comparable to the one Tunisia has with Russia or Turkey – which make up for a far smaller share of Tunisia's total trade. Tunisia has even reduced its trade deficit with the EU in recent years.

Following a dip in 2008 due to the financial crisis, trade flows between the EU and Tunisia appear to have reached a plateau since 2011. Negatively impacted by growing economic difficulties faced by Tunisia, the total trade even decreased by 1.3% between 2014 and 2015 and by 2.3% between 2015 and 2016, mainly driven by decreasing EU exports due to the economic crisis while Tunisian export to the EU remained stable. Ongoing negotiations for the DCFTA therefore aim at making room for further progress in trade between the EU and Tunisia, including further liberalising agricultural trade that is only covered in a limited way by the current Agreement.

2.2 Trade in Services and Investment

The total trade in services between the EU and Tunisia decreased between 2010 and 2015, from EUR 5.9 billion in 2010 to EUR 4.8 billion in 2015, 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 15% between 2010 and 2015 and EU exports of services to Tunisia falling by 33% over the same period. In 2015, the EU exported EUR 1.1 billion in services to Tunisia and Tunisia exported EUR 3.6 billion in services to the EU.

FDI flows remained relatively steady between 2013 and 2015, despite a slowdown of EU foreign investment in Tunisia, resulting in the total EU FDI stock of EUR 3.1 billion in Tunisia at the end of 2015. 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.[58]

The business environment was affected by the instability prevailing after the 2011 Arab Spring Revolution. Tunisia dropped 2 positions in the Doing Business 2017 ranking (77th out of 190), while improving its average score after the reform of the access to loans.

2.3 Preference Utilisation rate

Tunisia had an average utilisation rate of preferences of 96% in 2016. For EU exporters to Tunisia, the preference utilisation rate was 23.5% in 2011 (latest available year).

[57] Institut National de Statistiques Tunisien, 2017

[58] Tunisian Foreign Investment Promotion Agency, 2017

Regarding agricultural TRQs, Tunisia's 2016 fill rate was complete for certain products such as olive oil (100% for the original quota of 56,700t, but only 14% for the additional quota of 35,000t granted by the EU for 2016 and 2017 upon Tunisia's request – see below), intermediate for other products such as sweet oranges (43%,) but remained low for prepared tomatoes (15%), wine (7%), or cut flowers (2%).

3. ISSUES ADDRESSED IN THE JOINT COMMITTEE MEETINGS

At the last Sub-Committee on Industry, Trade, and Services was held in December 2016, specific trade issues were raised. Tunisia informed of the difficulties faced by Tunisian operators to export certain agricultural goods to the EU as Tunisia is no longer a GSP beneficiary since January 2014. Tunisia also expressed the wish to improve the diversification of its exports to the EU, both geographically (75% of its exports are destined to only 3 EU Member States) and in terms of product range. Tunisia adopted a new Law on Investment in September 2016 so as to provide legal certainty for investors. Tunisia is still to publish a negative list of sectors where restrictions will continue. The EU also mentioned some self-contained market access issues regarding specific products: agricultural products, pharmaceuticals, tires, textiles, and ceramic tiles, for the most part.

During the last Sub-Committee on Agricultural and Fisheries Products (February 2016), Tunisia and the EU expressed satisfaction for the increase in bilateral trade flows of agricultural products (+120% since 2002, +140% for Tunisian exports to the EU and +104% for EU exports to Tunisia), despite a significant volatility in the latest years. Tunisia expressed the wish for more cooperation between the EU and Tunisia on quality policies, notably regarding organic agriculture and geographical indications (GIs). A request to further increase Tunisian quotas for key products such as olive oil and sardines was discussed, but these are treated as part of the DCFTA negotiations. The EU raised several self-contained SPS issues, notably regarding the exports of apples, poultry, and poultry products from the EU to Tunisia. The EU also mentioned that EU agricultural exports have considerably gone down in recent years (14% since 2013 overall) and raised concerns about potential restrictions on the imports of red meat and powder milk.

During the last Sub-Committee on Customs Cooperation and Taxation (February 2017), several issues were discussed, among which the modernisation of the Tunisian customs administration, the evolution of the legislation of both parties since the previous meeting, border management (especially the challenge met by Tunisian customs at the border with Libya), preferential origin including a state of play of the revision of the pan-euro-Mediterranean preferential rules of origin and the reform of the taxation rules. In general, both Parties agreed on the need to support Tunisian customs in preparing projects relating to customs legislation and operational questions.

4. SPECIFIC AREAS OF IMPORTANCE

The economic situation of Tunisia is fragile. Multiple shocks, including the fall in EU demand for Tunisian products because of the economic crisis and the 2011 Revolution and the political transition that ensued, have resulted in a sharp drop in growth, increasing unemployment and poverty, and a growing informal sector. To ensure this fragility does not compromise the democratic transition unfolding in Tunisia, the EU provides sizable support to Tunisian authorities, and has stepped up its political and financial support considerably since 2011. Also following the terrorist attacks in 2015, the EU under an emergency autonomous trade measure has granted additional olive oil quotas of 35,000t for 2016 and 2017, adding to the existing quota of 56,700t.

Tunisia benefits from a 'special relationship' with the EU, which since 2012 takes the shape of a ‘Privileged Partnership' detailed in an ambitious ENP Action Plan. In 2016, the EU reaffirmed its support to Tunisia through a joint communication, "Strengthening EU support for Tunisia", detailing the areas in which EU support is to be provided, including a number of trade-related measures as well as the launch of a “Partnership for growth” initiative. These include a possible early entry into force of the EU's trade concessions on market access of a future DCFTA on a temporary basis, the possible advanced implementation of the new PEM rules of origin as well as temporary flexibility for certain products (Tunisia's main interest is in textiles), 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). All these measures have been proposed in the context of the DCFTA negotiations and are linked to progress being made therein.

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 which will be covered by the future DCFTA. Nevertheless, some challenges remain in terms of implementation of some key regulation (e.g. public procurement decree adopted in 2014) and of institutional capacity.

The EU has provided substantial trade-related assistance to Tunisia, particularly following the signature of the EU-Tunisia AA, through a number of private sector development projects with the objective to allow Tunisia to take advantage of the agreement and adapt to the new conditions of competition. In preparation of DCFTA negotiations, the EU began supporting sectors that are not yet liberalised, such as services (the Programme d’Appui à la Compétitivité des Services (PACS) was launched in 2016 with a budget of EUR 20 million). The EU also supported Tunisia in upgrading its horizontal quality infrastructure and prepare for an ACAA in sectors identified as key by Tunisian authorities, primarily electrical and mechanical industries and construction products. A new project to support the competitiveness of Tunisian exports of industrial and agricultural sectors will be approved in 2017. Finally, the EU and Tunisia will launch a sectorial dialogue on the textile industry, with participation from the private sector.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

There is no major contentious trade issue between the EU and Tunisia, although some protectionist tendencies have appeared in recent years. Several open issues nonetheless include: technical and administrative difficulties met by EU exporters of pharmaceutical products, of tyres, of ceramic tiles, and difficulties faced by EU operators to invest in Tunisia. Longstanding SPS issues related to exports of apples have been recently supplemented by bans on red meat and plant products from the EU. The EU is pursuing a resolution of these issues through regular dialogue, in the framework of the Sub-Committee Meetings, and in view of the negotiations of the DCFTA. As of spring 2017, the Tunisian authorities were under extreme public pressure to adopt import restrictive measures to stop or slow down the deterioration of the trade and current account deficit that is associated with increasing imports mainly from non EU partners, stagnating exports, and weak flows of remittances and tourism. The EU is following the issue closely.

