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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 the Implementation of EU Trade Agreements**

**1 January 2019 - 31 December 2019**

{SWD(2020) 263 final}

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## TRADE AGREEMENTS COVERED BY THIS REPORT

(Agreement/date of application)<sup>1</sup>

<b>ASIA</b>	
EU-Japan Economic Partnership Agreement	1 February 2019
EU-South Korea Free Trade Agreement	1 July 2011
<b>THE AMERICAS</b>	
EU-Canada Comprehensive Economic and Trade Agreement	21 September 2017
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-Chile Association Agreement	1 February 2003
EU-Mexico Global Agreement	Applied for goods since 1 July 2000; applied for services since 1 March 2001.
<b>EU NEIGHBOURING COUNTRIES</b>	
<b>Mediterranean and Middle East countries - Free Trade Areas</b>	
EU-Algeria	1 September 2005
EU-Egypt	21 December 2003
EU-Lebanon	1 March 2003
EU-Jordan	1 May 2002
EU-Morocco	18 March 2000
EU-Tunisia	1 March 1998
EU-Palestine <sup>2</sup>	1 July 1997
EU-Israel	1 January 1996
<b>Eastern countries – Deep and Comprehensive Free Trade Areas</b>	
EU-Ukraine	1 January 2016, and entered into force on 1 September 2017.
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.

<sup>1</sup> For sake of consistency this report uses the short names for EU trading partners as listed in the inter-institutional guide, available at <https://publications.europa.eu/code/en/en-5000500.htm>

<sup>2</sup> 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.

## TRADE AGREEMENTS COVERED BY THIS REPORT

(Agreement /date of application)

<b>Western Balkans – Stabilisation and Association Agreements</b>	
EU-Kosovo* <sup>3</sup>	1 April 2016
EU-Serbia	Interim Agreement on trade for Serbia: 1 February 2009; for the EU: 8 December 2009
EU-Bosnia and Herzegovina	Interim Agreement on trade 1 July 2008
EU-Montenegro	Interim Agreement on trade 1 January 2008
EU-Albania	Interim Agreement on trade 1 December 2006
EU-North Macedonia	Interim Agreement on trade 1 June 2001
<b>Switzerland, Norway, Turkey</b>	
EU-Switzerland Free Trade Agreement	1972
EU-Norway Free Trade Agreement	1 July 1973
EU-Turkey Customs Union	Association Agreement signed in 1963; final phase of the customs union completed on 1 January 1996.
<b>AFRICA, CARIBBEAN AND PACIFIC – Economic Partnership Agreements</b>	
EU-Ghana (interim)	15 December 2016
EU-Southern African Development Community (SADC)	10 October 2016 for Botswana, Eswatini, Lesotho, Namibia and South Africa; 4 February 2018 for Mozambique.
EU-Cote d'Ivoire (interim)	3 September 2016
EU-Central Africa (Cameroon)	4 August 2014 for Cameroon
EU-Eastern and Southern African States (interim)	14 May 2012 for Madagascar, Mauritius, Seychelles and Zimbabwe <sup>4</sup>
EU-Pacific countries (interim)	20 December 2009 for Papua New Guinea; 28 July 2014 for Fiji. <sup>5</sup>
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.

<sup>3</sup> \* 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.

<sup>4</sup> The agreement applies to Comoros since 7 February 2019.

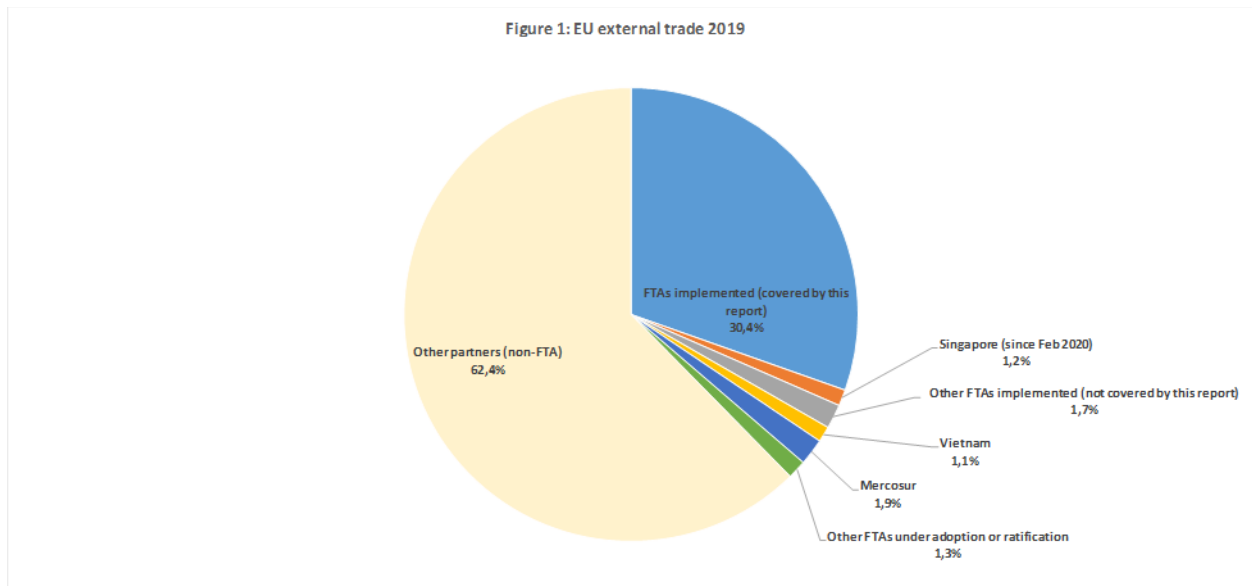
<sup>5</sup> The agreement applies also to Samoa since 31 December 2018.

# 1. INTRODUCTION

European trade policy made good progress in 2019. The EU advanced its bilateral trade agenda by ratifying its trade agreements with Singapore and Vietnam, which entered into force in November 2019 and August 2020, respectively. In 2019, the EU applied 44 trade agreements with 76 partners<sup>6</sup>; trade with these partners amounted to €1.345 billion, representing 33% of EU external trade (34% of total exports and 33% of total imports).

At the same time, looking at 2020, the **coronavirus pandemic** can be expected to have a severe dampening effect on trade between the EU and its trading partners, including preferential ones. The European Commission estimates that EU exports to third countries could fall between 9% and 15% and 11% and 14% for imports (goods and services combined). The EU's large network of trade agreements can contribute to counter and mitigate these negative effects, to build resilience and diversify supply chains. The European Commission is strengthening its efforts to further improve implementation and enforcement of these agreements, ensuring all companies, in particular smaller ones, can benefit. The first **Chief Trade Enforcement Officer**, nominated by the College on 24 July<sup>7</sup>, will provide direction to these efforts, in close collaboration with all stakeholders concerned, as well as Member States and the EU institutions.

This report provides an update of 36 of the EU's major trade agreements with 65 trading partners<sup>8</sup>. The agreements cover 91% of EU trade with preferential partners and account for 30.4% of EU total external trade.



<sup>6</sup> Alphabetical list of agreements available on DG TRADE's website: <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>

<sup>7</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_1409](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1409)

<sup>8</sup> The EU-Singapore Free Trade Agreement only entered into force on 21 November 2019.

The report highlights the implementation of EU agreements in Asia, the Americas, the EU's neighbouring countries (Eastern and Southern Neighbourhood countries and Western Balkans) and African, Caribbean and Pacific countries. In addition to sections on trade and sustainable development, agri-food trade and small and medium-sized businesses, this year's report includes a separate section on services, investment, public procurement and intellectual property rights. The accompanying **Staff Working Document**<sup>9</sup> consists of 36 country information sheets<sup>10</sup>. It looks at how effectively agreements are being implemented, provides statistics and has an update on the implementation of the European Commission's 15-point action plan on trade and sustainable development<sup>11</sup>.

### *Statistics for trade in goods*

**General statistics** on trade in goods and services and on foreign direct investment for each partner country can be found in the staff working document. Statistics on the evolution of trade and investment flows are based on Eurostat data for the EU27 in March 2020, except where indicated otherwise. The most recent annual data for trade in goods are for 2019, except where indicated otherwise.

The European Commission/DG TRADE will publish statistics on **preference utilisation** on EU exports and EU imports for each trading partner for the EU and each Member State on its website on the day this report is adopted, together with an explanation of the sources and methodology.

**NB.** Figures for preference use on EU imports and EU exports are based on different datasets from distinct sources. Preference utilisation rates on imports use Eurostat figures and are harmonised. Preference utilisation rates on EU exports use data submitted by EU trading partners' customs authorities, which apply different methods and practices: the data are therefore not harmonised and not comparable.

### *Statistics for trade in services*

The main sources for trade in services data are **balance of payments statistics** (BoP) and Eurostat's **database on activities of multinationals** (FATS). The first covers Mode 1 (cross-border), 2 (consumption abroad) and 4 (supply by natural persons in the other country), while the second covers Mode 3 (establishment). The most recent annual data available for trade in services are for 2018, except where indicated otherwise.

**NB.** BoP data have a limited breakdown of trade flows by sector and there is no breakdown of flows of trade in services by modes of supply. FATS data give a detailed break-down, but to obtain the actual value of Mode 3 services (or goods) trade the figures need to be corrected for

<sup>9</sup> [https://trade.ec.europa.eu/doclib/docs/2020/september/tradoc\\_158926.pdf](https://trade.ec.europa.eu/doclib/docs/2020/september/tradoc_158926.pdf)

<sup>10</sup> The Free Trade Agreement between the EU and Singapore only entered into force on 21 November so this report and its staff working document only give an overview of preparatory work. A full report will be in the 2021 edition.

