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

on Implementation of Free Trade Agreements

1 January 2018 - 31 December 2018

{SWD(2019) 370 final}

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OVERVIEW OF THE AGREEMENTS COVERED BY THIS REPORT

| <u>'New generation' of preferential trade agreements</u> | |
|---|--|
| Partner | Applied since |
| EU-South Korea Free Trade Agreement | 1 July 2011 |
| EU-Colombia-Peru-Ecuador Trade Agreement | 1 March 2013 for Peru; 1 August 2013 for Colombia; 1 January 2017 for Ecuador. |
| EU-Central America Association Agreement | 1 August 2013: trade pillar applies with Honduras, Nicaragua and Panama; 1 October 2013: Costa Rica and El Salvador; 1 December 2013: Guatemala. |
| EU-Canada Comprehensive Economic and Trade Agreement (CETA) | 21 September 2017 |
| <u>Deep and Comprehensive Free Trade Areas (DCFTAs)</u> | |
| EU-Georgia | 1 September 2014, and entered into force on 1 July 2016. |
| EU-Moldova | 1 September 2014, and entered into force on 1 July 2016. |
| EU-Ukraine | 1 January 2016, and entered into force on 1 September 2017. |
| <u>'First generation' of preferential trade agreements</u> | |
| Partner | Applied since |
| EU-Turkey Customs Union | Association Agreement signed in 1963; final phase of the customs union completed on 1 January 1996. |
| EU-Switzerland | 1972 |
| EU-Norway | 1 July 1973 |
| EU-Israel | 1 January 1996 |
| EU-Jordan | 1 May 2002 |
| EU-Palestine ¹ | 1 July 1997 |
| EU-Tunisia | 1 March 1998 |
| EU-Morocco | 18 March 2000 |
| EU-Lebanon | 1 March 2003 |
| EU-Egypt | 21 December 2003 |
| EU-Algeria | 1 September 2005 |
| EU-Mexico Global Agreement | Applied for goods since 1 July 2000; applied for services since 1 March 2001. |
| EU-Chile Association Agreement | 1 February 2003 |
| EU-North Macedonia SAA ² | Interim Agreement on trade 1 June 2001 |
| EU-Albania SAA | Interim Agreement on trade 1 December 2006 |

¹ This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of Member States on this issue.

² Stabilisation and Association Agreement

| | |
|---|---|
| EU-Montenegro SAA | Interim Agreement on trade 1 January 2008 |
| EU-Serbia SAA | Interim Agreement on trade for Serbia: 1 February 2009; for the EU: 8 December 2009 |
| EU-Bosnia and Herzegovina SAA | Interim Agreement on trade 1 July 2008 |
| EU-Kosovo ³ SAA | 1 April 2016 |
| Economic Partnership Agreements with African, Caribbean and Pacific States | |
| EU-Southern African Development Community (SADC) | 10 October 2016 for Botswana, Eswatini, Lesotho, Namibia and South Africa; 4 February 2018 for Mozambique. |
| EU-Eastern and Southern African States (interim) | 14 May 2012 for Madagascar, Mauritius, Seychelles and Zimbabwe ⁴ |
| EU-Cote d'Ivoire (interim) | 3 September 2016 |
| EU-Ghana (interim) | 15 December 2016 |
| EU-Central Africa (Cameroon) | 4 August 2014 for Cameroon |
| EU-CARIFORUM | 29 December 2008 for Antigua & Barbuda; Belize; Bahamas; Barbados; Dominica; Dominican Republic; Grenada; Guyana; Jamaica; St. Kitts & Nevis; Saint Lucia; St. Vincent & the Grenadines; Suriname; and Trinidad & Tobago. |
| EU-Pacific countries (interim) | 20 December 2009 for Papua New Guinea; 28 July 2014 for Fiji ⁵ . |

³ This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of independence.

⁴ The agreement applies to Comoros since 7 February 2019.

⁵ The agreement applies also to Samoa since 31 December 2018.

1. INTRODUCTION

In its 2015 [Trade for All communication](#)⁶, the Commission committed itself to report annually on the implementation of the European Union's (EU) most significant trade agreements. This is now the third report on this matter⁷.

Since 2015, European trade policy has significantly evolved and the EU has concluded and started applying new trade agreements with Ecuador, Canada, Japan, the Economic Partnership Agreement (EPA) with the Southern African Development Community (SADC), the interim EPAs with Ghana and Côte d'Ivoire and the Deep and Comprehensive Free Trade Area (DCFTA) with Ukraine. Ratifications of trade agreements concluded with Singapore (2012) and Vietnam (December 2015) are pending. In 2018, 31% of EU trade in goods with the rest of world was covered by preferential trade agreements. This figure rises to 39% when the agreement with Japan, which entered into force on 1 February 2019, and those with Singapore and Vietnam, which were signed on 19 October 2018 and on 30 June 2019, respectively, are included. Adding the EU Mercosur political agreement of 28 June 2019 would increase the figure to 41%.

Trade agreements now also follow the better regulation principles and are subject in particular to regular ex-post evaluations. Since 2015, three ex-post evaluations were completed for the EU's trade agreements with Mexico, Chile and South Korea. Ex-post evaluations of the agreements with CARIFORUM⁸ and six Mediterranean countries⁹ are currently ongoing and will soon begin for the EU-Colombia, Ecuador and Peru agreement and the EU-Central America agreement.

This report provides an update on the implementation of 35 major trade agreements with 62 partners, including the first full year report on the EU-Canada Comprehensive Economic and Trade Agreement (CETA). In addition, the report describes the work undertaken prior to the entry into force of the EU-Japan Economic Partnership Agreement.

According to a study on [EU Exports to the World: Effects on Employment](#)¹⁰ 36 million EU jobs depend on exports outside the EU, out of which 13.7 million are occupied by women. Between 2000 and 2017, EU jobs supported by exports to the rest of the world increased by 66%. This represents 14.3 million additional jobs supported by exports. The share of EU employment supported by sales of goods and services to the rest of the world over total employment increased from 10.1% in 2000 to 15.3% in 2017. Export-related jobs are, on average, 12% better paid than jobs in the rest of the economy. European workers from all Member States benefit from EU exports. These additional jobs are created by businesses directly involved in exports of goods and services as well as EU companies supplying goods and services to exporting companies.

As with previous reports, the agreements have been grouped into four categories, according to their content and objectives.

'New generation agreements', such as those with South Korea or Canada, include both commitments on liberalisation of trade in goods, as well as commitments on services and

⁶ http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

⁷ The first report was published on [9 November 2017](#), the second one on [31 October 2018](#).

⁸ Antigua & Barbuda; Belize; Bahamas; Barbados; Dominica; Dominican Republic; Grenada; Guyana; Jamaica; St. Kitts & Nevis; Saint Lucia; St. Vincent & the Grenadines; Suriname; and Trinidad & Tobago.

⁹ Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.

¹⁰ http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157516.pdf

investments, public procurement, competition and subsidies and regulatory issues. These agreements aim to develop stronger rules-based and values-based trade regimes with the trading partner countries concerned and include dedicated provisions on trade and sustainable development. The most recent ones also have specific provisions to address challenges faced by modern economies and societies, such as the Economic Partnership Agreement with Japan, which includes a chapter on small and medium-sized enterprises, as well as dedicated provisions on information and telecommunication services, and e-commerce.

'**First generation**' trade agreements', most of them concluded before 2006, tend to focus on tariff liberalisation. '**Deep and Comprehensive Free Trade Areas**' (DCFTAs) aim to deepen economic relations between the respective neighbouring countries and the EU and focus on approximating their legislation to EU legislation, notably in trade-related areas. The EU has DCFTAs with Georgia, Moldova and Ukraine and is negotiating one with Tunisia. 'Stabilisation and Association Agreements' with six Western Balkan partners¹¹, concluded between 2001 and 2016, aim to support regional integration and stability in the region and its economic integration into the EU market.

Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific (ACP) States and regions have an explicit development objective. They are asymmetric trade agreements, with the ACP side liberalising around 80% of trade over a period of 15 to 20 years, while the EU grants duty-free, quota-free access from day one. For the time being, most of these agreements cover trade in goods and development cooperation. The EPA with the Caribbean also includes provisions on services, investment and other trade-related topics. Under EPAs, the EU provides substantial trade-related assistance to support partner countries in implementing the Agreements, strengthening export competitiveness and building economic infrastructure.¹²

This report is complemented by a comprehensive staff working document with detailed information sheets for each individual agreement, including statistics, descriptions of key trade developments and reports on the work of committees. With this report and its accompanying staff working document, the Commission meets its reporting obligations on the implementation of the anti-circumvention mechanism for South Korea, Georgia and Moldova and for the banana stabilisation mechanism for Central America and Columbia, Ecuador and Peru.

¹¹ Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

¹² More information on individual agreements can be found in the accompanying Staff Working Document.

Statistics

The trade statistics¹³ used in this report and the attached staff working document on the evolution of trade and investment flows are based on Eurostat data as available on 30 March 2019, except where indicated otherwise. The most recent annual data available for trade in goods are for 2018, and for services and investment for 2017, except where indicated otherwise.

Statistics on preference utilisation rates are based on administrative data collected by the importing country. The preference utilisation rate reflects the share of imports or exports entering under trade preferences as a share of the total value of imports or exports *eligible* for preferences by partner country, i.e. imports or exports that actually entered under the preference scheme divided by the imports or exports eligible for use of preferences. Preference-eligible imports exist if the applied preferential tariff is lower than the applied most favoured nation (MFN) tariff. As a consequence, MFN-duty-free trade is not included in the calculations.

The preference utilisation rate for imports into the EU from partner countries is based on Eurostat figures. Eurostat merges tariffs and trade flows to build a dataset from which the Commission extracts information on both the treatment for which a product is eligible and the extent to which this preferential treatment is used. The dataset obtained is harmonised and consistent¹⁴ and allows for comparison across partner countries and years.

In contrast, to calculate the preference utilisation rates on exports from the EU to partner countries the Commission uses administrative data collected by the importing country concerned. These statistics are not harmonised. Hence, direct comparisons between partner countries or with EU imports should be seen as indicative. Preference utilisation rates on exports from the EU are only provided in this report where sufficiently reliable data was available.

2. OVERVIEW OF MAIN FINDINGS

2.1 General overview

In 2018, reflecting the challenging situation at global level, trade in goods¹⁵ grew more slowly than in 2017: EU trade with the rest of the world grew by 5% (down from 8%) while total EU trade under preferential agreements grew by 3% (down from 7%). EU exports to preferential trade partners grew by 2% in 2018, somewhat slower than EU exports to the rest of the world, which grew by 4% over the same period. Imports from preferential trade partners grew by 4.6%, compared to 6.6% for total EU imports.

¹³ General statistics on trade flows in goods and services and on foreign direct investment for each partner country can be found in the accompanying staff working document.

¹⁴ However, some margin of error is still possible since the data does not capture certain changes in the preferential status of imports, such as claims for preferences made by importers after the goods have been declared to customs and denial of preferences decided by customs after verification and post-release of the goods.

¹⁵ All subsequent statistics refer to trade in goods only unless otherwise specified.

In 2018, 33% of EU exports and 29% of EU imports were covered by preferential trade agreements. These agreements continued to produce a solid trade surplus of €84.6 billion, while EU trade with the rest of the world showed a slight trade deficit of €24.6 billion for the first time since 2014.

As was the case in 2017, the EU's largest preferential trade partner was Switzerland, where 24% of EU preferential exports went, followed by Turkey (12%) and Norway (8%).

In 2018, looking at EU exports under preferential trade agreements by sector and category, we observe that non-agricultural exports increased by 1.9%. Among these, machinery and transport equipment remained the top EU export sectors by value (stagnating), followed by chemicals, the latter recording a 2.5% increase. EU exports of agri-food products grew by 2.2%, the top export sectors being beverages, food preparations and preparations of cereals.

Looking at EU imports under preferential trade agreements, non-agricultural imports increased by 5.2%. Among these, mineral products and machinery and appliances were the top import items. Imports of agri-food products decreased by 0.5%. The top import items were plant products.