6. CONCLUSIONS

The overall impact of the FTA on EU-Tunisia trade has been positive. Both Tunisia and the EU benefitted from the dismantling of bilateral tariffs and non-tariff barriers. It seems however that the EU-Tunisia Association Agreement, the first signed by the EU in the region, has reached its limits, and needs to be upgraded in order to continue to deliver positive results. This means both extending the scope and deepening the provisions of the FTA in the future DCFTA for which negotiations started in October 2015.

The DCFTA aims to expand liberalization in agriculture and fisheries and also cover services and investment. With a view to support ongoing economic reforms in Tunisia and better integrate the country into EU and world markets, it will include a wide range of trade related regulatory areas of mutual interest, such as trade facilitation, technical barriers to trade, sanitary and phytosanitary measures, investment protection, public procurement, competition policy and trade and sustainable development. Negotiations are guided by the principles of progressivity and asymmetry in favour of Tunisia. One full round of negotiations was held in April 2016, followed by a technical meeting in February 2017. The next full round is planned later in 2017.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-CARIFORUM ECONOMIC PARTNERSHIP AGREEMENT (EPA)

1. INTRODUCTION

The CARIFORUM (CF) – EU 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 between the Parties on 29 December 2008[59], pending ratification by all countries involved. By 2016 this agreement was provisionally applied by the EU and by Caribbean States (with the exception of Haiti, which needs first to ratify the agreement before applying it).

By the end of 2016, 21 EU Member States and 8 Caribbean States had ratified the EPA.

The CF-EU EPA is 'comprehensive' both in the geographic and thematic sense, covering the region as a whole and including not only trade in goods, but also trade in services and trade-related issues (competition, innovation and intellectual property, transparency in public procurement etc.).

2. EVOLUTION OF TRADE

2.1 Trade in goods

The trade in goods chapter provides for reciprocal but asymmetric market opening by the Parties. The EU has opened all tariff lines (except arms and ammunition). This largely represents a continuation of the trade preferences granted under Cotonou, except for certain agricultural products. CF will open about 92% of its trade over a 25-year period (83% over 15 years), and will exclude about 8% from liberalisation altogether. The process of market opening on the CF side is therefore gradual, and takes place over a long period of time. The EPA also includes bilateral and multilateral safeguard clauses. The first tariff cuts were scheduled for 1 January 2011, 2013, 2015 and 2017. A common reciprocal regime governing the rules of origin is part of the agreement.

In November 2016, CF informed the EU that the bigger Caribbean countries (Dominican Republic, Jamaica and Trinidad & Tobago) were implementing the tariff liberalization schedule as planned, and some progress was still required in smaller countries such as Antigua and Barbuda, Dominica and St. Vincent and the Grenadines.

In terms of volume, trade with the Caribbean shows fluctuations over the last decade.

The balance of trade was positive for the EU in 2016. The table shows the combined figures for the whole Caribbean region (fourteen countries) and it also shows the four biggest countries per category (imports, exports, and balance of trade).

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[59] The objective for the EU-CARIFORUM EPA was a comprehensive and regional agreement with 15 countries in the Caribbean Region: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

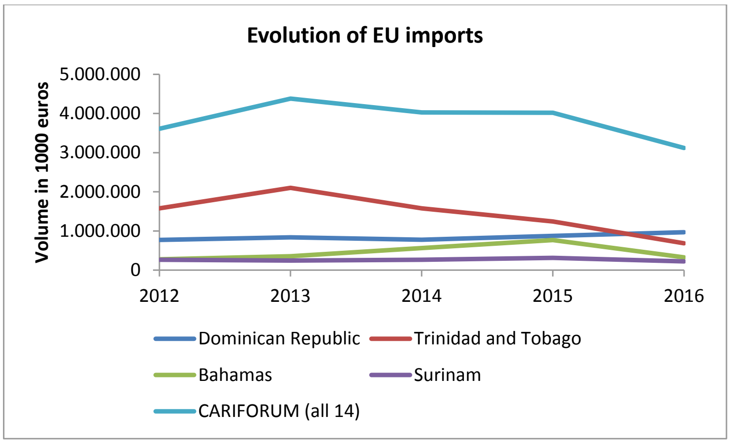
The EU is the 2nd most important trading partner of the Caribbean (11% of the total Caribbean imports come from the EU and 12% of the total Caribbean exports go to the EU), only behind the USA.

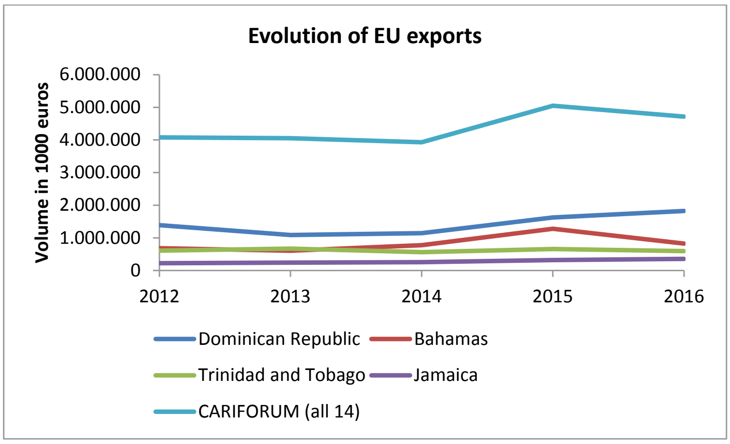
The total Caribbean exports to the EU decreased by 23% in 2016 (almost EUR 900 million). However, this is largely explained by reduced exports of *machinery and transport equipment* from Bahamas (decline of more than EUR 400 million), and *fuel, iron and steel and chemicals* from Trinidad and Tobago (decline of EUR 550 million linked to commodity prices).

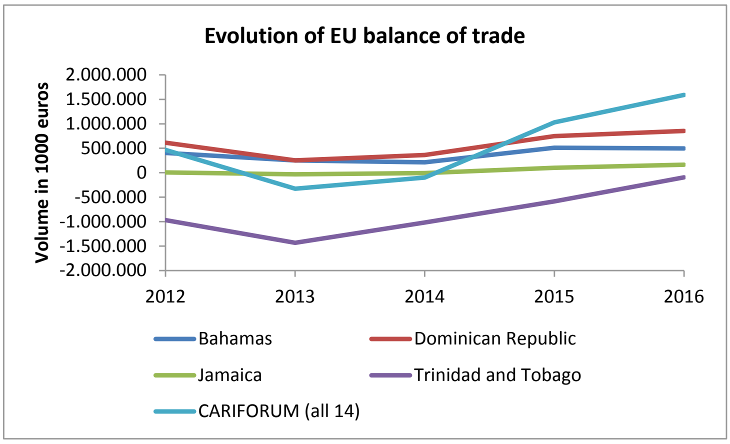
EU and the Caribbean

	Flows in 1000 euros	2012	2013	2014	2015	2016
Imports	Dominican Republic	773,541	837,751	778,975	874,371	968,319
	Trinidad and Tobago	1,577,344	2,101,147	1,580,320	1,243,182	686,719
	Bahamas	277,356	357,410	564,169	769,269	326,899
	Suriname	266,508	245,041	266,473	315,030	226,092
	CARIFORUM (all 14)	**3,611,150**	**4,381,138**	**4,027,116**	**4,019,998**	**3,122,825**
Exports	Dominican Republic	1,388,710	1,089,047	1,142,436	1,623,968	1,822,266
	Bahamas	681,270	608,381	777,583	1,279,399	823,731
	Trinidad and Tobago	609,097	669,360	561,347	657,896	591,962
	Jamaica	224,569	238,564	253,766	321,901	353,416
	CARIFORUM (all 14)	**4,078,997**	**4,055,058**	**3,927,825**	**5,050,655**	**4,713,557**
Balance of Trade	Bahamas	403,914	250,971	213,414	510,131	496,832
	Dominican Republic	615,169	251,296	363,460	749,598	853,947
	Jamaica	7,227	-34,010	-6,060	99,441	164,944
	Suriname	110,543	285,466	54,292	67,101	19,801
	Trinidad and Tobago	-968,246	-1,431,787	-1,018,973	-585,286	-94,757
	CARIFORUM (all 14)	**467,846**	**-326,080**	**-99,291**	**1,030,657**	**1,590,733**