<sup>11</sup> The 15 points action plan is available at [https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc\\_156618.pdf](https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf)

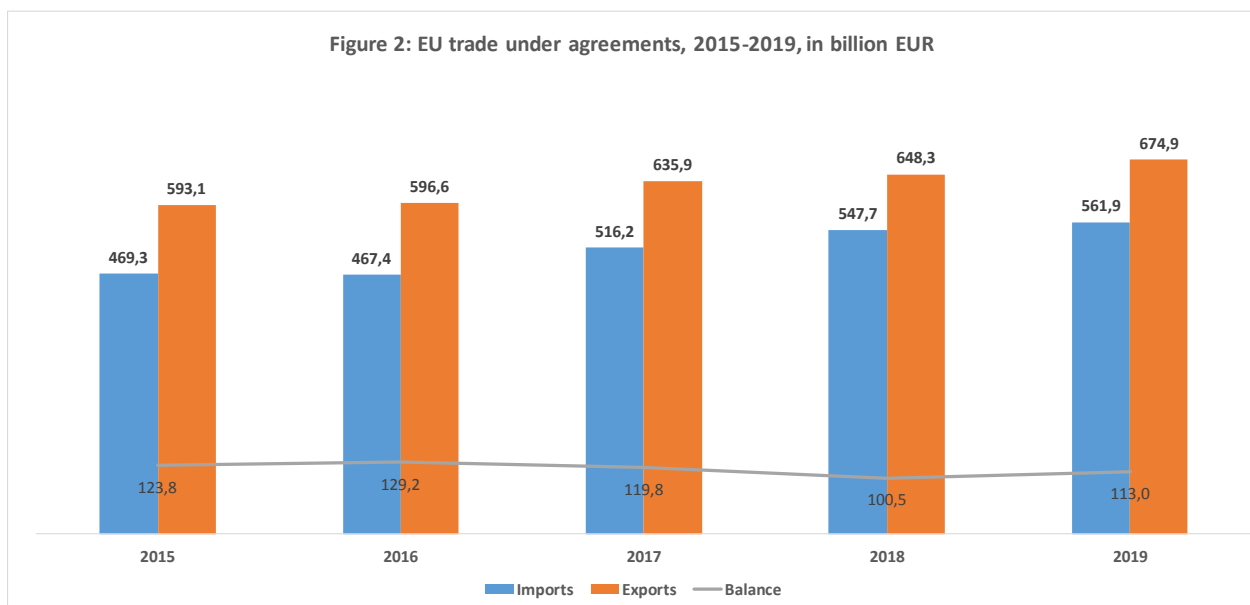
re-exports (e.g FATS provides the turnover of EU multinationals in US, to obtain the value of local sales, Mode 3 exports, the data need to exclude the exports of the EU companies located in the US.).

### *Statistics for Foreign Direct Investment (FDI)*

For data on FDI flows and stocks, the main sources are **Eurostat and UNCTAD**. The most recent annual data available for trade in services are for 2018, except where indicated otherwise.

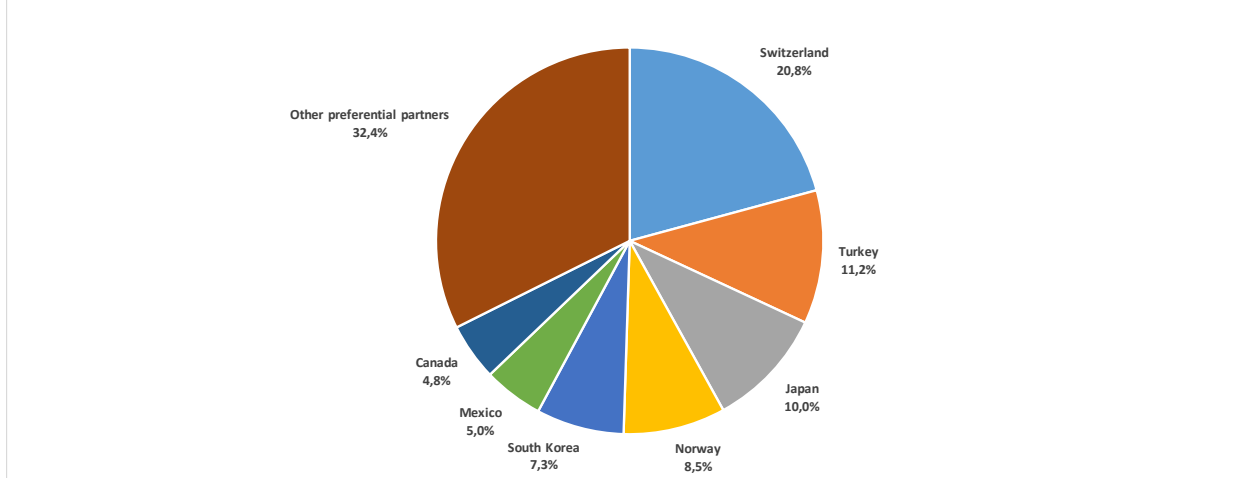
## 2. OVERVIEW OF MAIN FINDINGS: TRADE FLOWS

This section covers development of trade between the EU and 65 major preferential trading partners in 2019, representing 29% of total EU imports and 32 % of total EU exports, resulting in an EU trade surplus of €113 billion, a 12% increase on the previous year.



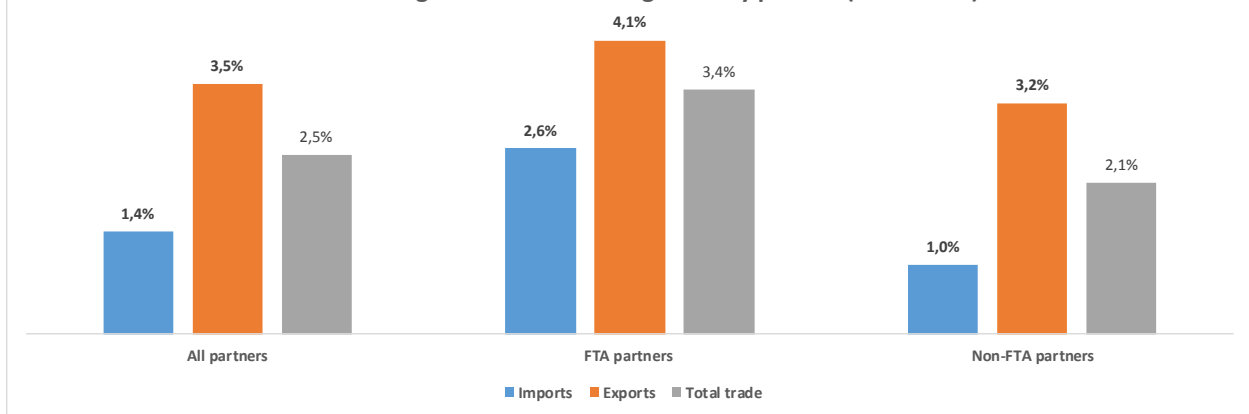
Switzerland remained the EU's largest preferential partner, accounting for 21% of trade, followed by Turkey with 11%, Japan with 10% and Norway with 8.5%. Together, these partners accounted for half of EU preferential trade.

Figure 3: EU trade in goods by preferential partner (2019)



In 2019, EU trade in goods with the 65 partners grew by 3.4%. This is more than EU trade with the rest of the world (i.e. all the EU trading partners, +2.5%) and more than the EU's trade with its non-preferential partners taken separately (rest of the world minus the 65 preferential partners, +2.1%). Growth in preferential exports (+4.1%) and preferential imports (+2.6%) of goods grew more strongly than exports and imports with the rest of the world, 3.5% and 1.4% respectively.

Figure 4: Annual trade growth by partner (2018-2019)



### *Trends in exports of goods*

In 2019, 92% of all EU exports to preferential partners were **industrial products**. Machinery, chemicals and transport equipment remained the EU's top exports and saw growth rates of 1.5%, 6.3% and 5.7% respectively. Machinery and appliances remained the single most important category, accounting for roughly 25% of exports under preferential agreements. Machinery and mechanical appliances and motor vehicles remained the most important in terms of value, accounting for around 30% of total exports of non-agricultural products to the 65 preferential partners. Electrical machinery and equipment, and pharmaceutical products each accounted for



roughly 9%. The largest annual increases in exports were for aircraft (+50%), leather (+43%) and pearls and precious stones (+35%).

EU exports in **agri-food products** grew by 8.7% in 2019. Beverages were top in terms of value, accounting for 15% of preferential agri-food exports (+8.6%). Cereals, dairy products and meat accounted for roughly 8% each and grew by 39%, 13.2% and 0.7%, respectively.

This report cannot examine **preference use for EU exports** due to the late availability of data and the number of agreements covered. The European Commission uses ex-post evaluation studies<sup>12</sup> or implementation studies to look at preference use and will intensify its efforts in this area. The European Commission is collecting data on preference use from its partner countries. It will publish it on its website to enhance transparency and encourage business associations and Member States to conduct their own research. The European Commission continues working with trading partners to get reliable data on preferential exports and continues its dialogue with Member States, business associations and sectors to better understand why tariff preferences are not used to the full.