Over the reporting period, European companies made good use of EU trade agreements. Preference utilisation remained strong for EU exports to Switzerland, Turkey and increased for South Korea. Preference utilisation also improved for Colombia, Ecuador, Egypt and Jordan. In 2018, the preference utilisation rate on EU exports to Canada stood at 37%, up from 30% after the first nine months of provisional application. The overall preference utilisation rates for 2018 should increase in the future, in view of the fact that, under CETA, preferential tariffs can be claimed retroactively (for a period up to three years). In particular, the utilisation rate can be increased in future by improving preference utilisation on the EU's exports of cars and spare parts for which tariff dismantling is gradually being phased in; for this segment which represents 41% of EU eligible exports, preference utilisation rates stood at only 10% in 2018. Cars and spare parts excluded, the average preference utilisation rate on EU exports to Canada would be in the order of 55%.

EU trading partner countries continued to make good use of preferences in 2018, with an average utilisation rate of 87%. Information on preference utilisation in EU imports can be found in Annex 1; that on preference utilisation in EU exports can be found in Annex 2.

Preference utilisation rates are a means to assess the extent to which tariff preferences were used over the reporting period by companies on both sides (see box on page 6). Although preference utilisation rates on EU exports remain imperfect proxies for assessing the functioning of trade agreements, they provide a rough indication of the uptake of EU trade agreements by exporters from the EU and partner countries. It should be noted that changes in preference utilisation rates can have a variety of reasons, such as a lowering of margin of preferences or changes in market conditions, new entrants, etc., not all of which are linked to the implementation of the trade agreement in question.

2.2 Progress achieved and key open issues

An update on progress on sanitary and phytosanitary measures and geographical indications¹⁶ is provided in section 8 ("Agri-food trade"). More information on trade barriers can be found in the Commission's 2019 [Trade and Investment Barrier Report](#)¹⁷.

¹⁶ Geographical indications protect the names of specific products to promote their unique characteristics linked to their geographical origin. Product names can be granted with a 'geographical indication' protection

Technical and administrative barriers to trade

In the automotive sector, several significant barriers were removed in 2018, notably by Egypt and South Korea. In addition, the EU textile and leather sectors now have easier access to the Egyptian market following the relaxation of labelling rules.

However, EU products continue to face barriers to accessing a number of markets in partner countries with a trade agreement with the EU. A significant source of concerns relates to restrictions imposed by some Mediterranean countries on EU imports.

In addition, European alcoholic beverages, in particular wines, beers and spirits, continue to be subject to a range of discrimination by some EU trading partner countries, such as Canada, Costa Rica, Ecuador and Peru. The EU continues to engage these partners with a view to ensuring that discriminatory practices are removed.

In 2018, the Commission reported on the ban imposed by Ukraine on exports of unprocessed wood. In January 2019, in the absence of progress, the EU requested bilateral consultations with Ukraine, triggering the dispute settlement mechanism provided under the Association Agreement between the EU and Ukraine (see also section 10, 'Legal Enforcement').

Public procurement

The provisional application of the agreement with Canada (CETA) provides for a significant further opening of the Canadian procurement market, including at provincial and local levels, which represent a significant share of the public procurement market in Canada.

Some progress could also be observed in Ukraine and some of the Western Balkan countries, when it comes to increased transparency of public calls for tenders and alignment with the EU public procurement legal and institutional framework. However, more work will be needed in this domain.

Main issues raised by EU trading partner countries

Certain EU trading partner countries also raised issues related to implementation on the EU side. These include in particular the EU's decision to impose safeguard measures on steel imports adopted in July 2018, which the EU had to take to shield EU industry from the collateral effect of US steel tariffs¹⁸. Some EU sanitary and phytosanitary measures, notably the pesticide policy but also the newly adopted regulation on veterinary products, were also subject to criticism from some of the EU's trading partner countries, despite the fact that these measures are not discriminatory and have been designed to ensure a high level of food safety in the EU.

if they have a specific link to the place where they are made. Recognised as intellectual property, geographical indications play an increasingly important role in trade negotiations between the EU and other countries.

¹⁷ COM(2019) 271 Final of 17.6.2019.

¹⁸ This issue is discussed in detail in the 37th Annual Report from the Commission to the European Parliament and the Council on the EU's anti-dumping, anti-subsidy and safeguard activities and the use of trade defence instruments by third countries targeting the EU in 2018. COM(2019) 158 final of 27.3.2019.

3. NEW GENERATION OF FREE TRADE AGREEMENTS

3.1 EU - South Korea Trade Agreement

Evolution of trade

The agreement has been in force since July 2011. In 2018, overall merchandise trade between the EU and South Korea decreased by 1.5% (1.2% decrease in EU imports and 2.2% decrease in EU exports), which is in line with slower economic growth in South Korea in 2018 and the overall slowdown in international trade. The slight decline in EU exports appears to be driven by a 7% decrease in exports of machinery and mechanical appliances, which are the EU's top export items to South Korea. At the same time, exports in this category have increased by 31% since 2010. For transport equipment, which is the second-largest export category, EU exports decreased slightly in 2018, while EU exports of passenger cars continued their healthy growth with a more than 9% increase. Transport equipment remains the sector with the strongest growth (+187%) since the agreement entered into force.

In 2018, for the second consecutive year, the EU had a merchandise trade deficit of €1.8 billion. At the same time, in spite of a difficult regulatory environment, agri-food trade remained dynamic and EU exports increased by almost 5%, resulting in an EU trade surplus of more than €2.8 billion, largely driven by foodstuffs and beverages.

Trade in services continued to expand, by 8.3% in 2017, with a positive trade balance of €5.6 billion for the EU. Since the entry into force of the agreement, trade in services has grown consistently in both directions. Inward and outward foreign direct investment flows remained positive between the two partners.

First five-year evaluation

The Commission presented its first [five-year evaluation](#) of the agreement in March 2019¹⁹. The evaluation suggested that the agreement has been generally effective in achieving its objectives to liberalise trade in goods, services and investments. The economic gains of the agreement have been symmetrically distributed between the EU and South Korea. The agreement generated €4.4 billion in growth in EU Gross Domestic Product (GDP) during the first five years of its implementation. It also contributed to the protection of intellectual property rights, in particular the enforcement and protection of EU geographical indications. Furthermore, non-tariff trade costs were reduced, although further work is needed with respect to standardisation, conformity assessment, labelling, and sanitary and phytosanitary measures. The evaluation also found that the agreement resulted in a stronger increase in stocks of foreign direct investment. One of the unexpected effects of the agreement found in the evaluation has been a limited but notable reduction of global CO₂ emissions as a result of trade diversion²⁰.

Outstanding issues

The complex and non-transparent sanitary and phytosanitary approval procedures applied by South Korea for imports of agricultural products from EU Member States remain of concern. For example, approvals of beef imports from some EU Member States have been pending for more than ten years.

¹⁹ SWD(2019) 103 final of 7.3.2019

²⁰ See Section 9 of the Final Evaluation Report – IFO Institute and Civic Consulting (May 2018).
http://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157716.pdf

In the area of intellectual property, South Korea still needs to establish an effective remuneration system for the rights to perform music protected by copyright in public places, such as karaoke. There are also concerns about an increased support to shipbuilding by South Korea.

Trade and sustainable development

The main outstanding issue concerns the lack of progress on labour reform and non-compliance with the trade and sustainable development chapter in the agreement. In 2018, the EU requested consultations under the [chapter on trade and sustainable development of the agreement](#) (for more detail see Section 10.1, 'Legal Enforcement').

Ethical EU-made clothes finding a home around the world

ASKET – a Swedish online-only mens' wear brand – like many other modern companies is used to a world without borders, communicating seamlessly with customers around the world. Trade agreements can help break down customs barriers, allowing their goods to move just as freely.

"As we grow as a company, we are increasingly looking outside of the European market. However, tariffs on clothes make this more difficult and expensive for our customers. By opening up foreign markets like Canada, South Korea and Japan, trade agreements make our products more competitive there."

August Bard Bringéus,
Co-Founder

3.2 EU Trade Agreement with Colombia, Ecuador and Peru

Evolution of trade

Between 2017 and 2018, overall merchandise trade decreased by 2.4% between the EU and its three Andean trading partner countries. EU exports and EU imports decreased by 1% (€140 million) and 3% (by €500 million), respectively. This result was largely owed to a decline in Colombia's exports to the EU by 9%, following a fall in international prices for coffee, a key export product for Colombia.

Looking at trade flows by sector, machinery, chemicals and transport equipment still made up more than 50% of EU exports. Agricultural products (notably tropical fruit such as bananas), minerals and ores represented nearly 50% of imports into the EU from the three countries. In 2018, EU imports of minerals decreased most (by €700 million), as did EU exports of machinery (by €350 million).

In contrast, EU agri-food exports grew by 8.5% in 2018. However, they still remain small compared to agri-food imports.

The EU's trade deficit in the order of €2 billion has been on a decreasing trend since 2016. The EU has a trade surplus with Colombia.

Progress and outstanding issues

Progress has been made in, among other areas, with regard to market access for some EU agricultural products, notably dairy products in the case of Peru and certain animal-based products in the case of Colombia. At the same time, a number of outstanding issues remain to be addressed. These include:

- **Colombia:** the *de facto* lack of national treatment in public procurement at sub-national level, the antidumping measures taken in 2018 against frozen potatoes, restrictions on the import of lorries, some remaining discriminatory measures on alcoholic beverages (beers and spirits), usurpation of EU geographical indications and the absence of recognition of regionalisation for animal diseases.
- **Ecuador:** tax discrimination on imported alcoholic beverages as well as the cumbersome and trade-restrictive system of import licensing and management of tariff rate quotas granted to the EU.
- **Peru:** persistent discriminatory measures affecting trade of alcoholic beverages, on-going work to address usurpation of EU geographical indications, technical barriers affecting the imports of pharmaceutical products and medical devices.

Finally, all three Andean countries still maintain a ban on the import from the EU of cattle and beef on grounds of BSE²¹ concerns.

On their side, Colombia, Ecuador and Peru conveyed their concerns in regard to EU measures fixing the maximum level of cadmium in cocoa products and maximum residue levels in pesticides, which, according to our trading partner countries, may affect their exports of agricultural products.

Trade and sustainable development

Despite the existing challenges in all three countries (regarding the informal labour market, freedom of association rights, labour inspection and environmental protection), in 2018 the three Andean partners made progress in implementing the trade and sustainable development chapters. The positive momentum reflected the more assertive and focused efforts by the EU, based on a closer partnership with EU Member States and the International Labour Organization (ILO) and on the greater involvement of civil society, in accordance with the [15-point action plan](#)²². EU engagement was particularly intense with Peru and both parties agreed on a way forward, formalised in the minutes of the meeting of the sub-committee on trade and sustainable development. This should pave the way for a renewed impetus on the implementation of the trade and sustainable development provisions with Peru. Good progress was also made regarding the involvement of civil society, including through dedicated consultative mechanisms in both Colombia and Ecuador.

²¹ Bovine spongiform encephalopathy, known colloquially as ‘mad cow disease’.

²² The action plan is a road map resulting from an eight-month debate with the European Parliament, Member States and civil society for a more assertive enforcement of trade and sustainable development commitments under bilateral trade agreements. Section 7 provides further details on the implementation of trade and sustainable development provisions in bilateral trade agreements.

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

3.3 EU Association Agreement with Central America

Evolution of trade

2018 was the sixth year of implementation of the trade pillar of the Association Agreement between the EU and six Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama).

Trade between the two blocs has developed well, increasing from around €11.4 billion in 2014 to €12 billion in 2018. In 2018, the Central American partner countries had a small overall trade surplus of around €100 million. In the region, Panama remains the main trading partner country for the EU, followed by Costa Rica.

Central American exports remained largely driven by agri-food products (which represent two thirds of their exports to the EU), mainly fruit, which in 2018 recorded a 3.6% increase year-on-year (i.e. €1.9 billion, out of which €1.2 billion are bananas). Bananas continue to be the main commodity exported to the EU by Central American partners and these exports are subject to a stabilisation mechanism until the end of 2019. In 2018, Guatemalan and Nicaraguan exports to the EU exceeded the trigger levels, but their share in total EU imports remained below 6%. The impact of these imports on EU banana market was considered negligible and no action under the stabilisation mechanism was taken.