Source: Eurostat


Evolution of EU imports
Volume in 1000 euros
5.000.000
4.000.000
3.000.000
2.000.000
1.000.000
0
2012
2013
2014
2015
2016
Dominican Republic
Trinidad and Tobago
Bahamas
Surinam
CARIFORUM (all 14)


Evolution of EU exports
Volume in 1000 euros
6.000.000
5.000.000
4.000.000
3.000.000
2.000.000
1.000.000
0
2012
2013
2014
2015
2016
Dominican Republic
Bahamas
Trinidad and Tobago
Jamaica
CARIFORUM (all 14)

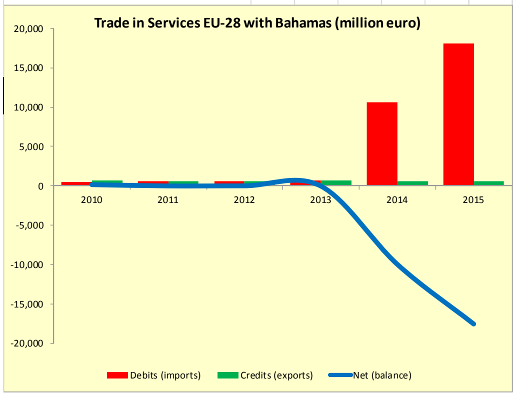

Evolution of EU balance of trade
Volume in 1000 euros
2.000.000
1.500.000
1.000.000
500.000
0
-500.000
-1.000.000
-1.500.000
-2.000.000
2012
2013
2014
2015
2016
Bahamas
Dominican Republic
Jamaica
Trinidad and Tobago
CARIFORUM (all 14)

2.2 Trade in services

Trade in services shows a favourable balance for the top four Caribbean exporters of services to the EU. Individual data related to the Bahamas, Dominican Republic, Barbados and Jamaica is included below (Source: Eurostat). Bearing in mind services data limitations, it can be noted that all four main Caribbean services exporters had a trade surplus with the EU and that for three out of four, services exports are increasing.

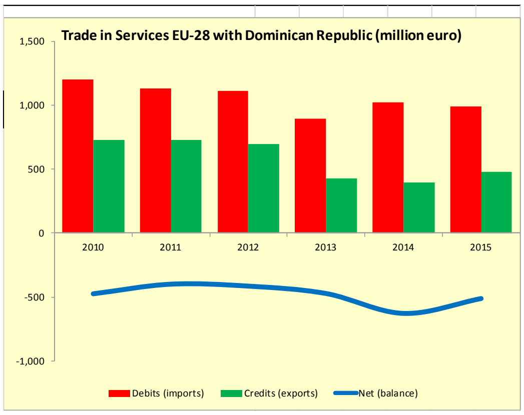
Trade in Services EU-28 with Bahamas (million euro)

Services	2010	2011	2012	2013	2014	2015
Debits (imports)	491	581	588	698	10,598	18,123
Credits (exports)	652	584	602	672	638	583
Net (balance)	161	3	14	-26	-9,959	-17,540



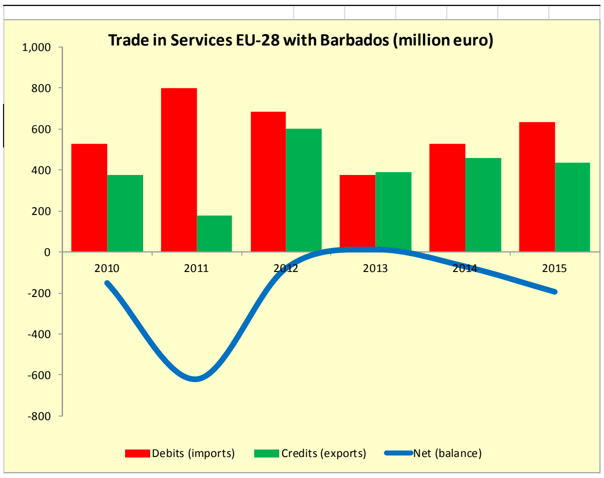
Trade in Services EU-28 with Dominican Republic (million euro)

Services	2010	2011	2012	2013	2014	2015
Debits (imports)	1,202	1,131	1,111	898	1,021	991
Credits (exports)	727	732	696	426	393	479
Net (balance)	-475	-400	-415	-472	-628	-512



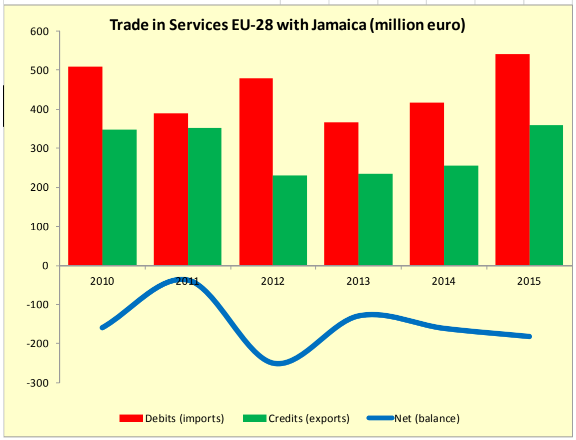
Trade in Services EU-28 with Barbados (million euro)

Services	2010	2011	2012	2013	2014	2015
Debits (imports)	529	797	682	377	529	632
Credits (exports)	377	176	603	388	458	437
Net (balance)	-151	-621	-79	12	-71	-195



Trade in Services EU-28 with Jamaica (million euro)

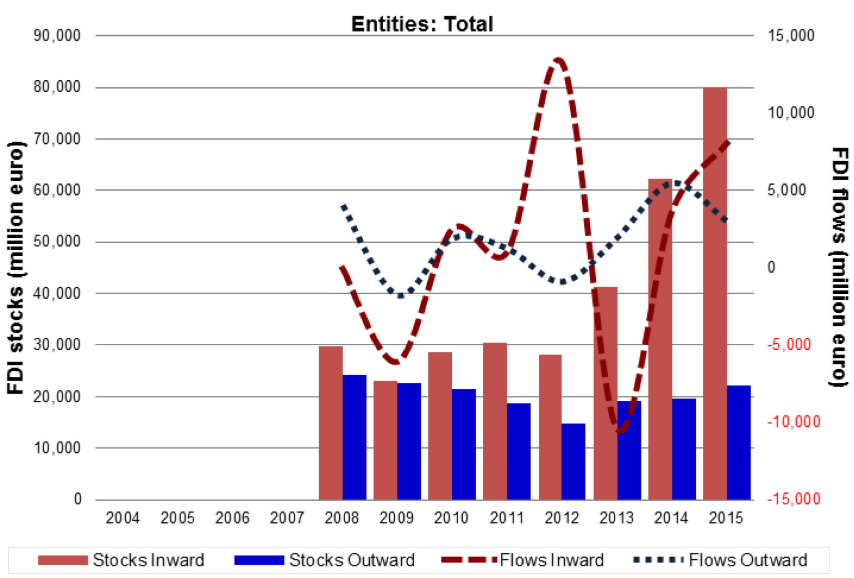
Services	2010	2011	2012	2013	2014	2015
Debits (imports)	508	389	480	365	416	540
Credits (exports)	349	351	230	236	255	358
Net (balance)	-159	-37	-250	-129	-161	-182



2.3 Foreign Direct Investment

The European investment stock in the Caribbean remained constant over the last three years, while the Caribbean investment stock in the EU substantially increased. However, this does not seem to reveal any clear trend in *productive* investment flows.