### *Trends in imports of goods*

91% of all imports from the 65 preferential partners are industrial products; these increased by 2% in 2019. The top three categories were machinery and appliances (+3%), chemicals (+16%) and mineral products (- 7%). Agri-food imports rose by 8.3%. The top imports were edible fruits and nuts (+3.9%), cocoa preparations (+6.5%), coffee and tea (- 0.2%) and cereals (+22.9%).<sup>13</sup>

### *Industrial goods and agri-food*

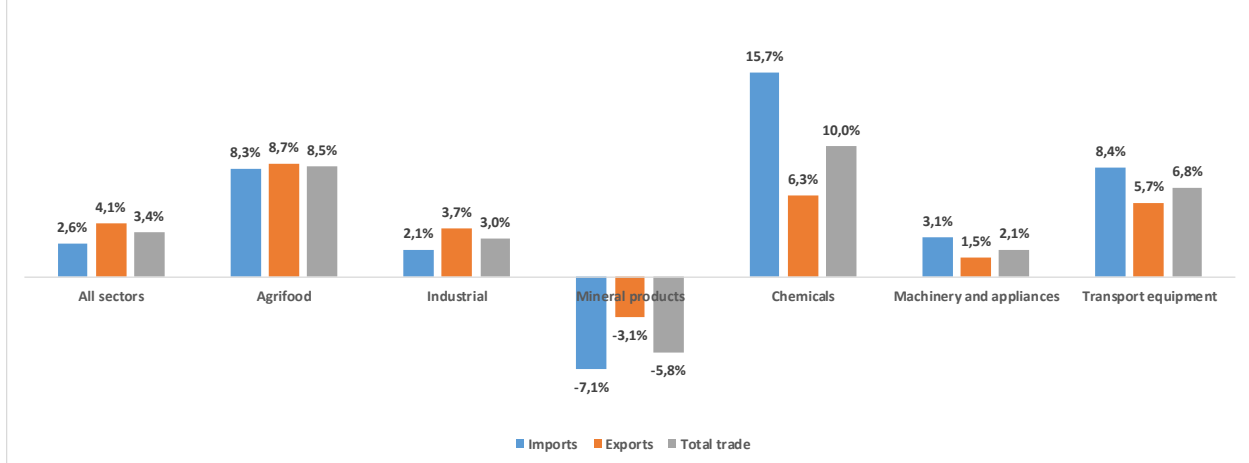
Trade in industrial products with the 65 partners saw 3% growth, while agri-food trade grew at 8.5%. EU trade in industrial products had a surplus of €106.6 billion, a rise of €11.8 billion compared to 2018. EU-agri-food trade had a surplus of €6.4 billion, a rise of €651 million compared to 2018.

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<sup>12</sup> See for example ex-post evaluation of the EU-South Korea FTA (final report, section 10.7); Ex-post evaluation of the Association Agreements with 6 Mediterranean countries (interim report, pp. 16, 106, 198-200); Ex-post evaluation of the EU-Cariforum EPA (draft interim report, section 4.5)

<sup>13</sup> For more information on developments in agri-food trade see section 6.

Figure 5: Annual trade growth of main sectors with EU preferential partners (2018-2019)

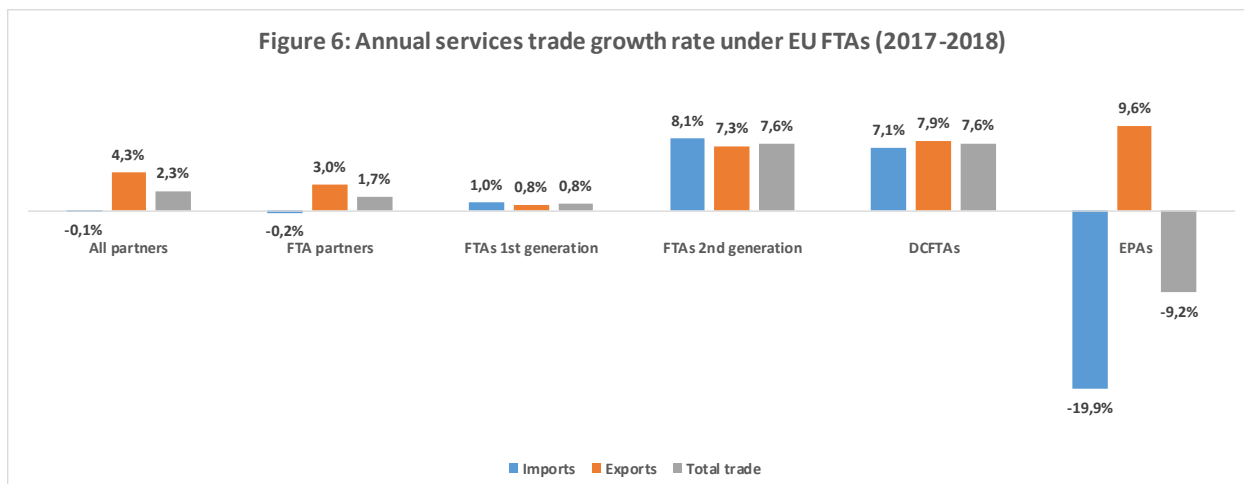


### *Trends in trade in services*

For **trade in services** the latest figures are those for 2018. Trade in services with the 65 partners covered by this report grew by 1.7% in 2018, slower than total EU trade in services (+2.3%), while producing a trade surplus of €80 billion, an increase of 11.5% compared to 2017. Many of the agreements concluded before the 2007 Global Europe Communication<sup>14</sup> do not contain ambitious disciplines on services – for example, the EU’s trade agreement with its second most important trading partner for services, Switzerland. Trade in services with preferential partners covered by this report that took commitments in services<sup>15</sup> grew by 3.3% in 2018, thus more strongly than EU total trade in services. Trade in services grew noticeably more with preferential partners of more recent trade agreements (+7.6%) than with earlier partners (+0.8%).

<sup>14</sup> <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0567:FIN:en:PDF>

<sup>15</sup> Norway, Ukraine, Moldova, Georgia, Chile, Central America, the Andean countries, Mexico, Canada, Cariforum, South Korea and Japan.



### 3. OVERVIEW OF MAIN FINDINGS PER REGION

#### 3.1 ASIA

In 2019, the EU applied preferential trade agreements with three Asian economies: South Korea, Japan and Singapore.<sup>16</sup> These agreements help EU companies stay competitive in view of recently concluded trade agreements among third countries such as the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership*<sup>17</sup> to which both Japan and Singapore are parties. They also contribute to strengthening international standards, which are the backbone of the non-tariff related commitments in the three agreements. In particular, the most recent agreements with Singapore, a member of the Association of South East Asian Nations (ASEAN) and with Japan represent important pivots to the entire region, from which EU business can expand operations into neighbouring countries. The Free Trade Agreement (FTA) between the EU and South Korea has been applied for eight years and, according to its ex-post evaluation<sup>18</sup> published in March 2019, resulted in gains for both the EU economy (+€4.4 billion) and for the South Korean economy (+€4.9 billion) despite a difficult post-financial crisis period, dampening demand and international trade.

##### 3.1.1 South Korea

In 2019, **economic growth in South Korea remained subdued** as the global slowdown and trade tensions held back exports, while high uncertainty weighed on investment. The **decrease in EU industrial exports** to South Korea by 1.3% could be explained to some extent by weak domestic demand due to the downturn in the semi-conductors cycle and the US-China trade dispute, among others. **Trade in services continued to expand** by 3.6% in 2018 when compared to 2017, more strongly than the EU's trade with the rest of the world. The EU-South Korea FTA

<sup>16</sup> The EU agreement with Singapore entered into force on 21 November 2019.

<sup>17</sup> <https://www.mti.gov.sg/Improving-Trade/Free-Trade-Agreements/CPTPP>

<sup>18</sup> [https://trade.ec.europa.eu/doclib/docs/2019/march/tradoc\\_157716.pdf](https://trade.ec.europa.eu/doclib/docs/2019/march/tradoc_157716.pdf)

has also stimulated growth in FDI between the two partners. Latest available data shows that in 2018 the stock of EU FDI in South Korea rose by 4% to reach €46 billion while the stock of South Korean FDI in the EU grew by 1% to €25 billion.

### **Progress in implementation in 2019**

- **South Korea allowed beef exports** from Denmark and the Netherlands;
- The EU-South Korea GIs Working Group has eased the way towards **extension of the geographical indications' (GI) list** protected by the agreement.

### **Outstanding issues**

- 10 Member States are still waiting to export beef to South Korea; South Korea does not accept the principle of regionalisation for animal diseases, which is relevant for creating predictable and stable trade conditions for meat and poultry products.
- South Korea still needs to establish an effective remuneration system for public performance rights.
- The EU pursued its case against South Korea under the Trade and Sustainable Development chapter of the agreement, because of Korea's non-compliance with its commitments to ratify core ILO conventions and protect labour rights. In July, the EU requested a panel of experts, which was established in December.<sup>19</sup>

### **3.1.2 Japan**

2019 was the first full calendar year the EU-Japan Economic Partnership Agreement was applied.<sup>20</sup> Japan is the EU's **seventh largest trading partner**, accounting for 3% of its external trade.

In 2019, **trade in goods** between the parties grew by **5.8%**. Traditional EU exports to Japan, such as pharmaceuticals, transport equipment and machinery benefitted from steady growth. Product categories benefitting from tariff cuts saw higher growth, including textiles, clothing and footwear, which grew on average by about 10%.

Japan was the 2<sup>nd</sup> largest destination among preferential partners covered by this report **for EU agri-food exports**, which **grew by 16%** in 2019. The agreement is thus starting to realise its huge potential for increasing EU exports of many products, such as pork, beef, cheese, processed agricultural products and wine. One noticeable achievement is Japan's step-by-step approval and recognition of EU oenological practices.

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<sup>19</sup> For more information on the pending dispute, see section 8, "Legal Enforcement".