In 2018, EU exports increased by 11% compared to 2017. They were dominated by non-agricultural products. The EU's trade surplus in this category was in the order of €7.4 billion.

In 2017, trade in services remained strong and accounted for around 40% of total trade between the EU and Central America, as in previous years. Thanks to the Agreement, EU companies enjoy improved market access to services and investment and government procurement. The EU continues its close cooperation with its Central American partner countries to make sure that all the commitments, including those relating to transparency of proceedings, are respected.

Trade and sustainable development

Implementation of the trade and sustainable development chapter was pursued in line with the [15-point action plan of February 2018](#). Actions included, among other things, engagement with the International Labour Organization (ILO) and partner governments regarding the labour situation in some Central American countries, particularly Guatemala, as well as actions on responsible business conduct, including a workshop with the ILO and the Organisation for Economic Cooperation and Development (OECD) in Guatemala. In addition, support was provided to Costa Rica in the development of its national responsible business conduct plan and a responsible business conduct programme was launched involving Costa Rica and Panama.

3.4 EU- Canada Comprehensive Economic and Trade Agreement (CETA)

2018 marked the first full calendar year of CETA implementation. All management instruments, such as the rules of procedures for the various committees, were put in place and almost all the committees met for the first time²³. The new EU transparency policy was fully deployed: agendas as well as joint reports of committees and working groups agreed with

²³ Only the Mutual Recognition of Professional Qualification Committee did not meet in 2018. The first meeting of this Committee took place in April 2019.

Canada are available on the [Commission website](#)²⁴. Committee meetings contributed to improving the mutual understanding of the parties' perspectives, which is important for the implementation of the agreement.

Evolution of trade

Total bilateral trade reached €72 billion in 2018, corresponding to a 4.5% increase when compared to 2017. Chemicals recorded the highest EU export growth by €1.5 billion (23% increase), followed by the machinery and appliance sector with €850 million (10% increase). Agri-food exports were also up, by 4%, accounting for 9% of EU exports to Canada. The EU's trade surplus increased to more than €10 billion in 2018 (up from €6 billion in 2017).

In 2018, Canada's exports to the EU recorded a small decrease, by 1.7% (€521 million) compared with 2017, largely driven by a decrease in exports of oilseeds (by €300 million). However, when compared to the 2015-2017 average, Canadian exports to the EU grew by 5%.

Progress made in the first year of implementation

In its first meeting in September 2018, the Joint Committee had a formal exchange of views on the implementation of CETA. The meeting also provided an opportunity to appraise progress in the context of the early review of the trade and sustainable development chapter, following the October 2016 agreement on the [Joint Interpretative Instrument](#)²⁵. The Committee adopted three important Recommendations on:

- (i) [trade, climate action and the Paris Agreement](#)²⁶
- (ii) [trade and gender](#)²⁷
- (iii) [small and medium-sized enterprises](#)²⁸.

These recommendations paved the way for enhanced cooperation under CETA on these key issues. The Joint Committee also reviewed the work carried out by the various specialised committees, including issues requiring further attention, such as, for the EU, management of the cheese tariff-rate quotas, access to the Canadian wine and spirits market, and implementation and enforcement of CETA provisions on geographical indications.

In the context of the Regulatory Cooperation Forum, Canada and the EU adopted a work plan, which includes cooperation activities on cyber-security, animal welfare, cosmetics and pharmaceuticals, as well as the safety of consumer products. In addition, in the committee on sanitary and phytosanitary measures, Canada and the EU agreed to strengthen cooperation on combating anti-microbial resistance.

The amendment of Canada's Trade-Mark Act to protect the geographical indications of food products, which was introduced as a result of CETA, established a procedure for its direct application by EU rights-holders for the protection of geographical indications. The new system delivered its first result in 2018 with the protection of the name 'Prosciutto di Carpegna'. European producers who are interested in exporting to Canada now have access to an effective and easy mechanism to protect their geographical indications. The Commission

²⁴ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1811>

²⁵ [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22017X0114\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22017X0114(01)&from=EN)

²⁶ http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157415.pdf

²⁷ http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157419.pdf

²⁸ http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157417.pdf

has produced a practical business [guide to geographical indications in Canada](#)²⁹ to help them with this.

Finally, work continued on the creation of the Investment Court System established in CETA, although the provisions related to the system do not apply yet pending ratification by all EU Member States. In its [Opinion 1/17](#)³⁰ delivered on 30 April 2019, the Court of Justice of the EU confirmed the compatibility of CETA provisions on the Investment Court System with EU law.

Trade and sustainable development

In the first year of implementation, both sides intensified efforts to implement trade and sustainable development provisions. Apart from preparing the three above-mentioned recommendations (on trade and climate, trade and gender and small and medium-sized enterprises), the EU and Canada carried out their first steps to implement them. These included the EU-Canada joint work plan on trade and gender and a conference ‘CETA: Taking Action for Trade and Climate’ that took place on 24 January 2019. The conference explored with stakeholders, including green-tech companies, how to best leverage CETA’s institutional and legal framework to support the implementation of the Paris Agreement. Canada and the EU continued engaging on joint priorities for co-operation agreed during the first trade and sustainable development committee and facilitated the establishment of the civil society structures on each side to monitor the implementation.

Outstanding issues

The first full year of implementation was successful for both parties and no negative impacts were observed. Nevertheless, several outstanding issues still need to be addressed.

One of these issues is the administration system put in place by Canada to manage the cheese quotas. Although the 2018 fill-rates of cheese quotas were excellent at 99.1% and 71.1% for premium cheese and industrial cheese, respectively, the EU remains concerned about how the quotas are filled as this has a significant impact on the value of the quotas for EU exporters. The quota uptakes were back-ended, with significant surges of imports into Canada during the last two months of 2018. The Commission considers that the allocation of 50% of the high-value cheese quota to Canadian cheese manufacturers has a significant distortive effect on the uptake and value of the quota and is not compatible with CETA provisions. Under CETA, quotas should be allocated to “*those persons that are most likely to use [the quotas]*”³¹. In April 2019, the EU requested a mid-term review of the CETA cheese quota administration system.

Another key concern from an EU perspective is the existence of discriminatory practices affecting trade in EU wines and spirits. The EU considers that a number of Canadian practices applied at federal and provincial levels are not compatible with Canada’s commitments under CETA.

For its part, Canada raised concerns on the EU’s implementation of the CETA Protocol on mutual acceptance of the results of conformity assessments and the EU’s administrative management of tariff rate quotas. Canada also expressed concerns that its ability to benefit from CETA would be affected by country of origin labelling requirements at national and EU level, and by some EU sanitary and phytosanitary standards.

²⁹ http://trade.ec.europa.eu/doclib/docs/2019/april/tradoc_157873.pdf

³⁰ [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62017CV0001\(02\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62017CV0001(02))

³¹ Annex 2B of CETA

Porcelanosa (Spain) Cross-Atlantic Ceramics

Porcelanosa is a ceramics company that sells high quality tiles for kitchens and bathrooms and benefits from improved business opportunities in Canada.

Porcelanosa has benefited from easier export conditions, leading to a substantial opening-up of the Canadian market, including the large Canadian public procurement market at federal and state levels.

"We've big hopes for the Canadian market. For example, we recently opened a new store in one of the most exclusive commercial areas in Toronto. CETA has enabled us to improve our prices and become more competitive. It's also cut the amount of paperwork for EU exports to Canada. For Porcelanosa's operations in Canada the agreement is definitely very favourable."

Silvestre Segarra Soriano,
Export Manager at Porcelanosa Group

Stella Milano 1952 – Italian jewellery that tells a story

Stella Milano 1952 has a tradition of jewellery making. In 1952, in the shadow of the Milan Duomo Cathedral, four brothers set up the company producing and selling jewellery.

Before CETA, Canada imposed import tariffs of up to 8.5% on jewellery. With CETA's tariff cuts, Stella Milano has seen its exports to Canada grow by 30%.

"CETA has helped us expand our sales to Canada by nearly a third. With more and more importers in Canada contacting us, we're looking forward to even more growth."

Dimitri Stella,
CEO Stella Milano 1952

4. DEEP AND COMPREHENSIVE FREE TRADE AREAS (DCFTAS)

4.1 Georgia

The DCFTA with Georgia has been in force since September 2014 and its implementation is on good track. Overall, bilateral trade in goods grew by 3% in 2018 but Georgian exports decreased by 1.6%, leading to a slight increase of EU trade with Georgia.

Georgia made progress with implementing its sanitary and phytosanitary strategy in 2017. However, it is still not authorised to export meat and dairy products to the EU and Georgian companies still have difficulties complying with EU safety standards for products such as hazelnuts. The EU continues to support Georgia in upgrading its sanitary and phytosanitary system.

With respect to public procurement, Georgia still needs to establish an independent public procurement review body and the country also needs to further align its public procurement legislation with that of the EU.

The 2018-2019 support programme for small and medium-sized enterprises continues to be implemented. It is complemented by a project on market surveillance³² to support Georgia in

³² €1.5 million for the period from January 2018 to December 2018.

aligning its regulatory framework with EU legislation. The EU also continues to support the Georgian Competition Agency.

Finally, in 2018 Georgia adopted a work plan on trade and sustainable development for the 2018-2020 period, covering key elements required for implementing the chapter on trade and sustainable development (including labour inspection and social dialogue, wildlife trafficking, sustainable forest management, fighting trade in products of illegal logging and effective implementation of climate action commitments).

4.2 Moldova

The DCFTA has been applied since September 2014. Since this date, trade has increased continuously. In 2018, overall trade increased by 14% and the trade balance remained positive for the EU.

In 2018, work on legal approximation continued, with progress made in regard to sanitary and phytosanitary measures, the energy sector, public procurement and technical legislation. Moldova is also preparing a new Customs Code. Moldova still needs to change its national legislation to meet its obligation as regards State aid rules. The EU intends to put in place a new project to support the functioning of civil society consultation mechanisms established under the trade and sustainable development chapters of its trade agreements that will benefit both the EU's and Moldova's Domestic Advisory Groups.

4.3 Ukraine

Trade between Ukraine and the EU has been growing since the provisional application of the agreement in 2016. Bilateral trade reached €40 billion in 2018, a 9% increase when compared to 2017. In 2018, the EU received 42% of Ukraine's worldwide exports. The EU maintained a €4 billion trade surplus.

Ukraine has made progress in a number of sectors. The EU welcomes in particular the new draft law on public procurement, which the Ukrainian government intends to present to the Parliament in 2019. Ukraine is also making progress in aligning its regulatory framework and standards to EU law while approximation is ongoing in regard to sanitary and phytosanitary measures, customs cooperation and trade facilitation. However, Ukraine needs to improve its enforcement of intellectual property rights and the country needs to put in place legislation that meets international standards. In addition, Ukraine needs to improve the alignment of its legislation with EU State aid rules.

The Commission responded to rapidly increasing imports of non-standard poultry cuts from Ukraine, which started in 2016. To eliminate the risk of unlimited imports, the Commission, following authorisation by the Council, negotiated with Ukraine an amendment to the Association Agreement, limiting these imports and reinstating the most favoured nation duty for imports exceeding the limits. Progress is ongoing to formally finalise this amendment.

The EU continues to monitor and raise with Ukraine a number of other trade irritants, such as the new value added tax law enacted by Ukraine in 2018, which denies the refund of value added tax on exports of rapeseed and soybean.

Given the lack of progress on the wood export ban, the EU launched a request for bilateral dispute settlement consultations under the Association Agreement (see section 10 on 'Legal Enforcement').

In time for the second trade and sustainable development sub-committee meeting between the EU and Ukraine on 13 November 2018, which was followed by an open Civil Society Forum on 14 November 2018, the Ukraine Advisory Group was set up to start discussions and concrete work with the EU Advisory Group.