FDI between European Union (28 countries) and Caribbean ACP states



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Source:Eurostat

3. ISSUES ADDRESSED IN THE ANNUAL EPA COMMITTEE MEETINGS

The EPA establishes a full institutional structure to manage the implementation of the agreement, including the Joint Council (JC) (Ministerial level), the Trade and Development Committee (TDC) (senior officials), the Parliamentary Committee, the Consultative Committee (civil society), and Special Committees which meet on an ad hoc basis.

The *TDC* meeting is the annual senior official meeting where the main issues concerning the implementation of the Economic Partnership Agreement (EPA) are discussed. The last TDC meeting took place in Kingston (Jamaica) in 2016. In addition to administrative matters and recurring issues, discussions took place about CARIFORUM's tariff liberalisation schedule; trade in services, technology transfer, Intellectual Property, Cultural Cooperation, EPA Monitoring and Development Cooperation.

The 2nd meeting of the *Consultative Committee* (CC) took place in April and its conclusions were presented at the TDC meeting in Kingston in November. The CC brings together representatives of civil society from the Caribbean and the EU in order to promote mutual dialogue, monitoring and cooperation concerning the implementation of the agreement.

4. SPECIFIC AREAS OF IMPORTANCE

In 2016 specific areas of importance were:

- ***Agriculture***: Negotiations on Geographical Indications advanced. The Council of the EU approved the Decision concerning the establishment of the Special Committee on Agriculture and Fisheries.
- ***Services*****:** The services Title, and in particular the Mode 4 chapter (movement of natural persons for business purposes), is considered one of the key elements of the EPA. On the implementation side, tangible steps have been very limited so far but both Parties agreed to continue working in order to achieve specific deliverables in this area.
- ***Development Cooperation***: The EPA is a genuinely pro-development agreement and directly linked to the European Development Fund (EDF) funds. Issues related to the implementation of the 10th EDF and 11th EDF concerning CARIFORUM regional integration and EPA implementation were discussed in 2016. In this regard, specific programmes supporting the private sector in the Caribbean and technical capacity were also adopted. Overall, more than EUR 100 million was allocated in the regional programme for CARIFORUM under the 11th EDF to strengthen regional co-operation and integration processes, by supporting private sector development, investment and external trade capacities, and specific EPA implementation needs.
- ***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.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Discussions are ongoing on the monitoring system that needs to be established, on negotiations related to Geographical Indications and also on achieving progress on the services chapter.

6. CONCLUSION

In 2016 progress was achieved in the implementation of the agreement, including notably on agriculture issues. Constructive meetings of the TDC and the Consultative Committee prepared the ground for a Joint Council meeting in 2017.

Trade in goods fell, especially Caribbean exports, without necessarily indicating a downward trend in exporting activity. The four main Caribbean services exporters maintained a trade surplus with the EU.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) EU-CAMEROON

1. INTRODUCTION

Cameroon agreed an EPA with the EU on 17 December 2007[60]. This agreement was signed by Cameroon and the EU on 15 January 2009. It was approved by the EP on 13 June 2013 and ratified by the Parliament of Cameroon on 22 July 2014. On 4 August 2014, the agreement entered into provisional application. This agreement is a regional agreement open to other Central African countries.

2. EVOLUTION OF TRADE

2.1 Trade in products

Trade with Cameroon is relatively stable over the last decade. Balance of trade is negative for the EU, but slowly decreasing.

EU trade with Cameroon									1000 euros
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Import	2,450,373	1,741,158	2,006,958	2,161,813	2,111,270	2,362,614	2,149,666	1,798,015	1,768,006
Export	1,139,493	1,083,154	1,204,638	1,411,363	1,523,156	1,679,784	1,550,979	1,534,977	1,506,498
Balance of trade	-1,310,881	-658,004	-802,321	-750,449	-588,114	-682,830	-598,687	-263,038	-261,508
Source: EUROSTAT									

The EU is by far the most important trade partner of Cameroon for imports (30% of Cameroon's imports) and exports (55% of Cameroon's exports).

All exports from Cameroon enter the EU duty free and quota free and without time limit. Main products imported from Cameroon are oil (36%), cocoa beans (15%), wood (13%), bananas (13%), and aluminium (6%) (*EUROSTAT, 2015*).

Taking into account the share of raw materials in these exports, MFN preferences are used for 75% of Cameroon's exports to the EU. The remainder, and particularly bananas, are imported under EPA preferences.

The Economic Partnership Agreement foresees that Cameroon will liberalize 80% of imports from the EU over 15 years. Effective liberalization of 1st category products started on 4 August 2016.

A common reciprocal regime governing the rules of origin is still being negotiated, to be annexed to the agreement. In the meantime, Cameroon benefits from the general EPA rules of origin included in EU 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).

[60] The full name of the agreement, "…stepping-stone agreement…" reflects the fact that the initial and ultimate objective for economic partnership in Central Africa was a comprehensive, regional agreement. However, by 2016 negotiations for a comprehensive regional EPA with Cameroon, Central Africa Republic, Chad, Congo, Democratic Republic of Congo (DRC), Equatorial Guinea, Gabon and Sao Tome y Principe had ground to a halt, and the Commission focused its efforts on the "stepping stone" agreement already implemented by Cameroon.

On 4 August 2016, Cameroon started liberalization of 1621 products imported from the EU. According to the schedule in the agreement, a 25% reduction in duties has been applied since then. The first category consists mainly of basic necessities (e.g. medicines), industrial and agricultural inputs and machines (27%), chemicals (19%), consumer products for households (30%).

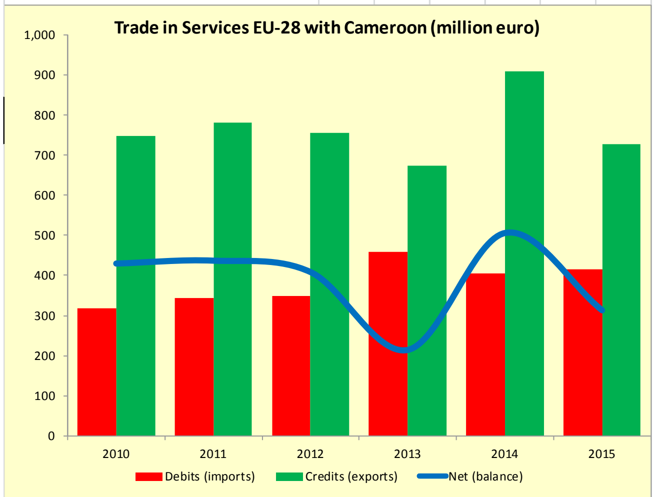
From August 2016 to January 2017, 733 declarations on imports from the EU benefited from tariff preferences. Chapters most concerned were chapters 84 (machinery and mechanical appliances) (46%), 85 (electrical machinery and equipment) (16%), 90 (medical instruments) (9%) and 38 (Miscellaneous chemical products) (7%). Over the same period, the total tax differential is estimated at EUR 556.000, mainly registered at Douala Port (87%). The tax differential mainly concerns chapter 84 (20%), 48 (20%), 28 (13%). (Source: Cameroon Customs)

2.2 Trade in services

Trade in services between the EU and Cameroon has shown some variation over the last years. The EPA does not cover trade in services.