<sup>20</sup> A Summary of the main achievements on the first anniversary of the agreement is available at: <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2107>

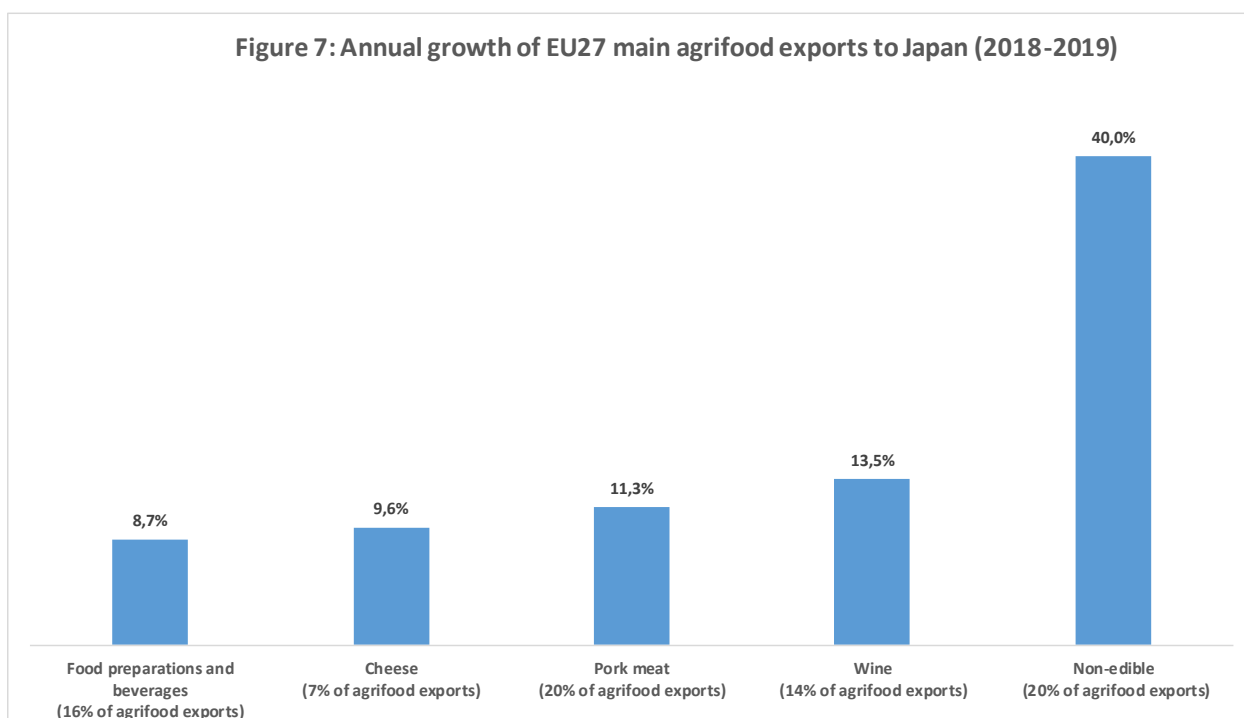
### German fruit wines a winner in the land of the rising sun

German fruit wine producer Katlenburger Winery, a company with 90 employees founded in 1925, welcomes the EU-Japan trade agreement. It has removed the tariff on Katlenburger's products, which used to be 33 eurocents per litre, helping the company to compete in an increasingly price-sensitive market.

**"Small businesses in particular depend on exports because the domestic market is becoming more challenging and dominated by larger firms with big advertising budgets."**

*Klaus Demuth, CEO, Katlenburger Kellerei GmbH & co. KG*

Figure 7: Annual growth of EU27 main agrifood exports to Japan (2018-2019)



In 2019, more than **half of all EU goods eligible** for tariff preferences under the EU-Japan Economic Partnership Agreement actually **benefitted from tariff preferences** (53%). Most EU agricultural exports enjoyed the tariff preferences (86% on average), with particularly high rates for meats (99%) and wine (93%). The rates for industrial goods, due to complex supply chains and relatively smaller preference margins, were significantly lower for both Japan and the EU, i.e. in the order of 35%, on average. By way of example, EU exports of chemicals and textiles could have saved an additional €115 million and €92 million, respectively. Preference utilisation typically grows over the years as businesses often need some time to adjust to the new trading conditions – for example by reviewing supply chains and internal accounting mechanisms. To raise awareness, the European Commission also intensified cooperation with Member States and

business, and engaged in joint undertakings with Japan, notably information actions by the EU-Japan Centre for Industrial Cooperation.<sup>21</sup>

### **Progress in implementation in 2019**

- Japan agreed to apply a **simplified customs procedure** for claiming and obtaining tariff preferences, addressing initial difficulties experienced by businesses.<sup>22</sup>
- Japan **improved the quota management procedures** for importing certain agricultural commodities and processed agricultural products to make it easier to use quotas.
- Japan took **concrete steps for preparing to implement the trade and sustainable development provisions**, including establishing a domestic advisory group. Japan still has to ratify two fundamental ILO conventions on non-discrimination and on forced labour.

### **3.1.3 Singapore (preparations for entry into force)**

The **EU-Singapore Free Trade Agreement** has been in force since 21 November 2019. It is expected to benefit EU exports and investors, including the more than 10,000 EU companies established in Singapore. Singapore is the EU's largest trading partner in Southeast Asia, accounting for one-third of EU trade with the region and over two-thirds of EU foreign direct investment stock in the region.

In 2019, the **European Commission stepped up preparations for the entry into force of the agreement** through communication to stakeholders on both sides and already enhancing its monitoring role towards the Singaporean authorities in the pre-implementation phase. Among the early achievements was the registration and protection in Singapore of the names of 138 EU Geographical Indications under Singaporean law.

## **3.2 THE AMERICAS**

### **3.2.1 Canada**

The EU-Canada Comprehensive Economic and Trade Agreement (**CETA**) has been provisionally applied since 21 September 2017, with the exception of a few provisions, notably those relating to the investment court system. In 2019, an important step forward was made on the future implementation of the **Investment Court System (ICS)**<sup>23</sup>: in October, the European

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<sup>21</sup> <https://www.eu-japan.eu/>

<sup>22</sup> Actions to be implemented by the customs authorities can be consulted here: [https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc\\_157973.pdf](https://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_157973.pdf)

<sup>23</sup> The ICS provisions are not provisionally applied and they will only enter into force when all EU Member States have ratified CETA

Commission adopted four proposals<sup>24</sup> that will help to ensure the ethics and integrity standards of the adjudicators and the system's effective appeal function. This will be the first such appeal function to become operational in international investment agreements.

During CETA's second year of provisional application the **European Commission made further progress in effectively implementing the agreement**, building on the 20 Committees and Dialogues set up in 2018. The European Commission raised some trade irritants, mainly concerning agricultural exports. In parallel, the European Commission continued to intensify and enrich its cooperation agenda with Canada on issues of common interest (such as SMEs, gender and climate change) at a bilateral and at a multilateral level.

#### **Progress in implementation in 2019**

- *Cheese tariff rate quotas*: work continued with Canada to review the CETA Tariff Rate Quota (TRQ), so as to improve its functioning. Canada is now the EU's fourth largest market for cheese exports by value.
- *Discriminatory practices in the wines and spirits sector*<sup>25</sup>: these were discussed in the Wines and Spirits Committee. Some progress was achieved as British Columbia removed the regulations which only allowed British Columbian wine to be sold in grocery stores. Barriers remain however in other provinces.
- *Cost of Services Charges*: as a result of audits carried out in Ontario and in Quebec at the request of the EU side, the Cost of Service charges applied on EU wines and spirits products in these provinces should decrease. These charges relate to the cost differences incurred by provinces in handling imported and domestic products.

#### **EU-Canada cooperation in areas of common interests**

- *Climate change*: following a conference in January to discuss how best to use CETA to meet the EU's and Canada's commitments under the Paris Agreement, a workshop took place for EU and Canadian clean tech companies in November, bringing together SMEs active in sectors such as solar, waste, energy efficiency, and carbon capture and storage.
- *Regulatory Cooperation*: the EU and Canada began exchanging information on consumer products safety alerts and Canada's revised regulatory framework for transporting live animals, which entered into force in February 2020. Canada agreed to stop double testing for EU sunscreens imported to Canada.

<sup>24</sup> The proposals concern 1) the rules for the Appellate Tribunal, (2) the code of conduct for Members of Tribunals, (3) the rules for mediation and (4) the procedure to adopt binding interpretations.

<sup>25</sup> The tax on imported spirits was challenged in the World Trade Organization by Australia with the EU as a third party.

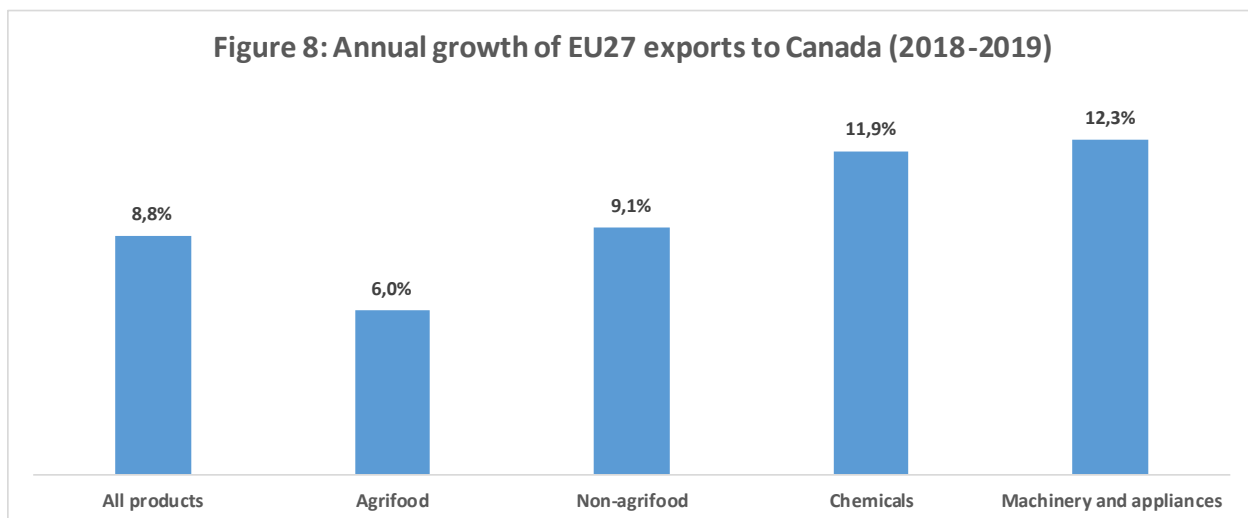
### French pepper spices up Canadian cuisine

Maritxu and Eric Amestoy have been growing chili peppers on their small farm in the Basque Country for 10 years and have been exporting their ‘piment d’Espelette’ to Canada since 2016. They have diversified their production to include vegetables and eggs. The farm does not use any chemical products.

CETA cut tariffs, simplified administrative procedures and reinforced the protection of the Geographical Indication (GI) for ‘piment d’Espelette’. As a result, demand has grown and Amestoy’s production grew from 30 to 200 kg.