In line with the [15-point action plan of February 2018](#) on trade and sustainable development, in particular its theme of 'country priorities', discussions in the trade and sustainable development sub-committee focused on the key areas of EU-Ukraine trade and sustainable development implementation work, including trade and labour issues (labour inspection, modernisation of labour relations, social dialogue) as well as trade and environmental issues (sustainable forest management and related wood production, sales, processing and trade). Following the meeting of the sub-committee, the EU and Ukraine published [operational conclusions](#), as well as a [joint statement](#) to civil society³³.

5. FIRST GENERATION FREE TRADE AGREEMENTS

5.1 Switzerland

In 2018, Switzerland, the EU's third largest trading partner country overall (capturing 7% of the EU's trade in goods with non-EU countries), remained the EU's top trading partner country under preferential trade agreements. In 2018, the EU recorded a strong trade surplus with Switzerland in the order of €48 billion.

Switzerland is the EU's second most important trading partner country for services. The value of services provided by the EU in Switzerland has been on a constant rise in the past five years, reaching €119 billion in 2017, an increase of 2% when compared to 2016. Services provided by Switzerland in the EU were worth €72 billion in 2017, a decrease of 23% compared to the previous year. The EU maintained a trade surplus in services.

With respect to foreign direct investment (FDI), Switzerland is also a key partner, taking 13% of the EU's foreign direct investment. The stocks of FDI in the EU held by Switzerland reached €802 billion in 2017 and have shown an annual average increase of 15% over the past four years. EU FDI stocks held in Switzerland amounted to €979 billion in 2017, with an average annual increase of 10% over the same period of time.

In September 2018, the long-awaited company tax reform, modifying the discriminatory cantonal fiscal status of companies, which was also problematic from a State aid point of view, was approved by the Swiss Parliament. The new legislation should enter into force on 1 January 2020.

Negotiations between the EU and Switzerland on a institutional framework agreement, including independent dispute settlement, State aid rules, and a commitment to modernise the free trade agreement of 1972 and other trade-related agreements, were concluded at political level in November 2018. However, the Swiss Federal Council still has not endorsed the agreement, which the EU considers a pre-condition for the conclusion of future agreements on Swiss participation in the EU's internal market and also an essential element for deciding upon further progress towards mutually beneficial market access.

³³ http://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=144

5.2 Norway

Norway is the EU's third-largest preferential trading partner country. Bilateral trade remained strong in 2018, with a nearly 11% increase when compared to 2017. The EU's trade deficit with Norway reached nearly €30 billion. The increasing overall deficit was largely driven by higher imports of mineral products, which recorded an almost €6 billion increase.

EU exports of non-agricultural products grew by more than €3 billion, which amounts to a 6.3% increase when compared to 2017. EU agri-food exports also remained strong and recorded a nearly €4 billion trade surplus.

A new agreement further liberalising trade in some agricultural products entered into force in 2018. The review of the trade regime for processed agricultural products should now be on the agenda. Furthermore, the EU is ready to resume negotiations on the protection of geographical indications.

Norway is the EU's sixth-largest trading partner country for services. Trade in services was stable in 2017 with a total trade of €44 billion and a slightly higher trade surplus for the EU than in 2016, i.e. above €13 billion. The trade balance in services remained positive for the EU – as it has been over the last years.

5.3 Mediterranean and Middle Eastern countries

The EU is a key trading partner region for most South Mediterranean and Middle Eastern countries. In this context, the EU's preferential trade agreements with eight partner countries in the region (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the occupied Palestinian Territories and Tunisia) have been in place for many years. These agreements include elements of asymmetry for most countries so as to promote economic development in the region and closer integration into the EU internal market, including provisions on competition and public aid.

In 2018, total trade between the EU and the eight partners reached €175 billion (i.e. 4% of EU trade with the rest of the world), a 2% increase compared to 2017. The EU maintains a trade surplus with the eight South Mediterranean and Middle Eastern preferential trading partner countries taken together, although the surplus decreased by 10% compared to 2017 (i.e. slightly less than the 13% decrease observed over the previous reporting period). This trend is explained by the increase in exports from those countries to the EU and, in part, by the effect of the trade restrictive measures that some of them have been imposing in the recent years, in an effort to improve their trade balance: since the EU is the main exporter to the region, its exports are often affected.

In agri-food trade, the EU registered a surplus with the region of almost €5 billion in 2018. At the same time, some partner countries saw their agri-food exports increasing, like Tunisia (+44%, largely driven by olive oil), the occupied Palestinian Territories (+25%) and Morocco (+5%). Morocco and Tunisia run a trade surplus with the EU in the agri-food sector.

The EU raised concerns with its trading partner countries about the multiplication of trade restrictive measures that several of them have adopted, in particular Algeria, Egypt and, more recently, Tunisia³⁴. The EU continues to raise these issues at every occasion with its South

³⁴ In July 2019, the Commission was informed that the import restrictive measures imposed by Tunisia in November 2018 have been removed. The Commission will continue to monitor the situation to ensure that this barrier is effectively eliminated.

Mediterranean and Middle Eastern partner countries, since trade relations must remain rules-based and the EU expects its partners to comply with their commitments.

The EU stands ready to continue to support its trading partners' reforms, with a view to increasing the competitiveness and export capacity of the South Mediterranean and Middle East region. The negotiations for extending and modernising the trade agreements are ongoing with Tunisia and may soon be relaunched with Morocco. The modernisation and deepening of the existing agreements should contribute to improve the economic integration with the EU's Southern neighbourhood, which contains a very important partners for the EU. Moreover, the ongoing revision of the pan-Euro-Mediterranean Convention on rules of origin, will introduce more flexible rules and facilitate economic integration and trade within the region.

5.4 Mexico

Mexico is the second-biggest trading partner country of the EU in Latin America, after Brazil. A comprehensive trade agreement entered into force in 2000 for goods and 2001 for services. Over the close to twenty years of the agreements application, bilateral goods trade between the EU and Mexico has more than tripled. In 2018, trade between the EU and Mexico grew by nearly 6% and the EU maintained a trade surplus of €13 billion, albeit slightly lower than in 2017. EU exports to Mexico grew by 4%. Imports from Mexico grew by almost 9%, largely driven by non-agricultural products.

Trade in services grew by 7% in 2017 and the EU recorded a trade surplus close to €5 billion.

In recent years, the EU and Mexico have concentrated on negotiating the modernisation of the agreement and so the Joint Committee did not meet in 2018. However, some progress has still been made in opening new market opportunities, in particular in the agricultural sector with the approval of additional EU Member States for exports of pig meat and pork products. A meeting of the Joint Committee has been scheduled for 2019.

The modernised agreement, once ratified, is expected to boost trade relations with Mexico and provide new market access opportunities.

Giving Mexicans a taste for Belgian chocolates

Galler is a famous chocolate producer which bear the name of its founder Jean Galler.

Most recently, the company has entered the Mexican market by teaming up with Belimport, a medium-sized business based in the city of San Miguel de Allende in the central state of Guanajuato. This location means Galler can now be easily distributed in stores and hotels all over Mexico, notably in the hubs of Querétaro and the capital, Mexico City.

"We currently have higher costs than Mexican chocolate manufacturers due to the high tariffs that we face when importing our Belgian products. The new EU-Mexico trade deal will scrap Mexican customs tariffs on EU chocolate, allowing us to compete more effectively."

Thibaud Mariage,
Galler representative in Mexico, Director of Belimport.

5.5 Chile

During the 15 years of application of the EU-Chile Association Agreement's trade pillar, there has been continuous work and cooperation by both sides to implement the agreement.

In 2018, trade between Chile and the EU grew by more than 8%, with a strong 13% growth in EU exports, notably exports of machinery and appliances (+14%) and transport equipment, in particular aircrafts and parts of aircrafts³⁵ (+27%). Over the same period, imports into the EU from Chile grew by 3%. The EU had a trade surplus of more than €1.5 billion.

With respect to trade in agri-food products, in 2018 Chile had a trade surplus of more than €1.7 billion, up by 4% compared to 2017. Chilean exports to the EU remained dominated by fruit (mainly counter-season products) and wines, which represented 40% and 24%, respectively, of its agri-food exports to the EU.

In 2018, the longstanding swordfish issue was resolved. Following Chile's accession to the Inter-American Tropical Tuna Commission as a cooperating non-contracting party in July 2017, there were no longer any restrictions on EU swordfish vessels accessing Chilean ports.

While some EU Member States continue to face problems exporting fruit and vegetables to Chile and delays in the approval of products of animal origin, the country opened its dairy and meat markets for additional Member States, in particular for beef and pig meat. Chile also harmonised the certificate for hatching eggs and egg products and simplified its market access approval procedures by taking into account the fact that EU Member States are subject to a strict and harmonised EU food safety and veterinary system.

Finally, the EU-Chile Agreement on trade in organic products entered into force on 1 January 2018. Although not linked to the association agreement, the equivalence recognition agreement for organic products will open new opportunities for trade in organic products between the two parties.

Since November 2017, the EU and Chile have been engaged in negotiating an ambitious, comprehensive and progressive modernised agreement.

5.6 Customs Union with Turkey

Turkey is the EU's second-largest preferential trading partner country. After a period of strong economic growth since 2013, Turkey's economy slowed down drastically in 2018. The sharp depreciation of the Turkish lira and the resulting high inflation significantly affected EU exports, which decreased by almost 9%. On the other hand, Turkish imports into the EU grew by 9% over the same period, which led to almost balanced trade, reducing the EU surplus from €15 billion in 2017 to €1 billion in 2018. Trade in non-agricultural products was the most affected in value.

Contractual trade relations between the EU and Turkey date back to 1963 when the parties agreed to progressively establish a customs union, which was completed in 1996. The union aims to ensure the free movement of all industrial goods and certain processed agricultural products between the EU and Turkey. However, for several years its functioning has been hampered by a continuing trend of mounting trade barriers in Turkey. A notable example is Turkey's deviation from the common customs tariff for imports from non-EU countries by

³⁵ It should be noted that, even in the absence of the increase in purchases of aircrafts or aircraft parts, EU exports would still have grown by 6%, which reflects the diversification of EU exports over the last five years.

imposing additional duties on a continuously expanding range of products, and also requiring proof of origin for EU goods. The Commission also continues to demand the non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States, including the Republic of Cyprus.

In December 2016 the Commission adopted a proposal to modernise the Customs Union. However, preparations in this regard are currently on hold as the Council has concluded that no further work towards the modernisation of the EU-Turkey Customs Union would be foreseen. This modernisation, once conditions permit, remains an important priority for the EU trade agenda.

On 2 April 2019, the EU requested WTO [consultations](#) with Turkey in response to measures adopted by Turkey that result in a progressive forced localisation in Turkey of the production of a substantial part of the pharmaceutical products exported to Turkey. These measures appear to also be in contradiction with Turkey's commitments under the customs union. The case is ongoing.

5.7 Stabilisation and Association Agreements with the Western Balkans countries

In 2018, the EU remained the number one trading partner region for Albania, Bosnia Herzegovina, Kosovo³⁶, Montenegro, North Macedonia and Serbia. Total trade between the EU and the five Western Balkan countries increased by 10%. The EU trade surplus was stable, slightly above €9 billion.

In 2017, the EU was also a major provider of foreign direct investment in the region, while the total outward stocks remained stable at around €25 billion.

However, issues related to the informal economy and corruption continue to affect the business environment. Lack of effective State aid rules remains an issue, and more generally, competition law needs to be improved. The EU believes – and insists in its policy dialogue with the Western Balkans partners – that progress on business environment, regulatory convergence and fight against corruption is closely linked to progress in the rule of law. In addition, transparency and accountability of public procurement procedures still need to be improved. On a positive note, the Commission welcomes the new Public Procurement Law enacted by North Macedonia in early 2019, which should lead to increased transparency and competition and the efforts taken by Serbia and Montenegro to modernise its public procurement legislation in line with the EU requirements.

Although further progress should be sought on regional integration, the signing of a regional roaming agreement in April 2019 aimed at establishing a roaming-free region across the region by 2021, which should pave the way for reducing telecommunication costs in the region, serves as a good example.