Trade in Services EU-28 with Cameroon (million euro)

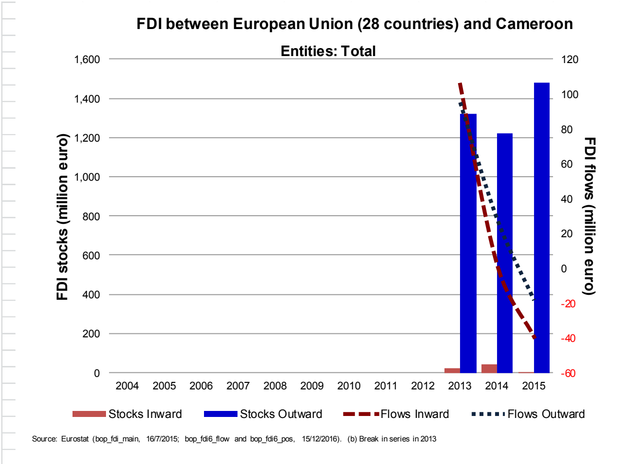
Services	2010	2011	2012	2013	2014	2015
Debits (imports)	318	344	348	458	405	414
Credits (exports)	747	781	756	673	910	728
Net (balance)	430	437	408	214	506	313



Source: Eurostat (bop_its6_det/tot) 13-Jan-17
Prepared by DG Trade - Chief Economist Unit - Statistics sector

2.3 Foreign Direct Investment

The investment stock (mainly originating in France) remains constant over the last three years.



3. ISSUES ADDRESSED IN THE ANNUAL EPA COMMITTEE MEETING

The second EPA Committee between Cameroon and the EU took place in December 2016 in Yaoundé. It discussed the state of play of implementation and related issues (rules of origin, liberalization, accompanying measures, etc.). The Parties signed the first Decision of the EPA Committee adopting its Rules of procedure.

4. SPECIFIC AREAS OF IMPORTANCE

Given the important link between the EPA and development cooperation (part of the "development dimension" of the partnership), work has been ongoing to identify the accompanying measures foreseen in the agreement as follows:

- "Identification" of a programme of accompanying measures for the implementation of the Agreement, making use of the European Development Fund; Cameroon has been assessing how to use funds made available under the EUR 211 million regional envelope for regional integration in Central Africa.
- Exploring a monitoring mechanism for liberalization. Such monitoring should include the tax implications of the liberalization process.

In this context, it is important to note that civil society representatives have been involved in the meetings of the EPA Committee.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

Discussions are ongoing on updating the liberalization nomenclature (SH2002 to SH2017). Negotiations are also ongoing on a common protocol of rules of origin. The main open issue is the implementation of the liberalization timetable (2008-2023). Contacts are ongoing between the region and the EU on accession to this EPA by other Central African States.

6. CONCLUSIONS

In 2016 Cameroon took important steps in implementing its commitments, culminating in significant tariff cuts. However, given that the application period is still very short, it is too early to discern any impact on trade and investment flows in 2016. Implementation will also be impacted by the implementation of domestic reforms and accompanying measures. Uncertainty remained at the regional level as to the real intentions of the other countries of the region towards joining the EPA.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF THE EU-ESA EPA

1. INTRODUCTION

The agreement was signed by four ESA[61] countries (Madagascar, Mauritius, Seychelles and Zimbabwe) and is provisionally applied since 14 May 2012. An established, functioning EPA Committee at ministerial or senior official level serves as a platform for dialogue in a spirit of partnership to overview and monitor the agreement's implementation and to take appropriate decisions.

2. EVOLUTION OF TRADE (YEAR-TO-YEAR AND SINCE THE START OF PROVISIONAL APPLICATION)

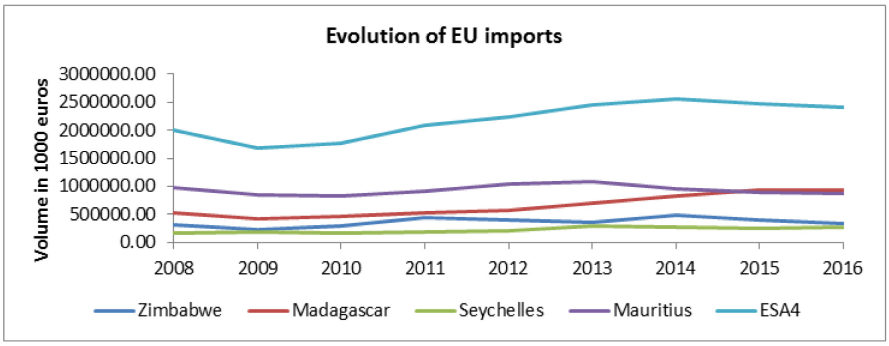
2.1 Trade in Goods

EU trade with the four ESA EPA countries (ESA4) has overall increased by 21% during the last decade. The trade balance has been always positive in favour of the ESA4.

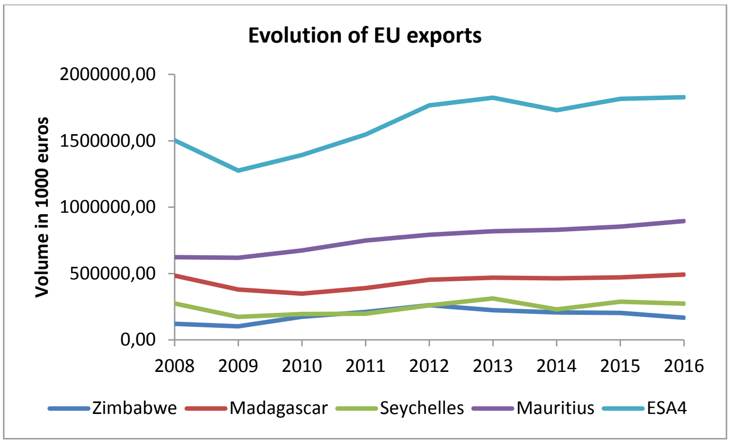
Eu trade with ESA4	2008	2009	2010	2011	2012	2013	2014	2015	2016
Imports	1.996.702	1.692.048	1.765.021	2.088.981	2.235.905	2.449.334	2.549.921	2.482.857	2.410.519
Exports	1.503.822	1.275.746	1.392.792	1.547.265	1.766.998	1.825.118	1.730.951	1.816.121	1.827.913
trade balance	-492.880	-416.302	-372.229	-541.715	-468.907	-624.216	-818.970	-666.736	-582.607

More specifically, Madagascar shows clear benefits from EPA implementation, as its exports increased by 65% in the period 2012-2016. Seychelles' exports followed the same trend and increased by almost one third in the same period. For Mauritius and Zimbabwe, a slight decrease is registered for the same period due to reasons that should be attributed to the global economic conditions (their overall exports declined by 18.7% and 16.2% respectively) rather than to EPA implementation. Mauritius' exports to the EU remain concentrated on three main products, i.e. sugar, textiles and fisheries making up 90% of the total. However, a slight diversification started appearing to include other products such as pharmaceutical and beauty make-up products, watches and medical devices. Zimbabwe's main exports to the EU are tobacco, sugarcane, fruit, hides and leather, tea, flowers, metals and granite. Higher value agricultural products have been added (berries, stone fruit, peppers and peas) as renewed diversification that may boost its export values in the future.

[61] Eastern and Southern Africa (ESA) is a diverse EPA group including Indian Ocean islands (Comoros, Madagascar, Mauritius and Seychelles), countries of the Horn of Africa (Djibouti, Ethiopia, Eritrea and Sudan) and some countries of Southern Africa (Malawi, Zambia and Zimbabwe).