### Bilateral trade – trends in 2019

Facilitated by CETA, **bilateral trade in goods and services continued to grow**, reaching €92 billion, a 24.5% increase compared to pre-CETA trade, which averaged €73.9 billion in 2015-2017. Among industrial goods, machinery and pharmaceuticals recorded the highest growth in EU exports compared to 2018, up 15% and 18%, respectively.



The **preference utilisation rate on EU goods’ exports to Canada** for EU27 rose from 38% in 2018 to 48%. The overall preference utilisation rate or PUR continues to be affected by the low preference utilisation on EU exports of cars and car parts (26%), constituting 39% of EU27 eligible exports to Canada. The European Commission proactively engaged with sectoral industry associations, interested companies and experts to better understand the reasons. Industry, especially the auto industry, explained that the agreement remained relatively new and companies needed more time to put in place the processes and IT systems to get the necessary data from suppliers. The auto industry also confirmed that it intended to claim the tariff preferences retroactively, as CETA allowed this for up to three years. Overall, industry highlighted the need to further strengthen outreach towards EU companies on CETA’s benefits



and how to use them. To make it easier to use preferences, in 2019 the European Commission continued to provide specialised guidance, publishing a guide on Rules of Origin in CETA in September 2019<sup>26</sup> and a fact sheet on textiles and clothing, available in multiple EU languages<sup>27</sup>.

### 3.2.2 Latin American partner countries

The EU has **four trade agreements with 11 countries in Latin America**: Mexico, Chile, the Andean partners Colombia, Ecuador and Peru, and the 6 Central American partners (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). Once the Mercosur agreement is in place, the EU will have preferential trade relationships with virtually all Latin American countries, except for Bolivia and Venezuela – more than any other region, and on a par with EFTA. The agreement with Mexico for example dates back to the early 2000s and was modernised so as to increase trade, promote SME participation and bring in new disciplines such as on services (digital, maritime, financial, etc.), energy or investment that will increase opportunities for EU businesses and benefit consumers, while trade and sustainable development chapters set out commitments on labour and environment, including on the Paris Agreement and the fundamental ILO conventions. A similar modernisation is ongoing with Chile.

For Latin American partners, the EU's removal of its tariffs on most products helps them to diversify their exports and to better integrate into value chains and the global economy. For EU companies, the agreements bring new opportunities in emerging markets with high growth potential, as well as access to critical raw materials and inputs for industry and agriculture.

**The EU's role in Latin America remains strong:** The EU is the largest source of development cooperation and of Foreign Direct Investment in Latin America and is the third largest trading partner after the US and China. While the US has maintained its long-standing position as Latin America's largest trading partner, China has overtaken the EU as the second largest partner in recent years. Patterns vary, with Mexico and Central America most closely tied to the US economy, the mineral-rich Andean countries strengthening trade with China, while China and the EU are the most important partners for Mercosur countries.

### Bilateral trade: Trends in 2019

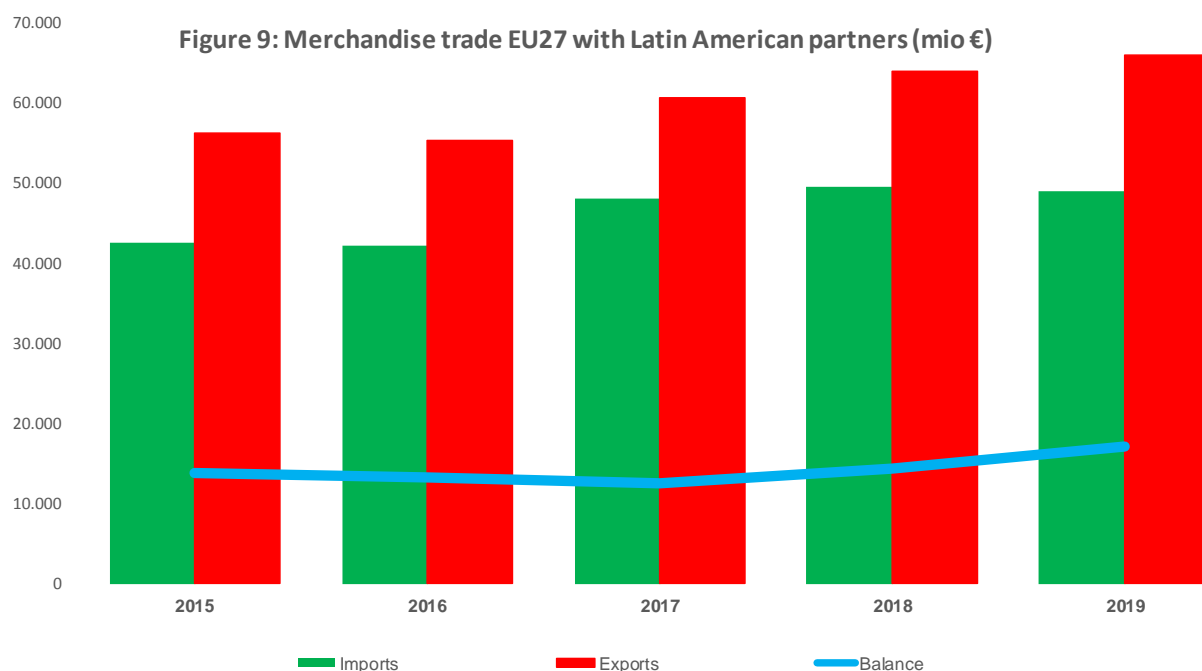
EU trade agreements have, over time, **helped to solidify the position of the EU as an investor and trading partner** in the region. The agreements also helped to counter the erosion of tariff preferences that have resulted from trade agreements Latin American partners have concluded with countries such as the US or China.

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<sup>26</sup> [https://ec.europa.eu/taxation\\_customs/sites/taxation/files/ceta\\_guidance\\_en.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/ceta_guidance_en.pdf)

<sup>27</sup> [https://trade.ec.europa.eu/doclib/docs/2019/november/tradoc\\_158417.pdf](https://trade.ec.europa.eu/doclib/docs/2019/november/tradoc_158417.pdf)

Trade between the EU and its current EU Latin American trading partners plus Mercosur amounted to €192 billion, with the EU having a surplus of €22 billion. **EU exports of goods** to the 11 Latin American countries with which it has trade agreements **increased by 12%**, from just under €59 billion in 2015 to €66 billion. The EU has kept a market share in imports of these countries of around 12%, while that of the US has decreased slightly from 42.5 to 40.3 % and that of China has also been steady at around 19%<sup>28</sup>.



Trade agreements can open **new markets for EU agri-food products**. In the last decade, **exports of EU agricultural products to Latin American** countries with trade agreements with the EU more than **doubled**. This is largely due to removal of or cuts in tariffs under the trade agreements, which were often at relatively high levels for agricultural products.

**Bananas** continue to be the main commodity exported to the EU by Central America and the Andean community and exports were subject to a **stabilisation mechanism**, which expired at the end of December 2019. According to this mechanism, when the annual trigger volume of imports per country as set in the Agreement is met, the European Commission examines the impact of these imports on the situation of the Union market for bananas and takes a decision to either temporarily suspend the preferential customs duty or determine that such suspension is not appropriate. In 2019, the total annual imports of fresh bananas from Latin and Central American countries subject to the banana stabilisation mechanism accounted for 72.9% of the cumulated trigger level. Among the partner countries concerned, only Peru, Nicaragua and Guatemala

<sup>28</sup> Source: IMF DOTS Trade

exceeded their trigger volumes. The European Commission concluded that a temporary suspension was not appropriate, as the share of imports from these countries in the overall imports of bananas was very small at the moment the respective thresholds were exceeded.

In 2019, at the request of the **Andean and Central American partners**, discussions took place, based on provisions in the respective Agreements, to examine further **tariff liberalisation for bananas**. After considering all relevant factors, including the stability of the EU market, it was concluded that tariffs for fresh bananas from Central American countries and Colombia/Ecuador/Peru **should be maintained at their current level** of €75/tonne.

### Progress in implementation in 2019

#### Examples for progress on trade and sustainable development

- Thanks to a **new EU-funded support programme**, civil society representatives from the EU and from Colombia, Ecuador and Peru met in Bogotá, Colombia, while representatives from the EU and from the six Central American countries met in Antigua, Guatemala.
- An **EU-funded programme on responsible business conduct in Latin America** was launched, implemented in a partnership with the OECD<sup>29</sup>, International Labour Organization<sup>30</sup> and United Nations Office of the High Commissioner for Human Rights<sup>31</sup>.

#### Advancing on market access issues in 2019

- **Ecuador** removed additional duties ('fiscal stamps') on imported alcoholic beverages, thus allowing EU alcoholic beverages to compete on an equal footing with local beverages.
- **Mexico** relaxed restrictions on importing pears from Belgium and kiwi fruits from Italy, and authorised imports of pork from the Netherlands.
- The EU initiated a **WTO dispute against Colombia's anti-dumping measures** on frozen potatoes from Belgium, Germany and the Netherlands.<sup>32</sup>

**EU trade agreements help forge partnerships between the EU and Latin America, be it on multilateralism or sustainability goals**, as do the broader association agreements the EU concluded with Latin American countries. Latin American countries played and continue to play an important role at the WTO: over a third of the countries that support the EU's proposal for a WTO Multi-Party Interim Appeal Arbitration Arrangement are in the region. The EU and the Andean countries and Central America also discussed nationally determined contributions under the Paris Agreement, even though the trade agreements predate the latter.