³⁶ This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the Opinion of the International Court of Justice on the Kosovo Declaration of independence.

6. ECONOMIC PARTNERSHIP AGREEMENTS (EPAs) WITH AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES

6.1 Economic Partnership Agreement with the Southern African Development Community (SADC)

2018 was the first year of the full application of the EU-SADC EPA³⁷ by all parties, after the agreement entered into provisional application for Mozambique on 4 February 2018. All SADC EPA countries have now started to implement the agreed cuts.

Total merchandise trade between the EU and SADC EPA countries grew by 2.7% in 2018. Growth was driven by a 5.5% increase in EU imports from SADC EPA countries, while EU exports recorded a small decrease. The trade balance remained in surplus for SADC EPA countries. Growing exports from SADC EPA countries were mostly driven by increased exports of motor vehicles from South Africa and diamonds and precious metals from South Africa and Lesotho. Exports of wine and sugar from South Africa, cashew nuts from Mozambique, grapes from Namibia and rum from Eswatini also increased.

At its first meeting in February 2019, the Joint Council adopted the institutional set-up of the agreement, including institutional provisions for dispute settlement and the list of arbitrators. This will help to address challenges with regard to implementation in the future. The Joint Council also established the foundations for a joint monitoring mechanism and for the full involvement of non-state actors in the implementation of the agreement.

In 2018, South Africa lifted the import ban on poultry meat for two out of eight EU Member States, without indicating how it plans to proceed with the remaining six on which it is still imposing a ban. The EU considers that the remaining import bans should be lifted without further delay. The Southern African Customs Union (SACU) also continued to apply safeguard measures on the import of poultry products from the EU and tariffs on specific textile imports, which the EU keeps raising with its counterparts as it considers these measures as being inconsistent with the agreement. On 14 June 2019, the EU requested consultations with the SACU on the safeguard measure imposed on frozen poultry products (for more detail, see section 10.3).

The possibility to 'cumulate origin' between SADC EPA countries, one of the key benefits of the Agreement, has not yet been activated by EPA partner countries. Cumulating origin would allow SADC EPA States to fulfil origin requirements jointly and would hence boost regional value chains. The EU encourages its partners to make progress on this issue.

³⁷ This is an agreement between the EU and six (out of 15) members of the Southern African Development Community (SADC): Botswana, Eswatini, Lesotho, Namibia, South Africa (which together form the Southern African Customs Union, SACU) and Mozambique.

Women wine makers in South Africa

Wine has been made in South Africa for more than three centuries. Yet, until the end of apartheid there were no qualified black wine makers. Young women are now breaking this barrier and using the EPA (with its large tariff rate quota for wine granted to South Africa) to export their products to the EU.

Thokozani Wines is a black empowerment company launched fifteen years ago by Diemersfontein Wines to turn their farm workers into shareholders and contribute to broad-based black economic empowerment. 85 out of its 115 staff are now Thokozani shareholders, many of them women, and receive mentorship and business and life skills training. Thokozani wines are being exported to the Netherlands, Germany, Sweden, Denmark and Czechia.

"Exports of Thokozani wines to the EU have improved after the entry into force of the SADC EPA but we need to scale up our efforts if we want to benefit fully from it. EU support to historically disadvantaged producers is very critical and welcome."

From Denise Stubbs, Director of Thokozani Wines

6.2 Interim Economic Partnership Agreement with Eastern and Southern Africa (ESA)

In 2018, the interim EPA between the EU and Madagascar, Mauritius, the Seychelles and Zimbabwe went into its seventh year of provisional application. Comoros has been applying the agreement since 7 February 2019. The four original ESA partners will fully implement their liberalisation commitments by 2022, in accordance with their respective schedules under the agreement.

In 2018, total trade between the EU and ESA4 was highest with Madagascar (€1.9 billion) and Mauritius (€1.8 billion), followed by Zimbabwe (€689 million) and the Seychelles (€596 million). EU imports from the four partners decreased by 3.5% in 2018. This was mainly caused by a sharp fall in the volume of sugar imported from Mauritius and Zimbabwe.

Diversification of exports has advanced for Madagascar and Mauritius but has been so far limited for the Seychelles and Zimbabwe.

Following the expression of interest by ESA partners to deepen the agreement beyond trade in goods, a scoping exercise was launched in 2018 and finalised in May 2019. The negotiations for the deepening of the agreement should start by the end of 2019 and they will cover services, investments and other trade-related topics.

6.3 Interim Economic Partnership Agreement with Côte d'Ivoire

The interim EPA with Côte d'Ivoire has been provisionally applied since September 2016. It is a self-standing trade agreement, which will be substituted by the regional EU-West Africa EPA once the latter enters into force. After being signed by Gambia and Mauritania, 15 out of 16 West African partners³⁸ have now signed the regional EU-West Africa EPA.

³⁸ Nigeria is the only country in West Africa which has not yet signed the agreement.

In 2018, the trade balance was positive for Côte d'Ivoire and the EU continues to be its most important trading partner region. However, in 2018, EU imports from Côte d'Ivoire decreased by 5% due to a drop in the value of raw and processed cocoa, as well as rubber imports. Cocoa and processed cocoa goods accounted for 64% of total EU imports from Côte d'Ivoire in 2018. EU exports to Côte d'Ivoire were stable and consisted mainly of machinery and mechanical appliances, electrical appliances and motor vehicles.

Côte d'Ivoire, with the support of the EU, carried out a study to measure the impact of the interim EPAs (Côte d'Ivoire and Ghana) on regional integration. The assessment demonstrated that the possible disruptions (e.g. due to EU liberalised inputs in processed products circulating within the region) will affect only very few traded products and countries. The study also provides pragmatic solutions to mitigate the risk of distortion.

Under the interim EPA, Côte d'Ivoire started to liberalise its market for EU imports as of 1 January 2019, with further rounds of tariff cuts foreseen until 2029.

6.4 Interim Economic Partnership Agreement (EPA) with Ghana

The interim EPA with Ghana has been provisionally applied since December 2016, and is still in its early stages. Ghana has announced that it will start to liberalise its market for EU imports as of 2020. Just like the interim EPA with Côte d'Ivoire, this interim EPA will be replaced by the regional West Africa EPA once the latter enters into force.

EU imports from Ghana grew by almost 50% in 2018, to reach €3.1 billion, mostly due to increasing exports of mineral oil from Ghana to the EU. Ghanaian exports of cocoa, aluminium, vegetable fats and oils, preserved tuna, as well as coconut and bananas also increased in 2018. EU exports to Ghana (mainly machinery, mineral oils and meat) slightly decreased in 2018. The balance of trade for both agricultural and non-agricultural goods is positive for Ghana.

As Ghana moves to implement its market access commitments, close attention will be paid to the effects the interim EPA might have on Ghana's economy in terms of trade and investment flows, government revenue and sustainable development.

6.5 Economic Partnership Agreement (EPA) with Central Africa (Cameroon)

The agreement, which is open for accession to all Central African countries, has been provisionally applied by Cameroon since August 2014. Cameroon will liberalise 80% of its imports from the EU over 15 years, until 2029. The first rounds of tariff cuts took place already in 2016 and 2017. The products in which trade is liberalised are mainly industrial machinery and equipment, construction material and intermediate industrial products, which are not produced locally and which are used by Cameroon's industry.

In 2018, EU imports from Cameroon saw a 7% decrease, back to the level of 2016 after a spike in 2017. This was due to a decrease in Cameroonian exports of mineral oil, cocoa beans, bananas and rubber to the EU. Aluminium and wood exports to the EU increased in 2018. The balance of trade remains positive for Cameroon. Mineral oil is the dominant export product.

Cheaper inputs help to strengthen local production and employment

La Société Anonyme des Brasseries du Cameroun (SABC) is a brewery and soft drinks producer in Cameroon. It is the largest private-sector employer in the country, employing about 10,000 people across the group and its subsidiaries. Brasseries du Cameroun holds a 75% share of the Cameroonian market for beer and soft drinks.

SABC is to date the biggest beneficiary of EPA preferences. It imports a range of products from the EU, e.g. larger machinery used to bottle its beverages, as well as ingredients such as yeast, hop, aromas and colorants used in their production.

While benefiting from EPA preferences, SABC is also increasingly trying to source locally. The company has a local subsidiary producing bottles and also buys 100% of Maïscam's (one of the large agro-industrial companies of the country) production of maize every year (10,000 tonnes).

6.6 Economic Partnership Agreement with the Forum of the Caribbean Group of ACP countries (CARIFORUM)

2018 was the tenth year of provisional application of the CARIFORUM agreement between the EU and 14 Caribbean countries. In February 2019, the Commission launched an *ex post* evaluation of the agreement, which is expected to be completed in 2020. The results will feed into the Joint EU-CARIFORUM Review of the agreement and will be reported to the next meeting of the EU-CARIFORUM Joint Council.

In 2018, total trade between the EU and CARIFORUM increased by 7%, to €9 billion. EU imports from CARIFORUM countries increased by 11% to €3.9 billion, driven by an increase in mineral oil and chemicals imports. EU imports of fish and crustaceans, tobacco, and beverages and spirits from CARIFORUM countries also increased in 2018, while sugar and banana imports declined. EU exports to CARIFORUM increased by 4.6%, to €5.1 billion.

Under the 11th European Development Fund, the EU provides €102 million in support of regional economic cooperation and integration, including private sector development, trade-related capacity building and EPA implementation in the Caribbean. This support entails, for example, mini-grants to small and medium-sized Caribbean firms to help them start exporting to the EU.

Given the particular interest of CARIFORUM partners in trade in services with the EU, in 2018 the parties established a Special Committee on Services.

Finally, progress was also made in the ongoing negotiations on an agreement on geographical indications under the EU-CARIFORUM EPA.

6.7 Economic Partnership Agreement (EPA) with the Pacific countries

2018 was the eighth year of application of the agreement between the EU and Papua New Guinea. Fiji started to apply the agreement provisionally in July 2014 and Samoa has been provisionally applying it since 31 December 2018.

In 2018, total trade between the EU and Fiji and Papua New Guinea recorded a 9% decrease. The two Pacific states still recorded a €700 million trade surplus with the EU.

EU imports of sugar from Fiji continued to decrease as was the case for several ACP countries. Exports of palm oil from Papua New Guinea to the EU, which is by far its main agri-food export to the EU, decreased by 16%.

So far, little diversification of Pacific countries' exports to the EU has been observed.

The agreement is open for accession by other Pacific Island countries. Samoa joined in 2018, and procedures for the accession of the Solomon Islands and Tonga are on-going.

7. TRADE AND SUSTAINABLE DEVELOPMENT: UPDATE ON RECENT ACTIVITIES

Since the publication of the 2018 report, the Commission continued to significantly step up efforts and actions to implement the trade and sustainable development chapters of EU trade agreements to follow up on its [15-point action plan of February 2018](#). The plan's overall objective is to ensure more effective and assertive implementation and enforcement of the chapters on trade and sustainable development. Results are starting to emerge as the plan is rolled out. The main initiatives under the plan's four broad fields of activity were the following:

1. Working together (with Member States, the European Parliament and international organisations)

The Commission intensified work with Member States. The dedicated Expert Group on trade and sustainable development met four times in 2018. This was complemented by the work of EU delegations and Member States' embassies in partner countries. This helped promote synergies with Member States on specific implementation actions, such as a partnership with Sweden to assist Ecuador's implementation process of trade and sustainable development commitments.

The Commission continued to engage with the European Parliament including through monitoring groups, agenda points of the Committee on international trade, technical debriefings, and individual contacts. Among other things, these contacts helped to provide information for the visit of Members of the European Parliament to Japan in September 2018.

The Commission strengthened cooperation with international organisations. The Commission and the International Labour Organization (ILO) made strides towards a more strategic and flexible cooperation, notably by signing, at the end of 2018, the umbrella project 'Trade for Decent Work'. This project will support actions to improve the application of the ILO fundamental Conventions in EU trading partner countries. The Commission also continued its ongoing cooperation with the ILO in a number of partner countries. In relation to the environment, the Commission has worked with the trade partner countries within the Multilateral Environment Agreements and has been supporting their implementation, including through the dedicated cooperation agreement with the United Nations Environment Programme.