On the import side, Zimbabwe's slightly declining figures are the sole exception to an overall positive trend by ESA4. Zimbabwe's imports trend may be partly explained by the difficulties encountered in applying their market access schedule during the first years of implementation.



Comparison of ESA trade partners (EU and world-wide)

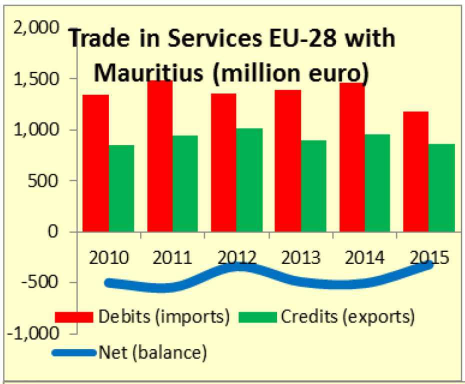
The EU is, the largest trade partner of Seychelles, Mauritius and Madagascar for both their exports and imports. For Zimbabwe, the EU is the second largest partner for its exports and the fourth largest for its imports; Zimbabwe imports mainly from South Africa.

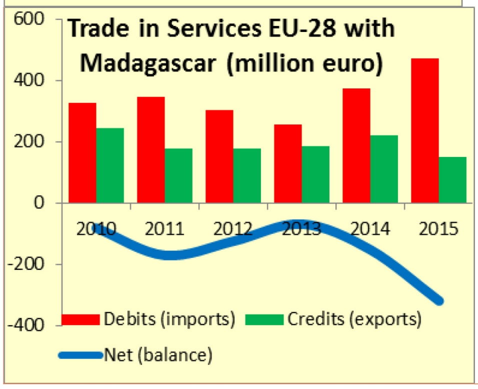
2.2 Trade in Services and Investment

Trade in services between the EU and ESA4 has shown a lot of variation amongst each country and over the last years [NB table will be limited to 2010-2015]. The EPA does not cover trade in services.

In the last years, the EU had a negative net balance with all ESA4 but Zimbabwe. However, this trend is variable amongst them showing that there are different patterns of trade.

Prepared by DG Trade - Chief Economist Unit - Statistics sector





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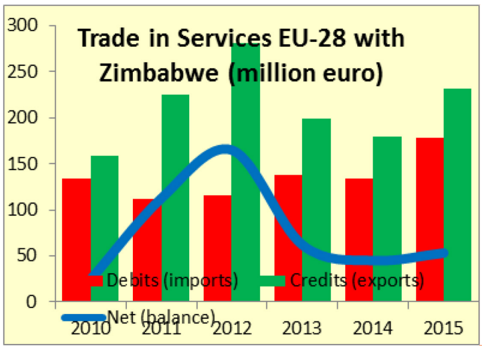

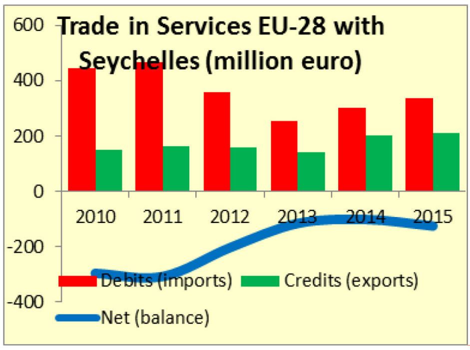

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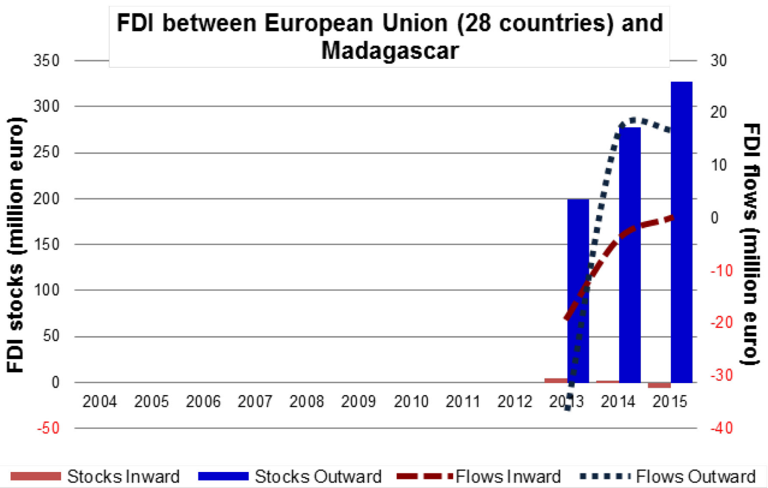
2.3 Foreign Direct Investment

As the charts below show, outward investment stocks have increased for all but for Seychelles.



Source: Eurostat (bop_fdi_main, 16/7/2015; bop_fdi6_flow and bop_fdi6_pos, 15/12/2016). (b) Break in series in

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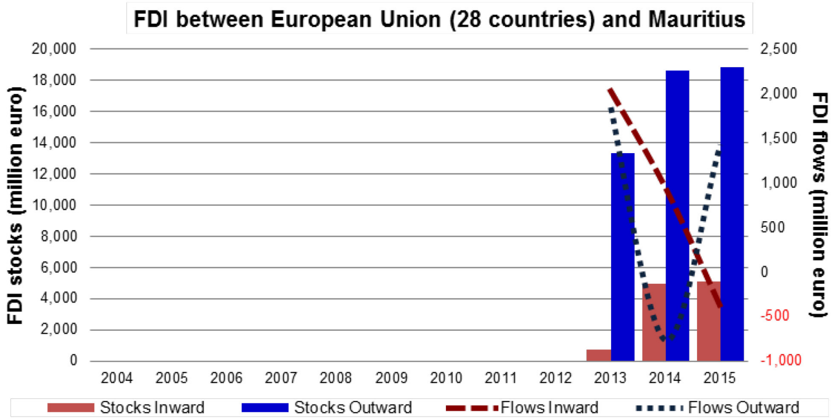

Source: Eurostat (bop_fdi_main, 16/7/2015; bop_fdi6_flow and bop_fdi6_pos, 15/12/2016). (b) Break in series in 2013

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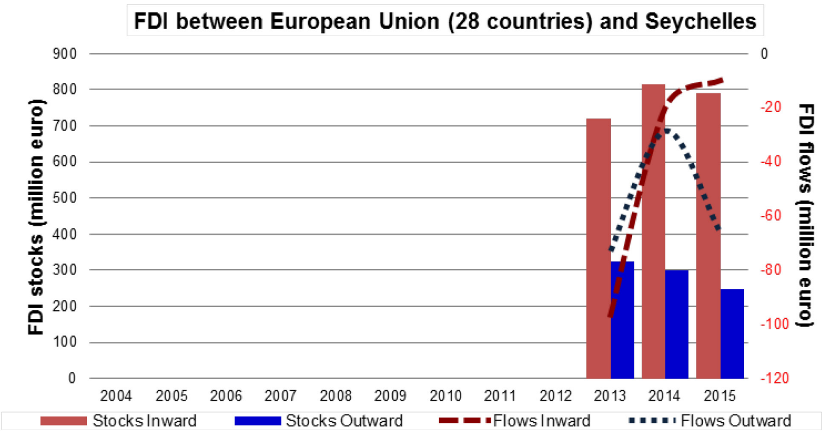

Source: Eurostat (bop_fdi_main, 16/7/2015; bop_fdi6_flow and bop_fdi6_pos, 15/12/2016). (b) Break in series in 2013