<sup>29</sup> <http://mneguidelines.oecd.org/rbclac.htm>

<sup>30</sup> [https://www.ilo.org/americas/programas-y-proyectos/WCMS\\_735906/lang--en/index.htm](https://www.ilo.org/americas/programas-y-proyectos/WCMS_735906/lang--en/index.htm)

<sup>31</sup> <https://www.ohchr.org/EN/Issues/Business/Pages/JointProjectResponsibleBusinessConduct.aspx>

<sup>32</sup> <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2083>

### 3.3 EU NEIGHBOURING COUNTRIES

#### 3.3.1 Mediterranean and Middle Eastern partners

The **Free Trade Areas** concluded under the broader Association Agreements with the Southern Mediterranean and Middle Eastern countries (the ‘trade agreements’) entered into force in early 2000. The EU and the eight Southern Mediterranean and Middle Eastern countries **Algeria, Egypt, Jordan, Lebanon, Israel, Palestine**<sup>33</sup>, **Morocco and Tunisia** are traditionally very close partners linked by historical and cultural ties and geographical proximity. The EU is the number one trading partner for all countries except for Jordan and Palestine, and for the region as a whole. Under the **European Neighbourhood Policy**, the EU offers these countries a privileged relationship, building on a mutual commitment to common values – democracy and human rights, the rule of law, good governance, market economy principles and sustainable development.

Most industrial goods between the EU and these partners are now **traded duty free**.<sup>34</sup> Egypt finalised the process of fully dismantling tariffs on industrial goods on 1 January 2019 by removing duties on EU car exports. In January, the European Commission launched an **ex-post evaluation** of six of the trade agreements. The **interim report**<sup>35</sup> was published in April 2020. Preliminary findings show that removing customs duties has brought **economic benefits for the Southern Mediterranean and Middle Eastern countries**. The final report is expected for December 2020.

Given that the existing trade agreements focus on trade in goods, a number of **bilateral negotiations are on-going** or being initiated in the region, notably with Tunisia and Morocco, to deepen the commitments and to extend the scope to other areas, such as agriculture, services, investment, trade rules, regulatory convergence, and trade and sustainable development.

#### **Bilateral trade: Trends in 2019**

Although the region only represents 4% of EU external trade, it is a very important market for EU exports, with **opportunities especially for SMEs in some traditional sectors**, such as textiles and ceramics. The region also remains an important source for imports, especially in the energy and agri-food sectors.

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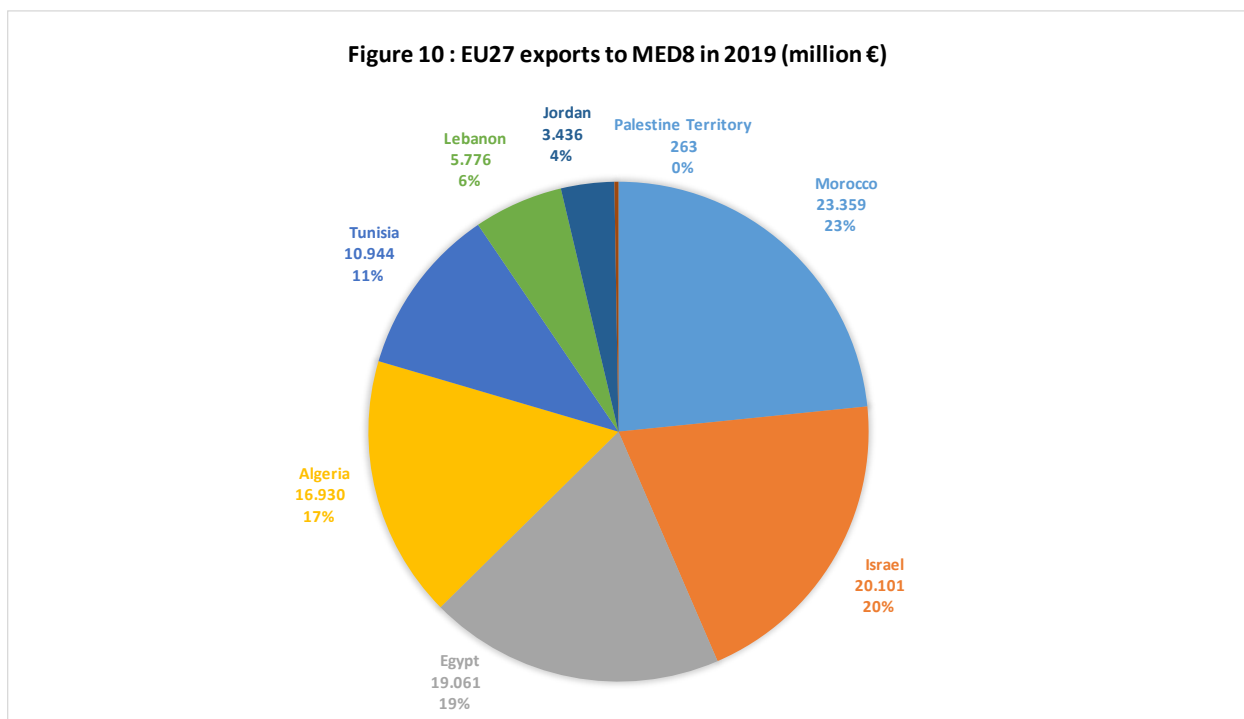
<sup>33</sup> This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

<sup>34</sup> Only Algeria was allowed to postpone the last stage of the tariff dismantling on a number of industrial products for which custom duties were still levied, albeit in reduced form, until September 2020 (instead of September 2017).

<sup>35</sup> <https://case-research.eu/en/ex-post-evaluation-of-the-impact-of-trade-chapters-of-the-euro-mediterranean-association-agreements-with-six-partners-algeria-egypt-jordan-lebanon-morocco-and-tunisia-interim-technical-report-101329>

In 2019, trade between the EU and the region amounted to roughly €150 billion in industrial goods and €15 billion in agricultural goods. **Trade slightly decreased year-on-year** by 0.17% or €248 million. Between 2018 and 2019, EU exports to the region fell by 0.38%, from €100 billion to €99 billion, mainly due to trade restrictive measures imposed by some countries. Morocco, Israel and Algeria remained the EU’s largest trading partners in the region.

In 2019, Morocco was the region’s main **market for EU exports**, followed by Israel and Egypt.



Looking at **trade by sector**, 90% of EU trade with the region is in industrial goods (energy sector and manufactured goods), with exports decreasing by 0.5% and imports stagnating. By contrast, **agri-food trade rose by 6.2%** – 6.4% for EU exports or €623 million and 6% for imports. This shows there is **unused potential in further liberalising agricultural trade**, especially for Tunisia and Algeria.<sup>36</sup> Algeria and Israel were the EU’s biggest agri-food destinations in the region. The main EU exports were wheat and other cereals, infant food and live animals.

According to the *World Bank’s Doing Business Index 2020*, the **business climate for most Southern Mediterranean countries improved in 2019**, in particular for Jordan, which was among the top 10 improvers.<sup>37</sup> In 2018, the **EU remained the largest investor in many of these**

<sup>36</sup> Additional agreements on agricultural, processed agricultural and fisheries products are already in force between the EU and Egypt, Israel, Jordan, and Morocco, but not yet Tunisia.

<sup>37</sup> Algeria’s index score remained the same with very low ranking, while Lebanon and Palestine’s index deteriorated.

**countries**, representing more than half of FDI in Morocco<sup>38</sup> and 85% in Tunisia.<sup>39</sup> In Egypt, the EU is the second largest foreign investor with 21% of FDI after the UK (39%), exceeding \$15 billion (around €12.7 billion), with the 6,339 companies active there providing more than 192,000 jobs.<sup>40</sup> In Morocco, the automotive sector generated more than 85.000 direct jobs in 2014-2018, bringing the sector's total 163, 000 by 2018. Some countries, notably Israel, are an important source of FDI in the EU.

#### **Progress in implementation in 2019:**

- **Egypt**, as a result of reinforced dialogue at political and technical level, removed the requirement of **veterinary checks of live animals** in the EU, destined for export to the country; Egypt also accepted EU standards for most of the requirements for seed potatoes, and made it easier to import infant formula.
- **Tunisia**, following EU interventions in the WTO and bilaterally, **lifted non-automatic import licenses** on a wide variety of products affecting a huge chunk of bilateral trade with the EU; these measures were incompatible with both the bilateral agreement and WTO rules.

#### **Main outstanding issues - examples**

- **Algeria** kept its **import ban on vehicles** (since 2015) and medicines for which there exists a locally-produced equivalent. Charges having an effect equivalent to custom duties remain in place on over 900 products, while on another 129 tariff lines it levies higher custom duties than allowed under the free trade agreement.
- **Egypt** kept and extended its **registration scheme and pre-shipment inspections** for 25 categories of manufactured goods (in place since 2016). However, the creation of a special Registration Committee in Egypt's Ministry of Trade and Industry in April 2019 was a step forward as it allowed for advancing the registration of some EU exporters.

Frequent contacts at technical but also **ministerial level** over the past decade and a half have helped to forge a closer partnership between the EU and its Mediterranean and Middle East partners at **multilateral level**. By way of example, the EU is helping Algeria and Lebanon with their applications to join the WTO, and is supporting Palestine's request for observer status at the WTO General Council and its subsidiary bodies.

### **3.3.2 Georgia, Moldova, Ukraine**

The **Deep and Comprehensive Free Trade Areas** (DCFTAs) applied between the EU and Georgia and Moldova since 2016 and the Ukraine since 2017 form part of the wider **Eastern Partnership framework**, a joint policy initiative that began in 2009 to deepen and strengthen

<sup>38</sup> Office des Changes

<sup>39</sup> OECD Investment Policy Reviews: Tunisia 2012

<sup>40</sup> Egypt's General Authority for Investment and Free Zones

relations between the EU and its Member States and their six Eastern neighbours<sup>41</sup>. DCFTAs are essential tools not only for mutual market access, but also to pursue a values agenda, to further democracy and transparent and independent institutional structures, and to help partner countries transform their economies and engage more in international trade. The DCFTAs have two key elements: **trade liberalisation** and **regulatory approximation**.

**Trade liberalisation** (the ‘free trade’ component of the DCFTAs) means removing tariffs and reducing non-tariff barriers to trade in goods, services and investment, thus increasing market access for goods and services for both sides. The parties to each of the agreements regularly exchange information and monitor developments in trade. For all three DCFTA countries, the EU is the biggest trading partner. Total trade with the DCFTA countries has overall slightly increased year on year, reaching €50.6 billion in 2019. EU-Ukraine bilateral trade has increased steadily in both directions and reached € 43.3 billion in 2019. Ukraine is also the 4<sup>th</sup> largest exporter towards the EU of agriculture products. In 2019, the overall trade between the EU and Georgia decreased on a year-on-year-basis by 3%, amounting to €2.6 billion and the total trade between the EU and Moldova grew by 3.9% compared to 2018, to reach slightly over €4.7 billion.