2. Enabling civil society, including the social partners, to play their role in implementation

The Commission and each of the EU Domestic Advisory Groups established under the trade agreements with a trade and sustainable development chapter held regular meetings throughout the year to inform civil society representatives about progress and challenges in trade and sustainable development implementation, and learn about their views and opinions.

The Commission mobilised €3 million through a new Partnership Instrument-financed project: 'Support to civil society participation in the implementation of EU trade agreements'. Since November 2018, the project has been providing logistical and technical support to

Domestic Advisory Groups in the EU and in some trading partner countries³⁹. This project also facilitates joint discussions in the form of annual workshops on trade and sustainable development matters.

The Commission also reached out to civil society in countries covered by Economic Partnership Agreements (EPAs) to raise awareness of the agreements and stimulate engagement and discussion. In November 2018, non-state actors from the EU and SADC EPA countries held a second Civil Society Dialogue meeting in Namibia. In April 2019, the civil society advisory body established domestically in Côte d'Ivoire met with both parties of the agreement. Discussions also took place with the Commission, as well as the European Economic and Social Committee, to explore the possibility of building a civil society platform including both Ivorian and European civil society.

Increasing the business community's involvement in the implementation of trade and sustainable development chapters is another key objective. To promote and support the uptake of corporate social responsibility/responsible business conduct, the Commission and the European External Action Service launched a €9 million programme with the ILO, the Organisation for Economic Co-operation and Development (OECD) and the Office of the United Nations High Commissioner for Human Rights (OHCHR) through the [Partnership Instrument](#)⁴⁰. This programme will fund outreach and capacity building activities in Latin America, complementing similar ongoing work in Asia. The Commission also organised a regional event on this topic in Guatemala, with the participation of the ILO, the OECD and a range of stakeholders from the region.

3. Delivering

The Commission developed (pre-implementation and implementation) trade and sustainable development priority topics for each partner in order to focus efforts. These priorities were shared with Member States through the Expert Group on trade and sustainable development and with civil society through the Domestic Advisory Groups. This process is ongoing.

The Commission sharpened its monitoring and analysis of compliance with trade and sustainable development commitments in some trade partners, notably Peru and South Korea. In the case of Peru, the Commission engaged intensely with public authorities and civil society representatives, including during a fact-finding mission to Lima in October 2018. The EU and Peru reached an understanding on how to address the issues of concern as reflected in the minutes of the trade and sustainable development sub-committee meeting of December 2018⁴¹. In the case of South Korea, in December 2018 the Commission requested formal consultations under the Agreement's trade and sustainable development dispute settlement mechanism, based on longstanding EU concerns about South Korea's failure to implement its commitments under the free trade agreement on multilateral labour standards and agreements (for more detail, see Section 10.1).

The Commission strengthened its efforts to support partner countries in the early stages of implementation of the commitments on trade and sustainable development. These efforts included the development, in partnership with Sweden's National Board of Trade, of a handbook for trade and sustainable development implementation for Ecuador. In Vietnam and Singapore the focus was on respecting fundamental labour principles, both through labour

³⁹ Currently Central America, Colombia-Ecuador-Peru, CARIFORUM, Georgia, Moldova, SADC and Ukraine.

⁴⁰ https://ec.europa.eu/fpi/what-we-do/partnership-instrument-advancing-eus-core-interests_en

⁴¹ http://trade.ec.europa.eu/doclib/docs/2019/february/tradoc_157701.pdf

reforms and through the ratification of fundamental ILO conventions. Vietnam recently ratified ILO Convention 98 and indicated that it would adopt a new labour code, including the fundamental labour principles. In September 2018, Mexico ratified ILO convention 98 on the right to organise and collective bargaining, thus delivering on one of its commitments in the trade and sustainable development chapter of the future EU-Mexico Trade Agreement. Other activities focused on preparing the institutional set-up of government bodies as well as civil society structures.

To mobilise resources for the implementation of trade and sustainable development commitments and promote complementarities and synergies, the Commission began compiling an inventory of all relevant projects, reaching out to Member States in EU capitals and their embassies in partner countries.

On 23 January 2019, following the adoption of the Recommendation on Trade and Climate in the CETA context, the Commission hosted a trade and climate workshop with the participation of civil society and businesses to discuss the nexus between trade and climate and to identify possible further initiatives on the topic.

The Commission successfully introduced reinforced trade and climate provisions (including commitments to implement the Paris Agreement and cooperation and joint actions with respect to the objectives of the United Nations Framework Convention on Climate Change (UNFCCC) in the trade and sustainable development chapters of the agreements concluded with Mexico, Vietnam, Japan and Singapore. Similar provisions are part of ongoing negotiations.

The EU carried out circular economy outreach activities to Chile, Colombia, Japan, Mexico, Morocco, Peru and Singapore to promote green business and investment partnership and exchange knowledge on circular economy-related policies and best practices. These activities have contributed to the inclusion of specific circular economy provisions in the modernised agreement with Mexico. In addition, two regional projects on plastics targeting South East Asia and Latin America countries have been financed.

4. Transparency and communication

The Commission is working on improving its webpages on trade and sustainable development to make the relevant information more easily accessible. The European Economic and Social Committee is undertaking a similar exercise in relation to the work of the Domestic Advisory Groups.

Following a submission in October 2017 by civil society organisations expressing their concerns about Peru's lack of compliance with its trade and sustainable development commitments, the Commission engaged in technical meetings with the Peruvian authorities and civil society stakeholders. The issues raised in the submission were also part of the discussions at the December 2018 trade and sustainable development sub-committee meeting. In March 2019, the Commission informed the civil society organisations that filed the submission about the outcome of the increased engagement with the Peruvian authorities on the issues of concern.

8. AGRI-FOOD TRADE UNDER EU TRADE AGREEMENTS: UPDATE ON RECENT DEVELOPMENTS

Evolution of trade flows

In 2018, agri-food trade under EU preferential trade agreements continued to grow, in contrast to the EU's overall agri-food trade with the rest of the world, which slightly decreased. EU exports of agri-food products under preferential agreements grew by 2.2% (+€1 billion) and contributed to the success of EU agri-food exports. EU agro-food imports slightly declined, by 0.6%.

Over the reporting period, EU agri-food trade with preferential trading partner countries accounted for 30% of total EU agri-food exports and 40% of imports. With an €11 billion surplus, first-generation trade agreements contributed more than half of the growing overall agri-food trade surplus of the EU with the rest of the world. Spirits, wine, pasta and pastry were the biggest contributors to EU export growth. At the same time, imports of wheat, unroasted coffee and sugar declined.

Export growth was particularly strong with partner countries of second-generation trade agreements (+5%) and Deep and Comprehensive Trade Areas (+11%). CETA, in its first full year of implementation, contributed with a 4% growth rate in exports to Canada (particularly high in citrus fruit, cheese and chocolate).

The three main export destinations for EU agri-food exports among preferential trade partners were Switzerland, Norway and Canada, representing 12% of agri-food exports in 2018. Around 47% of exports were food preparations such as chocolates, infant formula, pasta (22%), processed food such as cheeses and wine (15%) and other beverages (9%).

French confectioner finds a sweet deal in Canada

La Confiserie du Roy René is a French confectioner specialised in calissons, sweets made of candied fruit and almonds, since 1920. The company adopted a strategy of internationalisation in 2014 by taking advantage of EU trade deals with partners around the world.

The company has already doubled its turnover from exports since 2015, which now make up over 9% of its total turnover.

The ratification of the EU's trade agreement with Canada enables the confectioner to offer its calissons at more competitive prices because of the reduction of trade tariffs.

The top three countries of origin of agri-food imports among preferential trading partner countries were Ukraine, Switzerland and Turkey, supplying 13% of total EU agri-food imports. Primary products built the bulk of the EU agri-food imports (~63%), mainly tropical fruits (18%), fresh and dried fruits (13%) and unroasted coffee (5.6%).

EU trade agreements include provisions on the protection of EU producers of sensitive products, such as beef, poultry or sugar. These are either fully excluded from preferential trade or, if they are partially excluded, they are covered by carefully calibrated tariff rate quotas. For sensitive fruit and vegetables an entry price system is applied during the peak harvest season in the EU.

Although often looked at critically during negotiations, EU trade agreements offer great potential for EU exports in agricultural products. For example, Japan and South Korea are the number two and three markets for EU pig meat exports and have significant potential for

growth. These markets represent 42 % of total EU pork exports. Exports to South Korea have been growing since the implementation of the trade agreement, with an additional 12% increase in 2018, despite the fact that exports from three EU Member States are banned due to African swine fever outbreaks.

Sensitive agricultural products from the EU continue to benefit from trade agreements. For example, in 2018, the EU exported close to 162,000 tonnes of beef to preferential partner countries, a 20% increase compared to 2017. Preferential trading partner countries absorb two thirds of total EU beef exports, with main partners being Turkey, Bosnia & Herzegovina, Israel and Switzerland. This shows that when trade is not hindered by unfair and unjustified sanitary measures or prohibitive import duties, European beef is valued on key export markets.

Similarly, European sugar producers performed well in 2018 with more than 3 million tonnes of sugar exports (+48% compared to 2017), a record level since 2014. While the export performance of EU sugar was largely boosted by the completion of the reform of the EU sugar regime, bilateral trade agreements also contributed to this result. By way of example, Egypt was the main export market for EU sugar in 2018. The country imported more than 500,000 tonnes of European sugar at zero duty, thanks to the existing EU-Egypt trade agreement⁴².

In the case of Japan, EU agri-food exports intensified already in 2018 (e.g. poultry meat export +78%), partly thanks to accelerated cooperation to resolve a number of issues related to sanitary and phytosanitary measures. Duties for pig meat and for beef will be totally eliminated or significantly reduced over time⁴³.

Geographical indications

In 2018, progress was made on the protection of EU geographical indications in some partner countries, for instance through the registration of 'Prosciutto di Carpegna' in Canada. Mexico agreed to protect a shortlist of 340 EU geographical indications in the modernised agreement. In early 2019, Singapore passed a new act on geographical indications, which opened the possibility for EU rights-holders to submit their applications before the entry into force of the agreement.

The Commission launched a study on the value of exports of EU geographical indications. This study will update a 2013 [study](#)⁴⁴, which found that, at that time, 20% of European geographical indication products were exported outside the EU, representing a value of around €11.5 billion per year.

⁴² In the absence of a preferential trade agreement, Egypt applies a 20% tariff on raw sugar.

⁴³ See EU-Japan EPA Factsheet Meat Products <https://www.eubusinessinjapan.eu/sites/default/files/meat-factsheet.pdf>

⁴⁴ https://ec.europa.eu/agriculture/newsroom/106_en

Sanitary and phytosanitary measures

Sanitary and phytosanitary measures continue to pose significant obstacles to EU agri-food exports and trade agreements are important tools to address these barriers. Progress can sometimes already be achieved during the negotiations, as trading partner countries develop a better understanding of their respective systems. This is best illustrated by Mexico's approval of exports of fruit from some EU Member States without pre-clearance requirements⁴⁵. Progress was also made on Japan's country-wide ban on poultry imports that it had imposed on a number of EU Member States in response to avian influenza outbreaks. Japan finally lifted the ban on the imports of poultry products from 27 Member States. Furthermore, Vietnam authorised the import of beef from two additional EU Member States.

However, a number of problematic issues remain. The South Korean market is still closed to European beef and little progress was made in 2018 on the processing of EU Member States' applications, some of them pending since 2014. A similar situation prevails with some other EU trading partner countries, such as Colombia and Peru. The EU uses every opportunity to raise the issue of unjustified lack of market access for European beef.

Another important issue is that several trading partner countries still do not recognise the principle of regionalisation and of EU regionalisation measures. This would be important to enable European farmers to fully benefit from EU trade agreements, in particular in the European poultry and pig meat sectors. In addition, reacting to the outbreak of African swine fever in Belgian wild boar in 2018, 16 countries, including Japan, South Korea and Mexico imposed country-wide import bans which affected several other EU Member States. The EU requested these countries to lift the restrictions, which are in contradiction of international standards and principles.