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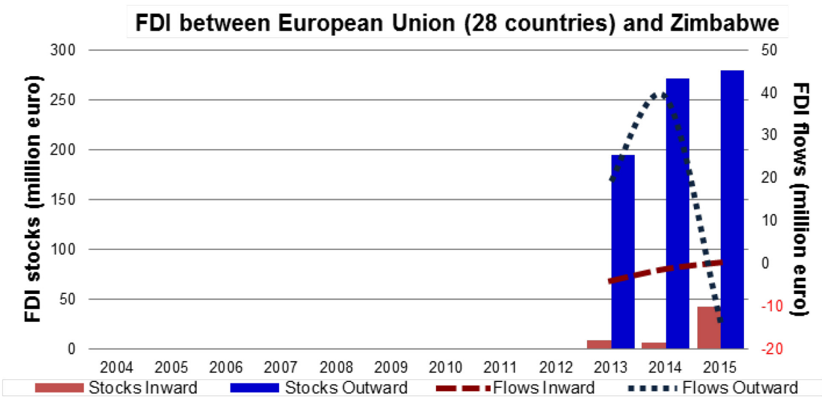

Source: Eurostat (bop_fdi_main, 16/7/2015; bop_fdi6_flow and bop_fdi6_pos, 15/12/2016). (b) Break in series in 2013

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2.3 Preference Utilisation rate

For all four ESA countries, the preference utilisation rate is very high (two third or more) of their total exports to the EU, the remaining exports are MFN zero duty with the exception of 1-2% exports with MFN non-zero duty but low enough to offset the compliance costs for the preferential rate.

3. ISSUES ADDRESSED IN THE ANNUAL (JOINT COMMITTEE/TRADE COMMITTEE) MEETING

All parties implement the agreement. The two main issues addressed by the last EPA Committee were:

- continuous support to EPA implementation under both the 10th and the 11th European Development Fund (EDF) and,
- agreement on modernisation of rules of origin

4. SPECIFIC AREAS OF IMPORTANCE

EPA implementation is a top priority, with all ESA4 States now having made tariff cuts and seeking to use EPA export opportunities.

Development cooperation is essential for EPA implementation. In this context it was an important achievement when envelopes of EUR 10 million was allocated to each of the four EPA countries under the SADC regional programme, with Mauritius developing a project on ease-of-doing business and investment regulatory framework, Zimbabwe focusing on exports, SMEs development and trade facilitation in selected value-chains, and Madagascar and Seychelles developing proposals on value-chains and SMEs.

The EU is supportive of accession of other ESA States to the current Agreement with a view to extending EPA benefits to them.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

The ESA States expressed its interest in "deepening" (new issues) and "widening" (new members) the existing EPA.[62] Both sides agreed to jointly define the scope and objectives of

[62] The full name of the agreement, "…interim Economic Partnership Agreement…" reflects the fact that the objective for economic partnership in Eastern and Southern Africa was a comprehensive, regional agreement. However, by 2016 negotiations for a comprehensive regional EPA with the ESA4 and seven other ESA

the deepening before launching the process. As for widening, Comoros and Zambia can, at any time, sign the agreement that both initialled in 2007, while the other ESA States will first need to submit market access offers before eventually joining the agreement.

The market access schedules of the four ESA countries need to be transposed to HS2017 tariff codes. The EU has offered assistance to the ESA States. There are challenges raised by non-tariff measures that need to be tackled by constructive dialogue between the competent services and by appropriate EU support. The prospects of an ESA4 Business Forum, an awareness-raising EPA seminar in Zimbabwe and specific training on geographical indications has been raised.

6. CONCLUSIONS

In 2016 the four ESA countries continued (Madagascar, Mauritius, Seychelles) or took important steps (Zimbabwe) in implementing their commitments, culminating in significant tariff cuts. The trade balance remained positive in favour of the ESA4, and there was sustained export growth from Madagascar in particular. This could develop further by the implementation of domestic reforms and accompanying measures. Uncertainty is remained as to the real intentions of Comoros and Zambia to sign the EPA; Comoros was expected to sign the agreement by the end of 2016.

countries had ground to a halt, and the Commission focused its efforts on the agreement already implemented by the ESA4.

ANNUAL INFO SHEET ON THE IMPLEMENTATION OF
THE ECONOMIC PARTNERSHIP AGREEMENT (EPA) EU-PACIFIC (FIJI, PNG)

1. INTRODUCTION

Negotiations for an EU-Pacific EPA were concluded on 23 November 2007 with Papua New Guinea (PNG) and Fiji – 2 of the 14 Pacific States[1], representing the vast majority of regional exports to the EU. The EU-Pacific EPA covers trade in goods.

The EU and PNG signed the EPA on 30 July 2009 and Fiji on 11 December 2009. The European Parliament approved the Agreement on 19 January 2011 and the PNG Parliament ratified it on 25 May 2011. Fiji is still to ratify the Agreement but has notified the Council of its provisional application as of 28 July 2014.

The Agreement is open for accession to all Pacific Island States on the basis of the submission of a GATT 1994 Article XXIV compliant market access offer.

2. EVOLUTION OF TRADE

2.1 Trade in products

Overall, the EU is the Pacific countries' fifth largest trading partner, but trade remains very small in absolute and relative terms. Exports to the EU account for about 11% of the region's total exports while 3% of the region's imports come from the EU. PNG and Fiji, together represent 83% of all EU - Pacific trade. As Table 1 shows, EU trade balance with the two countries (taken together) has been largely negative over the last decade.

***Table 1*: EU Trade in goods with Pacific (PNG and Fiji)**

Flows in 1000 euros					
		2013	2014	2015	2016
Import	PNG	752.042	789.085	745.919	676.950
	Fiji	84.742	98.686	86.313	60.738
	Pacific	836.784	887.771	832.232	737.688
Export	PNG	161.253	129.289	118.136	149.004
	Fiji	326.704	49.166	173.016	60.02
	Pacific	487.957	178.454	291.152	209.029
Balance of trade	PNG	-590.789	-659.796	-627.782	-527.946
	Fiji	241.962	-49.521	86.703	-713
	Pacific	-348.827	-709.317	-541.079	-528.659

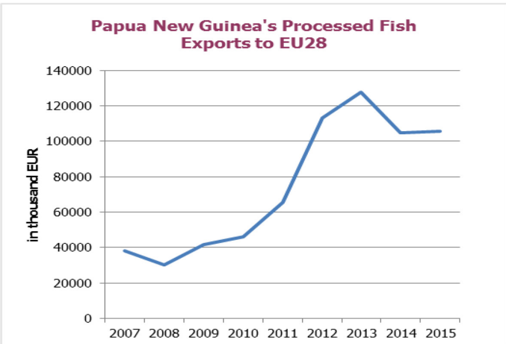
Source: Eurostat

The EU is an important trading partner of PNG and Fiji, ranking behind countries in the region (notably Australia, China and Singapore).

While Fiji and PNG's main exports to the EU are commodities: palm oil, copper, sugar, coconut and fish, their main imports from the EU are mechanical machinery, electrical machinery, vehicles and oil. Exports to the EU of processed tuna are important and have potential to increase in the future as a result of EPA implementation. The EPA includes a special derogation to the standard Rules of Origin – the so-called "global sourcing" provision for processed fish that allows Pacific EPA countries to source raw material from any vessel (regardless of who caught the fish, or where it is caught). This exclusive exemption recognises the importance of fisheries especially of canned tuna (HS 1604) for long-term income. It supports sustainable fisheries management and promotes the development of onshore processing capacity to create local employment, skills transfer and income for the Pacific States.