**Regulatory approximation** is the ‘**deep and comprehensive**’ component of the DCFTAs. The EU partner countries commit to approximate their legislation to the EU legislation (the ‘acquis’) in a number of trade-related policy areas, such as sanitary and phytosanitary matters, technical specifications and standards (lowering technical barriers to trade), public procurement, services and customs procedures. The relevant EU laws are listed in the annexes to the Association Agreement/DCFTAs, which are regularly updated. The European Commission monitors the process, taking into account the development of the EU acquis in the areas covered by the Association Agreement /DCFTA.

### **Progress in regulatory approximation in 2019 – examples**

- **Ukraine** adopted a **Sanitary and Phytosanitary strategy**, containing over 240 EU laws currently being implemented by Ukraine, and for the first time including animal welfare standards. The EU is providing both human and financial support to Ukraine with this. Georgia and Moldova have also committed to bring their national legislation in line with that of the EU.
- The EU and **Moldova** agreed to **broaden some of their tariff concessions**, the latter increasing tariff-rate quotas originally agreed under the review mechanism foreseen in the DCFTA. This will provide additional export opportunities for local farmers and producers.
- **Georgia** made good progress on **labour reforms**: Amendments to the national labour legislation (Labour Code and Law on occupational safety and health) were adopted in 2019,

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<sup>41</sup> Georgia, Moldova, Ukraine, Armenia, Azerbaijan and Belarus.

bringing it closer to fundamental ILO conventions and EU standards, including regarding labour inspections.

### 3.3.3 Western Balkans

The EU has concluded **Stabilisation and Association Agreements** (SAAs) with all six of the Western Balkans: Albania, Bosnia-Herzegovina, North Macedonia, Montenegro, Serbia and Kosovo. All of the Western Balkans have a clear European perspective, most recently reaffirmed at the Western Balkans Summit of 6 May 2020. This is reflected in the content and scope of SAAs, which **have elements going beyond other preferential trade agreements** as they foresee **alignment of legislation** with the EU acquis. The SAAs also provide for removal of all quantitative restrictions. However, they do not contain certain other elements found in the EU's more recent preferential trade agreements, such as provisions on trade and sustainable development.

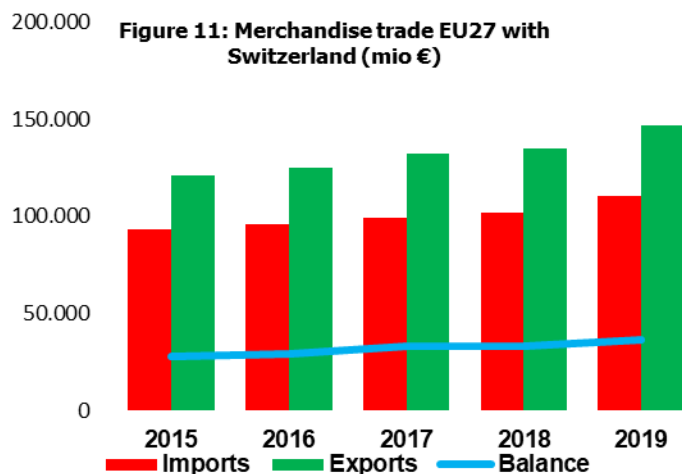
Over the last 10 years, the SAAs have facilitated trade between the EU and the region, contributing to an increase by almost 130%, reaching €55 billion in 2019, an increase of 3.8% compared to 2018. The most traded products are machinery, base metals, mineral and chemical products. In 2019, EU exports to the Western Balkans grew by 4.4%, resulting in a trade surplus for the EU of €8.9 billion. Imports from the Western Balkans grew by 3%.

Although the six Western Balkan countries together only represent 1.4% of the EU's total trade, effective implementation of the SAAs is an extremely important means of bringing about further integration of these neighbouring countries into the EU market, improving the business and investment climate and promoting EU standards. For each of the Western Balkan countries, the EU is the leading trading partner, accounting for almost 70% of the region's total trade.

### 3.3.4 Switzerland

In 2019, total bilateral trade in **goods** with Switzerland reached over €257 billion, making **Switzerland the EU's fourth biggest trading partner overall**, and the EU's top trading partner country under preferential trade agreements. Compared to 2018, **bilateral trade flows grew by 9%** and the **EU** maintained a trade **surplus** in the order of €36 billion.





With trade in services valued at over €170 billion in 2018, **Switzerland is the EU’s third most important trading partner for services**. The EU has a surplus of €39.5 billion.

Given the very high level of integration between the EU and Switzerland, the latter is also a very important partner in terms of **investment**. In 2018, Swiss stocks of **Foreign Direct Investment** in the EU reached €750 billion, a **58% increase** since 2014, while the EU’s FDI stocks in Switzerland reached over a trillion euros, a 40% increase since 2014. **Switzerland gets about 12% of total EU27 FDI**.

With trade in services valued at over €170 billion in 2018, **Switzerland is the EU’s third most important trading partner for services**. The EU has a surplus of €39.5 billion.

Given the very high level of integration between the EU and Switzerland, the latter is also a very important partner in terms of **investment**. In 2018, Swiss stocks of **Foreign Direct Investment** in the EU reached €750 billion, a **58% increase** since 2014, while the EU’s FDI stocks in Switzerland reached over a trillion euros, a 40% increase since 2014. **Switzerland gets about 12% of total EU27 FDI**.

The EU’s Free Trade Agreement with Switzerland is its longest standing one and has limited scope<sup>42</sup>, shallower disciplines and lacks an effective dispute settlement mechanism when compared to the EU’s modern trade agreements, some of which were concluded with more distant partners of lesser economic relevance. Despite the flourishing trade, however, in 2019 Switzerland was unable to make further progress on adopting the negotiated Institutional Framework Agreement (IFA). The IFA would pave the way for further modernising EU-Swiss trade relations, as it would introduce an independent dispute settlement, legal certainty and a level-playing field, which will benefit EU and Swiss market operators on the internal market. The IFA would also mean further market access in new areas (e.g. electricity) and establish state

<sup>42</sup> Only trade in industrial products is covered. For the rest (services, intellectual property rights, trade in agricultural products), the situation is of either no rules (beyond WTO rules) or they are split between different agreements.

aid rules as well as a **commitment by the parties to modernise the free trade agreement of 1972** and other trade-related agreements.

### 3.3.5 Norway

Trade relations between the EU and Norway are conducted both under the **European Economic Area (EEA)** and the **bilateral Free Trade Agreement of 1973**. Although still in force, the bilateral trade agreement has in practice been superseded in many respects by the Agreement on the EEA, which allows for the free movement of goods, services, capital and people.

In 2019, **total bilateral trade in goods** between the EU and Norway amounted to €106 billion, a **drop by 5%** compared to 2018, mainly resulting from the 16.5% drop in mineral oil imports from Norway. Overall, Norway's total exports to the EU-27 went down by 11% while EU-27 exports to Norway rose by 3%. The fall in Norway's exports to the EU and the UK's exit from the EU meant Norway moved from being the EU's sixth largest trading partner to the eighth.

Trade in **agricultural goods** between the EU and Norway reached almost €5 billion, with a clear surplus for the EU, which exports more than eight times the value of the agricultural goods it imports from Norway. Both imports and exports have increased steadily since 2009.

The **review of the trade regime for processed agricultural products remains an open issue**. It was raised in the joint committee in 2019 in an effort to address the high customs tariffs that hinder EU exports of some processed agricultural products to Norway. The EU also continued to insist on resuming negotiations on the protection of geographical indications.

Norway is the EU's eighth-largest trading partner country for **services**. Of the €40 billion of trade between them in 2018, Norway's exports were €14 billion and the EU's €26 billion, giving the EU a surplus, a position that has remained stable over the last five years.

### 3.3.6 Turkey

Turkey is the EU's oldest and second-largest preferential trading partner country and its **sixth largest trading partner overall**. The Turkish economy recovered faster than expected from the currency crisis that began in summer 2018 but remained in recession for much of 2019 and GDP growth was weak at 0.9%. Due to the depreciation of the Turkish lira, Turkey significantly cut its global trade deficit. Trade in goods with the EU moved to a deficit of €1.5 billion in favour of Turkey, following long-standing EU surpluses, with EU exports to Turkey falling by 1.3% to €68.3 billion while imports from Turkey rose by 4.4% to €69.8 billion.

Trade relations between the EU and Turkey are governed by the **Customs Union** of 1995 for industrial goods and certain processed agricultural products, plus two bilateral preferential trade agreements covering agricultural and coal and steel products, respectively. 82% of EU trade with Turkey is in **industrial goods**. Due in large part to these trade agreements and in particular the Customs Union, **bilateral trade has increased more than fourfold since the mid-nineties**. To extend the scope of bilateral preferential trade and modernise the Customs Union, on 21 December 2016 the European Commission adopted a Recommendation for a Council Decision authorising the opening of negotiations with Turkey. However, discussions are currently on hold following General Affairs Council Conclusions of 26 June 2018 and of 18 June 2019.

In 2019, **Turkey upheld trade barriers in breach of the Customs Union agreement**, notably in continuing – and broadening – its longstanding deviation from the Common Customs Tariff, through the imposition of additional duties on products originating outside the EU or Turkey’s preferential trading partners. Because of these duties, Turkey requires information and documents, such as proof of origin, contrary to the principle of free circulation instituted by the Customs Union. In 2019, Turkey also failed again to open its tariff rate quota on beef.