The EU is by far the biggest exporter of pork in the world. However, the presence of African swine fever in wild boar and domestic pigs in some EU Member States had a strong impact on EU pig producers because many trading partner countries imposed country-wide bans on the affected EU Member States. These trade restrictions are not in line with WTO provisions, unjustified from a risk point of view and unnecessary because EU control measures are effective in preventing the transmission of the disease through trade. So far, the affected EU Member States represent around 18% of EU pork exports before the outbreaks, and compensation has been possible. However, outbreaks in the major pork-producing EU Member States would be difficult to compensate if the import policies of major trading partner countries were to remain unchanged.

Animal welfare

In 2018, the Commission adopted a [report to the European Parliament and the Council](#) on the impact of animal welfare activities on the competitiveness of European livestock producers in a globalised world⁴⁶. The report provides an overview of the Commission's cooperative work to promote animal welfare internationally. It concluded that the global promotion of EU animal welfare standards contributes to the long-term objective of improving animal welfare in the world, while reducing unfair trading practices. The report confirmed the important role

⁴⁵ Preclearance refers to a requirement from some trading partner countries to have their inspectors posted in the country of export to check the consignment before shipment. The costs are usually charged to the exporter, which often makes trade unprofitable. In the modernised agreement, Mexico committed itself to no longer request preclearance for EU shipments.

⁴⁶ COM(2018) 42 Final, 26.1.2018.

of international cooperation on animal welfare, including in the context of preferential trade agreements.

Promoting agri-food products

To help EU companies to benefit from export opportunities under EU trade agreements in the agri-food sector, the EU budget allocated €179 million to the promotion of EU products, including in Canada, Colombia, Mexico and South Korea. Programmes cover a wide range of issues from general campaigns on healthy eating to specific market sectors. Promotion activities also include the organisation of seminars (e.g. in South Korea), with the objective of promoting the EU's high sanitary and phytosanitary standards, geographical indications or organic farming.

Jobs and agri-food trade

The Commission published, on its data portal for agro-economics modelling (DataM), an [interactive tool](#)⁴⁷ to calculate the jobs generated by agri-food trade in the EU. This tool is open to the public and will help determine the link between agri-food exports and jobs in the different sectors of the economy.

9. WORK ONGOING IN SPECIFIC AREAS

9.1 Small and medium-sized enterprises (SMEs)

Although exact statistics about the participation of SMEs in EU trade are not available to the Commission⁴⁸, research suggests their role in international trade has been increasing. On the basis of a [survey](#) conducted by DG TRADE's Chief Economist in 2016⁴⁹, SMEs accounted for an estimated 30% of EU goods exports to the rest of the world and 86% of all EU exporters were SMEs⁵⁰. Over the period from 2012 to 2016, the value of SME exports increased by almost 20%, slightly faster than the overall value added by SMEs to the EU economy. In 2016, 80% of all imports into the EU from non-EU countries came from SMEs, representing 38% of the overall value of EU imports.

The cost of entering new markets weighs more heavily on SMEs than on larger firms. For example, overcoming trade and investment barriers is not easy for any company, but it can pose unsurmountable challenges for SMEs. EU trade policy caters to the specific needs of SMEs, in particular when it comes to increasing transparency and making information on trade agreements more user-friendly and accessible.

To create a more SME-friendly trade environment, the Commission is producing guidance to explain how trade agreements work, for example in relation to:

- rules of origin;
- public tenders;
- the protection of intellectual property rights;

⁴⁷ <https://data.jrc.ec.europa.eu/collection/datam>

⁴⁸ EU Member States are not obliged to provide import and export data per company size.

⁴⁹ https://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods_by_enterprise_size

⁵⁰ Other sources mention higher numbers for SMEs because Eurostat statistics show a category of companies of 'unknown' size. A report by DG Trade's Chief Economist estimates that at least 619,000 SMEs were exporting outside the EU in 2012 (http://trade.ec.europa.eu/doclib/docs/2015/april/tradoc_153348.pdf)

- acceptance of international standards;
- recognition of professional qualifications;
- visa facilitation.

A single rulebook for international trade would be the best solution to creating a level playing field for SMEs, but multilateral efforts are moving forward very slowly. Therefore, trade agreements are a major tool for helping SMEs engage in international trade.

Since the "[Trade for All](#)" Communication, the EU has included SME provisions in all new trade agreements and proposes to include a specific SME chapter to ensure that the entire agreement works better for SMEs. This chapter typically includes commitments for the EU and the partner countries to provide information on the contents of the respective trade agreement on a dedicated website that has a database searchable by tariff code, with information on tariffs, import requirements, rules of origin, etc. In addition, the chapter provides for a SME Contact Point on each side to facilitate bilateral cooperation at government level and interaction with the committees established under the agreement, ensuring that the needs of SMEs are adequately addressed. Moreover, the Commission is negotiating simplified and similar rules in new trade agreements and those in the process of modernisation, for example in the area of rules of origin.

The EU-Japan Economic Partnership Agreement is the first to include a dedicated [SME Chapter](#)⁵¹. Negotiations on SME chapters were also concluded at technical level with Mexico and Mercosur in 2018. Negotiations are ongoing with Indonesia, Australia, New Zealand, Chile and Tunisia. Although CETA does not include a distinct chapter on SMEs, a specific '[SME recommendation](#)'⁵² was agreed between the EU and Canada on 26 September 2018. It requires both parties to provide market access information and to set up SME Contact Points.

The Commission, EU Member States and business associations continue working to increase awareness of the opportunities offered by EU trade agreements. The Commission provides on its [website](#) information on preferential trade agreements. One recent example is the SME-specific webpage on the [EU-Japan Economic Partnership Agreement](#)⁵³. In line with its commitments under the SME Chapter, Japan's Ministry for Foreign Affairs has also published information on its [website](#). Furthermore, the EU [Market Access Database](#)⁵⁴ offers information for SMEs, who want to export from the EU, while the [Trade Helpdesk](#)⁵⁵ offers information relevant for importers into the EU. The Commission is currently developing a new one-stop-shop web portal, which should provide improved services to SMEs.

⁵¹ http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157228.pdf#page=503

⁵² http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157417.pdf

⁵³ <http://ec.europa.eu/trade/policy/in-focus/eu-japan-economic-partnership-agreement/>

⁵⁴ <https://madb.europa.eu/madb/>

⁵⁵ <https://trade.ec.europa.eu/tradehelp/>

German manufacturer lifts export volumes across the globe

The trade agreement between the EU and South Africa entered into force in 2000. It has enabled a small machinery manufacturer in the German region of Swabia to take advantage of new export opportunities, boost employment and share technological innovation with its trading partner countries.

AERO-LIFT exports vacuum lifters to South Africa, ranging from components to entire machines. These are used, for example, in industry, for lifting heavy loads. Since the conclusion of the trade agreement, the export value of one product type alone has increased from €15,000 to €100,000. At the same time, the company is benefiting from reduced customs and administrative costs amounting to approximately 5% of the product value.

"Without a trade agreement we would not be in South Africa" says Tobias Pauli, CEO of AERO-LIFT Vakuumtechnik GmbH, a small family business from Binsdorf in Swabia.

9.2 Services

Opening up trade in services is about addressing quantitative and discriminatory restrictions in domestic legislation. Negotiations in this field aim to ensure that EU service providers are allowed to supply services in foreign markets and are not discriminated against compared to other firms in the same sector.

All 'new generation' trade agreements and agreements on Deep and Comprehensive Free Trade Areas contain provisions on services, helping to establish and solidify a regulatory framework that facilitates the supply of services, while protecting consumers. Among the agreements in place with African, Caribbean and Pacific countries, only the Economic Partnership Agreement (EPA) with the Caribbean covers services, whereas other EPAs have review clauses' for negotiations at a later stage.

There has been significant progress in recently negotiated agreements (such as the ones with Japan or Mexico) as they include state-of-the art provisions on both services and digital trade. Agreements that are currently being negotiated (such as the ones with Australia and New Zealand) are expected to build on these ambitious provisions.

The EU-Japan Economic Partnership Agreement includes comprehensive commitments on services and investment, based on a full negative list (i.e., the parties listed only those sectors that they exclude completely or to which restrictions apply). The agreement also contains important regulatory provisions, going beyond the World Trade Organization's General Agreement on Trade in Services (GATS). These additional improvements will help EU companies seeking to enter the Japanese market but also those who are already active on the Japanese market, to get the necessary licenses or authorisations swiftly. In addition, the agreement with Japan offers a framework for closer regulatory cooperation in financial services and has led to an understanding between the EU and Japan on the movement of natural persons for business purposes.

Another telling sectoral example is that of the digital trade chapter included in modern trade agreements. Digital trade issues have been addressed in agreements in the past but more comprehensive provisions were included in the EU-Canada agreement (CETA) with further improvements made in the EU-Japan Economic Partnership Agreement. The recently concluded negotiations with Mexico establish disciplines applying to all sectors covered by the agreement, which respond to the challenges of the digital economy and are indispensable

for the good functioning of online trade in goods and services. Rules prohibiting customs duties on electronic transmissions or mandatory source code disclosure, as well as trust-enhancing rules, such as electronic trust services, electronic contracts, spam and consumer protection can be found in this agreement.

The effects of trade agreements on EU services trade with third countries are not easily quantifiable but available data demonstrate an increase in EU services exports. For example, services exports to South Korea and Chile grew by 7% and 17%, respectively, between 2016 and 2017, while exports to Canada increased by 7% over the same period. Moreover, services trade in 2017 reached almost 35% of the total trade value between the EU and Canada, more than 50% for EU-CARIFORUM and almost 65% for EU-Panama (the average for EU-Central America being around 30%).

9.3 The EU-Japan Economic Partnership Agreement – preparatory work⁵⁶

The EU-Japan Economic Partnership Agreement entered into force on 1 February 2019. In 2018, to prepare for the application of this important new trade agreement, the Commission produced information packages catering to individual EU Member States, to business and the public at large, including general descriptions of the contents of the agreement, tailor-made infographics for each EU Member State and several guidance documents on customs matters and agricultural outcome. Practical information specifically relevant for SMEs has been added to the EU [Market Access Database](#). The Commission participated in a large number of awareness-raising events to support EU Member States in their communication activities.

Furthermore, the [EU-Japan Centre for Industrial Cooperation⁵⁷](#) (an EU Japan co-financed platform) has created a [Helpdesk for supporting the implementation of the agreement](#). The Helpdesk is a practical tool particularly aimed at SMEs. It receives individual queries on the agreement and offers SMEs access to various additional information sources and other free-of-charge services. The Centre organises training webinars on specific topic and also regularly releases sectoral information packs ('factsheets') with information on the changes and export opportunities brought about by the EU-Japan Economic Partnership Agreement. The Helpdesk is closely connected with other activities of the Centre such as the public procurement helpdesk or the intellectual property helpdesk.

Before the Agreement entered into force, the EU and Japan worked together to finalise the administrative set-up necessary for its implementation. This included:

- information exchanges on the initial procedure for administration of tariff rate quotas;
- approval procedures for several oenological practices to facilitate exports of EU wines;
- some technical aspects concerning the customs requirements for the granting of tariff preferences (e.g. treatment of confidential business information);
- the establishment of governance structures for implementing the trade and sustainable development chapter;
- the development of procedural and other rules necessary for the functioning of joint committees, as well as the dispute settlement system of the Agreement.

⁵⁶ See section dedicated to the [EU-Japan Economic Partnership Agreement](#) on the Commission's website.

⁵⁷ <https://www.eu-japan.eu/>

Work continues with regard to some of the above-mentioned aspects as well as other key issues to strengthen the EU-Japan economic partnership.

Bord Bia, Irish Food Board (Ireland)

Bord Bia, the Irish Food Board won a grant to promote EU beef, a project of €3.7 million that is 80% co-financed by the EU⁵⁸. Between 2017 and 2019, Bord Bia participated in several promotional campaigns, seeking to highlight the EU's high standards of food safety, quality and sustainability in Japan.