PNG has enjoyed duty-free quota-free access and has seen its exports increase substantially since 2008 – the year when improved preferences to the EU market for its processed fish exports began under the Agreement. As Chart 1 shows, PNG has substantially increased its processed non-originating tuna (HS 1604) exports to the EU, which accounted for 16.5% of PNG's total exports to the EU in 2015.

Chart 1



2.2 Trade in services

At present, the EU-Pacific EPA does not cover trade in services.

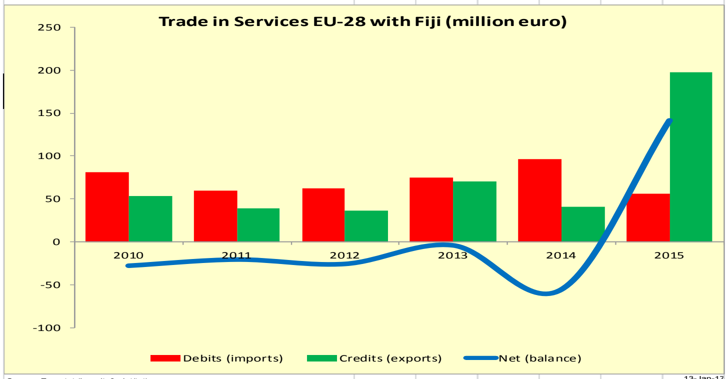
Generally, Pacific exports have not diversified into other non-traditional exports or higher-value goods. However, services (including tourism from Europe) are a major economic sector in many Pacific countries, with potential to expand in Fiji and PNG.

In the last years for which data were available, there was a positive net balance for EU as regards Fiji (since 2015) and PNG (since 2010).

Chart 2

Trade in Services EU-28 with Fiji (million euro)

Services	2010	2011	2012	2013	2014	2015
Debits (imports)	81	60	63	75	96	56
Credits (exports)	53	39	37	71	41	197
Net (balance)	-28	-21	-26	-4	-56	141

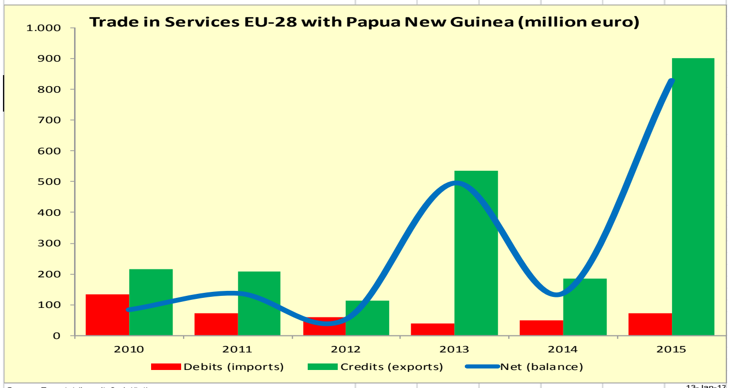


Source: Eurostat (bop_its6_det/tot) 13-Jan-17
Prepared by DG Trade - Chief Economist Unit - Statistics sector

Chart 3

Trade in Services EU-28 with Papua New Guinea (million euro)

Services	2010	2011	2012	2013	2014	2015
Debits (imports)	133	72	60	39	48	73
Credits (exports)	217	209	113	535	186	901
Net (balance)	84	137	53	496	137	829



Source: Eurostat (bop_its6_det/tot) 13-Jan-17
Prepared by DG Trade - Chief Economist Unit - Statistics sector

2.3 Foreign Direct Investment

As Charts 4 and 5 below show, EU Outward investment stocks in both countries have increased over the last three years, with no Inward investment stocks in the EU.

Chart 4

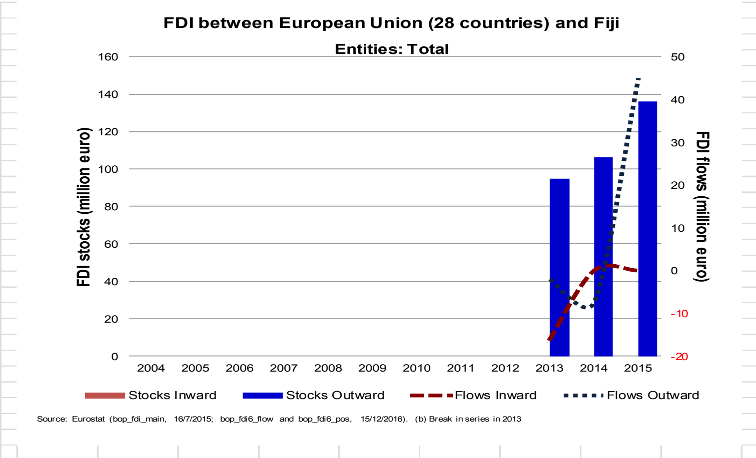
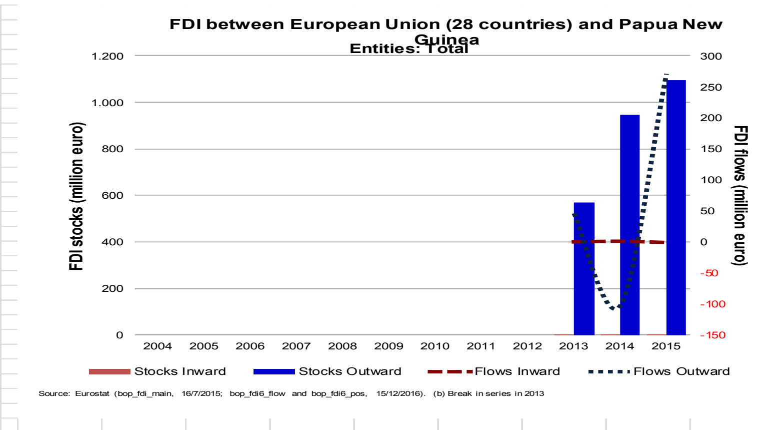


Chart 5



3. ISSUES ADDRESSED IN THE ANNUAL EPA COMMITTEE MEETINGS

Four meetings of the Trade Committee established under the EPA have taken place between the Parties to the Agreement. The last Committee (2015) discussed the state of play of the implementation (tariff schedules) and ratification, its rules of procedure, issues of environmental protection and effective fisheries conservation, agricultural issues, possible areas for deepening cooperation under the EPA and accession issues.

4. SPECIFIC AREAS OF IMPORTANCE

EPA implementation is a top priority, with PNG having made all its tariff cuts but seeking to extend export diversification beyond the fisheries sector.

Development cooperation is essential for EPA implementation, although it is not part of the Pacific-EU EPA or its accession process. Regional trade, business environment and private sector involvement also ranked as priorities in the regional envelope of EUR 50 million earmarked for the Pacific region.

The EU is supportive of accession of other Pacific States to the current Agreement with a view to extending EPA benefits to them.

5. MAIN OPEN ISSUES AND FOLLOW-UP ACTIONS

No Trade Committee could be held in 2016. Nevertheless, it is important to convene another meeting with PNG and Fiji (the second one with both of them) to follow up on the above implementation issues as well as technical matters (tariff classification update etc.).

In the meantime, Solomon Islands and Samoa have officially declared their interest to join the current EPA.

6. CONCLUSIONS

Although the overall volume of trade in goods with the EU is small, it is important for the Pacific States as they develop non-traditional exports. In particular they have strong interest in safeguarding their rights to sell processed fisheries to the EU market by exploiting the improved rules of origin, subject to compliance with sustainable fisheries management, technical standards and food safety requirements.

Effective implementation, coupled with corresponding domestic reforms especially in areas of trade facilitation and improvement of business climate would enable the Pacific States to take full advantage of the Agreement including developing further investment stocks towards trade in goods and services with the EU.