"Winning the right to drive this EU campaign is recognition of Ireland as an exporting country with a strong history of promoting and supplying quality beef that is sustainably produced. This programme allows us to expand our activities at a time when diversification into international markets was never more important... this campaign affords us the opportunity to deploy each of these to the benefit of Irish and EU producers."

Tara McCarthy CEA, Bord Bia

9.4 Improving the uptake of EU trade agreements

EU and partner countries' companies can only reap the benefits of EU trade agreements if they have pertinent information on the contents of these agreements and understand how to benefit in practice. Following up on activities described in the previous report, in 2018 the Commission intensified its efforts to raise awareness on EU trade agreements and facilitate their uptake.

Among other efforts, the Commission has been advancing its work on an online portal that will offer a single access point for exporters and importers in the EU. This portal will make it easier for companies, in particular small and medium-sized companies, to understand market access requirements in partner countries (in total over 120 export destinations) and on the EU market. Thanks to the intended integration of two databases, the Market Access Database and the Trade Helpdesk, companies will have better access to information on tariff preferences and regulatory requirements that apply to their products under a particular trade agreement, as well as the rules of origin. The new portal will include information on a first batch of trade agreements and will be gradually extended over time.

Furthermore, in 2018, the Commission strengthened its collaboration with the [Enterprise Europe Network](#) (EEN)⁵⁹ and trade promotion organisations in the EU Member States in order to reach small and medium-sized companies and better target its awareness raising and information campaigns. The Commission set up a new EEN working group for implementation of free trade agreements, which has been developing a set of information material for trade agreements. The network will nominate trade agreement contacts and organise training sessions for EEN partners in all EU Member States on how to promote the benefits of trade agreements amongst European companies.

⁵⁸ Regulation (EU) No 1144/2014 of the European Parliament and of the Council of 22 October 2014 on information provision and promotion measures concerning agricultural products implemented in the internal market and in third countries and repealing Council Regulation (EC) No 3/2008.

⁵⁹ The network, co-financed by the EU [COSME programme](#), is active in more than 60 countries and brings together 3000 experts from 600 member organisations. Its objective is to help small and medium-sized businesses in their international activities.

10. LEGAL ENFORCEMENT

Since the publication of the 2018 report, the EU has resorted to the dispute settlement mechanisms established under the agreements with South Korea, Ukraine and the Southern Africa Customs Union. The state of play of these disputes as of August 2019 is explained below. In addition, on 2 April 2019, the EU requested WTO [consultations](#)⁶⁰ with Turkey in response to measures adopted by Turkey that result in a progressive forced localisation in Turkey of the production of a substantial part of the pharmaceutical products exported to Turkey. These measures appear to be also in contradiction of Turkey's commitments under the customs union. The case is ongoing.

The Commission is closely monitoring the implementation of EU trade agreements and will consider using legal enforcement, in particular in cases of major economic or systemic importance. The EU's preferential trade agreements provide for robust enforcement of commitments with a view to ensuring an efficient and timely resolution of disputes, including on matters which go beyond the WTO Agreement (e.g. the dispute with South Korea on labour rights). Where the measure at cause appears to be in violation of both the WTO Agreement and a trade agreement applicable between the EU and the partner country, the WTO remains a well-tested and transparent dispute settlement system of first choice, ensuring coherence in the interpretation of the relevant commitments.

10.1 Dispute settlement with South Korea

Under the Trade and Sustainable Development Chapter of the EU-South Korea Free Trade Agreement, South Korea committed to “respect and realise in their laws and practices” the fundamental rights of the International Labour Organization (ILO), notably the right of freedom of association and the right to collective bargaining. In addition, South Korea committed to make “continued and sustained efforts” towards the ratification of outstanding ILO conventions⁶¹.

In the absence of progress, on 17 December 2018 the EU decided to [request consultations](#)⁶² with South Korea under the bilateral dispute settlement regime. Due to the lack of sufficient efforts towards the ratification of the concerned ILO convention, the EU requested [the establishment of a Panel](#)⁶³ on 2 July 2019.

10.2 Dispute settlement with Ukraine

In January 2019, the EU decided to request consultations with Ukraine on Ukrainian export restrictions on wood under the bilateral dispute settlement regime provided by the EU-Ukraine Association Agreement. The export restriction initially covered timber and sawn wood of ten species and since 2015 has been extended to all unprocessed wood (including pine wood since 2017.)

The EU had raised the issue with Ukraine on many occasions, as the export restriction is incompatible with the Association Agreement. Consultations were held in February 2019 but

⁶⁰ http://trade.ec.europa.eu/doclib/docs/2019/april/tradoc_157821.pdf

⁶¹ Convention 87 on freedom of association; Convention 98 on the right to organise and collective bargaining; Convention 29 on forced labour; and Convention 105 on abolition of forced labour.

⁶² http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157586.pdf

⁶³ http://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_157992.pdf

they failed to resolve the issue. In June 2019 the EU therefore decided to request the establishment of an [arbitration panel](#)⁶⁴ to examine and rule on the matter.

10.3 Dispute settlement with the Southern African Customs Union

On 14 June 2019, the EU [requested consultations](#)⁶⁵ with the Southern African Customs Union (SACU) under the Dispute Avoidance and Settlement Part of the EU-SADC Economic Partnership Agreement (EU-SADC EPA). The request concerned the safeguard measure imposed on frozen bone-in chicken cuts exported from the EU. The EU considers that SACU imposed the measure in violation of the principles and rules of the EU-SADC EPA.

The EU had repeatedly raised its concerns with SACU at various levels and occasions. As the EU's concerns have not been satisfactorily addressed, the EU decided to step up the engagement with SACU by requesting consultations, which must be held within 40 days from the notification of the request.

11. CONCLUSIONS

In 2018, while global trade growth slowed down and protectionism was on the rise, EU preferential trade agreements continued to have trade-facilitating effects. Beyond total or partial tariff eliminations, the agreements continue to contribute to developing a rules-based trading system and they improved market access for EU products and investments in partner countries. They also contribute to economic diversification and growth in developing partner countries. Other positive effects of EU trade agreements included increased legal certainty in areas such as trade in services and public procurement, as well as a better protection of key EU interests, such as intellectual property rights, including geographical indications.

In addition, the new generation of preferential trade agreements are also an important instrument for promoting European values related to workers' rights and environmental protection, including climate change.

At the same time, many trade barriers which stand in the way of using the opportunities of EU trade agreements were still in place and 2018 saw the emergence of new barriers. The EU will continue to take the steps necessary to remove these barriers, including the use of bilateral or multilateral enforcement tools, as appropriate.

In its effort to improve transparency and accountability, the Commission will continue to report annually on the implementation of EU preferential trade agreements with non-EU countries.

⁶⁴ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=2034>

⁶⁵ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=2031>

ANNEXE 1: PREFERENCE UTILISATION RATES ON EU IMPORTS

| Exporting country | 2015 | 2016 | 2017 | 2018 |
|---|------|------|-------|-------|
| 'New generation' Free Trade Agreements | | | | |
| Colombia | 97% | 97% | 97% | 98% |
| Costa Rica | 96% | 97% | 96% | 96% |
| Ecuador | 89% | 88% | 97% | 99% |
| El Salvador | 82% | 74% | 90% | 91% |
| Guatemala | 95% | 95% | 93% | 97% |
| Honduras | 91% | 92% | 92% | 91% |
| Nicaragua | 94% | 94% | 93% | 88% |
| Panama | 70% | 61% | 82% | 82% |
| Peru | 98% | 97% | 96% | 96% |
| South Korea | 85% | 87% | 88% | 88% |
| Canada | | | 28.7% | 49.6% |
| DCFTAs | | | | |
| Georgia | 83% | 80% | 77% | 76% |
| Moldova | 91% | 88% | 85% | 85% |
| Ukraine | 87% | 89% | 87% | 80% |
| 'First generation' Free Trade Agreements | | | | |
| Mediterranean Partners | | | | |
| Algeria | 97% | 95% | 97% | 96% |
| Egypt | 95% | 96% | 97% | 96% |
| Israel | 89% | 90% | 91% | 90% |
| Jordan | 68% | 79% | 75% | 76% |
| Lebanon | 76% | 71% | 70% | 74% |
| Morocco | 97% | 97% | 97% | 98% |
| Occupied Palestinian Territory | 78% | 81% | 77% | 65% |
| Tunisia | 95% | 96% | 94% | 93% |
| Western Balkans | | | | |
| Albania | 87% | 86% | 86% | 84% |
| Bosnia-Herzegovina | 93% | 94% | 94% | 94% |
| North Macedonia | 97% | 95% | 94% | 92% |
| Kosovo | 85% | 89% | 92% | 92% |
| Montenegro | 81% | 83% | 90% | 73% |
| Serbia | 93% | 90% | 92% | 91% |
| Latin American Partners | | | | |
| Chile | 95% | 95% | 96% | 94% |
| Mexico | 52% | 58% | 70% | 74% |
| EFTA States | | | | |
| Norway | 71% | 66% | 69% | 69% |
| Switzerland | 86% | 83% | 85% | 85% |
| Economic Partnership Agreements (EPAs) | | | | |
| CARIFORUM (average) | 91% | 92% | 91% | 86% |
| SADC (average) | 87% | 83% | 82% | 88% |
| ESA (average) | 97% | 97% | 96% | 96% |
| Cote d'Ivoire | 99% | 98% | 98% | 98% |
| Ghana | 98% | 98% | 96% | 99% |
| Central Africa (Cameroon) | 91% | 97% | 99% | 98% |
| Pacific (average) | 92% | 99% | 81% | |

Source: Eurostat

ANNEXE 2: PREFERENCE UTILISATION RATES ON EU EXPORTS⁶⁶

| Importing country | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|------|
| 'New generation' Free Trade Agreements | | | | |
| Colombia | 63% | 71% | 70% | 72% |
| Peru | 28% | 47% | 52% | 56% |
| Costa Rica | n/a | 38% | n/a | 59% |
| El Salvador | 21% | 26% | 27% | 33% |
| Guatemala | 21% | 32% | 31% | 33% |
| Honduras | 40% | 56% | 55% | 55% |
| Ecuador | n/a | n/a | 57% | 68% |
| South Korea | 68% | 71% | 74% | 81% |
| Canada | n/a | n/a | n/a | 37% |
| DCFTAs | | | | |
| Georgia | 72% | 81% | 83% | 83% |
| Ukraine | n/a | n/a | 70% | 74% |
| 'First generation' Free Trade Agreements | | | | |
| Mediterranean Partners | | | | |
| Turkey | n/a | 95% | 94% | 90% |
| Egypt | 36% | 66% | 64% | 67% |
| Israel | n/a | 89% | 86% | n/a |
| Lebanon | 74% | 74% | 58% | n/a |
| Morocco | n/a | 76% | 77% | 77% |
| Jordan | n/a | 78% | 72% | 76% |
| Western Balkans | | | | |
| Albania | 77% | 80% | 78% | 80% |
| Bosnia-Herzegovina | 91% | 88% | 88% | 86% |
| North Macedonia | n/a | 90% | 89% | n/a |
| Kosovo | n/a | 44% | 60% | 66% |
| Montenegro | 86% | 85% | 86% | 86% |
| Serbia | 89% | 91% | 91% | 90% |
| Latin American Partners | | | | |
| Chile | 77% | 87% | 88% | 85% |
| Mexico | 76% | 76% | 75% | 70% |
| EFTA States | | | | |
| Switzerland | 79% | 79% | 78% | 77% |
| EPAs | | | | |
| Dominican Republic | 46% | 49% | 62% | 58% |
| Mauritius | n/a | n/a | n/a | 28% |
| South Africa | 60% | 63% | 60% | 64% |

Sources: Partner countries

⁶⁶ There are differences between some of the data reported in this report and the two previous editions in regard to the preference utilisation rates on EU exports to certain trading partner countries for the years 2015, 2016 and 2017. Where this is the case, the Commission has received updated data from the partner country in question and adjusted the figure.