The European Commission raised these issues in the annual Joint Committee meetings as well as frequent bilateral exchanges. The Commission also continued to demand the non-discriminatory implementation of the Additional Protocol to the Association Agreement towards all Member States, including the Republic of Cyprus. On 2 April 2019, the **EU initiated WTO proceedings** against Turkey’s measures for **forced localisation** of manufacturing of pharmaceuticals.<sup>43</sup>

### 3.4 AFRICA, CARIBBEAN AND PACIFIC COUNTRIES

For more than a decade, African, Caribbean and Pacific (ACP) countries have been among the fastest growing economies in the world. Trade between the EU and Sub-Saharan Africa, in particular, has doubled over the past decade and European companies’ investments in Africa stand at €200 billion with enormous potential for expansion. The EU remains the biggest trading and investment partner for most ACP countries, especially for those implementing an **Economic Partnership Agreement (EPA)** with the EU.

In 2019, **31 ACP countries were implementing EPAs** with the EU: 14 in Sub-Saharan Africa, 14 in the Caribbean and three in the Pacific<sup>44</sup>. EPAs are development-oriented trade agreements, under which the EU provides duty-free and quota-free access to its market<sup>45</sup>, while partner countries liberalise at least 80% of their imports over a period of 10 to 20 years. EPAs also include special safeguards to ensure the protection of food security, infant industries or environmental and social objectives. Importantly, significant development assistance is provided by the EU for capacity building on trade policy and making local production more competitive.

**Implementation of EPAs has gained cruising speed**, despite challenges such as limited capacity of public authorities, a weak business climate and limited awareness and ability of companies to make use of the Agreements. While an overall appraisal is still premature, there is a **positive trend regarding export growth and diversification**. In 2019, the EU and five countries<sup>46</sup> of the Eastern and Southern Africa (ESA) EPA launched negotiations to add rules on trade in services, investment, public procurement, intellectual property rights, and, importantly, trade and sustainable development.

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<sup>43</sup> More information on this dispute settlement case can be found in section 8, “Legal Enforcement”.

<sup>44</sup> Solomon Islands signed the Agreement in May 2020, bringing the number to four.

<sup>45</sup> The exception is South Africa, party to the EU-SADC EPA, where the EU has fully or partially removed customs duties on 98.7% of South African imports.

<sup>46</sup> Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe

## Progress in implementation in 2019 – examples

- EU and the **Southern African Development Community (SADC)** held their **first ministerial-level Joint Council** and put in place procedural rules for the agreement's full operation.
- **Ghana and Cote d'Ivoire** adopted domestic legislation to fully implement their commitments and engaged in first discussions with the EU on sustainability aspects in the cocoa value chain.
- The EU and **Cameroon** worked closely together to evaluate the effects of three years of tariff cuts and to design accompanying measures.
- The EU and **CARIFORUM** countries held a Business Forum in Frankfurt in September 2019 and also intensified dialogue on sustainable development and the European Green Deal.

## Bilateral trade: Trends in 2019

**EU imports** from the 31 EPA partner countries **increased by 4.6%** in 2019. For example, Eswatini, Fiji, Cameroon, South Africa and the Dominican Republic experienced double-digit growth rates in their exports to the EU. CARIFORUM's agri-food exports to the EU increased by 11% in 2019, driven by strong exports of rice, beer, cigars, tropical fruit and rum. While these imports remain resource-dependent, **diversification is growing** for some countries. For example, imports from South Africa are diverse, dominated by vehicles, machinery and fruits, as well as mineral products. Mauritius and the Dominican Republic both recently started exporting medical and laboratory equipment. CARIFORUM countries are also diversifying their exports.

EU exports to EPA countries increased by 5%, driven by stronger exports to South Africa and, to a lesser extent, Mauritius and Fiji. EU exporters are increasingly making use of preferences granted under EPAs, in particular by South Africa, the biggest economy among EPA countries.

**The EU is working to solve trade disputes.** In June, it began a formal dispute avoidance and settlement procedure against the Southern African Customs Union (SACU) to address safeguard measures imposed in 2018 on EU poultry products, leading to formal consultations in September 2019 where, unfortunately, the parties could not reconcile their differences.<sup>47</sup>

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<sup>47</sup> For further details, see the section 8 on Legal Enforcement.

### **White asparagus from Namibia**

The Spanish Asparagus Agro-Processing Factory in Namibia's region of Omusati exports white asparagus to local and international markets, particularly Spain and other EU countries. It employs 600 people, mainly women from the local communities. Tariff cuts under the SADC EPA have been key for the business. Cutting-edge technology to minimise water consumption helps ensure sustainability.

*“Thanks to the SADC EPA, we can import capital goods and inputs duty-free into Namibia, and secured long-term access to the EU market. The impact of this project on the local community is very significant.”*

*Carlos Lertxundi Aretxaga, General Manager, Asparagus Agro-Processing Project representing Otjimbele Agriculture PTY*

## **4. TRADE AND SUSTAINABLE DEVELOPMENT**

### *Objectives and challenges*

Trade and sustainable development chapters aim to maximise the leverage of increased trade and investment to achieve progress on key issues, like the promotion of decent work and environmental protection or the fight against climate change. Provisions in trade and sustainable development chapters promote compliance with International Labour Organization (ILO) standards and multilateral environmental agreements.

The **implementation of trade and sustainable development chapters has specific challenges**. For example, there remain gaps regarding the universal ratification and effective implementation of ILO fundamental conventions, including among EU trading partners. Complying with trade and sustainable development commitments often involves **tackling long-standing and deeply rooted domestic issues and different policy priorities**. This calls for a long-term perspective on implementation, supported by enforcement and the active involvement of civil society and business. Therefore, the implementation work focuses also on building platforms for cooperation and joint initiatives on issues ranging from fair remuneration, working in a safe and healthy environment to promoting climate-friendly technologies.

### ***Rolling out the European Commission’s 15-point action plan<sup>48</sup>***

The rolling out of the **15-point action plan<sup>49</sup>** of February 2018 is facilitating a more systematic and structured approach to implementing trade and sustainable development commitments. Building on lessons from the negotiation phase and earlier implementation experiences, the European Commission has been putting in place a set of targeted actions consistent with the **specific priorities defined for each trading partner**.

Coordinated and mutually supportive actions by the European Commission, the European Parliament and the ILO prior to implementation have worked well, for example in Vietnam.

#### **Progress in implementing trade and labour commitments – example of Vietnam**

- **Vietnam ratified ILO Convention 98** on collective bargaining in June 2019 and adopted a revised Labour Code in November 2019, thereby launching an extensive reform of labour laws.
- **Vietnam confirmed a concrete timeline for ratifying the two remaining fundamental ILO Conventions** on forced labour and freedom of association (by 2020 and 2023 respectively).
- **Vietnam reported on steps to eradicate child labour**. Preliminary results of the most recent national survey are promising, showing a reduction in child labour of more than 40% since the last survey in 2012.

The 15-point action plan also fosters **closer partnerships** between the European Commission and Member States, the European Parliament and international bodies like the International Labour Organisation (ILO), which have proven key for the careful monitoring of progress.

#### **Examples of Commission-Member States complementary actions**

- **The Netherlands adopted a Child Labour Due Diligence Act<sup>50</sup>** that applies to all companies based in the country. For the Act to apply in practice, more detailed implementing legislation is being developed. In parallel, the Netherlands **evaluated<sup>51</sup> the sector-specific voluntary agreements on due diligence initiatives**.
- **Sweden’s National Board of Trade** published a handbook to help with the early stages of implementing trade and sustainable development measures in Ecuador.

<sup>48</sup> Details of implementation work in 2019 by cluster of the action plan can be consulted in the Staff Working Document: [https://trade.ec.europa.eu/doclib/docs/2020/september/tradoc\\_158926.pdf](https://trade.ec.europa.eu/doclib/docs/2020/september/tradoc_158926.pdf)

<sup>49</sup> The 15 points action plan is available at [https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc\\_156618.pdf](https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf)

<sup>50</sup> Two core ILO conventions address child labour: the ‘Minimum Age Convention’, 1973 (No. 138) and the ‘Worst Forms of Child Labour Convention’, 1999 (No. 182)

<sup>51</sup> The survey is available at <https://www.government.nl/topics/responsible-business-conduct-rbc/evaluation-and-renewal-of-rbc-policy>

### **Examples of Commission-ILO cooperation on technical assistance**

- The European Commission and ILO **supported labour reforms in Vietnam** and contributed to the strengthening of labour inspection in rural areas of Colombia.
- The European Commission supported **ILO actions in El Salvador and Guatemala** to improve compliance with international labour standards.

**Empowering civil society organisations in the EU and its trading partners** is another pillar of the 15-point action plan. In 2019, the European Commission continued providing assistance to the **Domestic Advisory Groups (DAGs)** created to monitor agreements. The aim is to create the conditions for their participation in the implementation process to be more efficient. Under the Partnership Instrument, the European Commission continued to provide funds for DAG members to participate in meetings with counterparts and other civil society representatives, including the social partners. The project, which began in 2018, also sponsored the organisation of capacity building workshops to increase DAG members' expertise, notably to identify and develop their own implementation priorities.

The European Commission also continued to **create conditions for businesses to play a more active role in ensuring that trade and sustainability go hand in hand by promoting responsible business practices**. The launching in January 2019 of a new technical assistance project for Latin America enabled the European Commission to promote concrete actions and ensure buy-in from governments and stakeholders, building on the recognised expertise and long-standing experience of the International Labour Organisation (ILO), the OECD and the Office of the United Nations High Commissioner for Human Rights (OHCHR).

In 2019, the European Commission continued its policy of **assertive enforcement** to address challenges with the implementation of trade and sustainable development commitments. The **government consultations and panel proceedings in the bilateral case the European Commission initiated against South Korea** is a case in point. Since the entry into force of the EU-South Korea trade agreement in 2012, the EU has consistently raised Korea's non-implementation of the agreement's labour provisions. Since these interventions were not successful, in December 2018 the European Commission requested government consultations, which were held in January 2019 and, in July of the same year, the EU requested the establishment of a panel of experts<sup>52</sup>. With **Peru**, in 2019 the European Commission **enhanced bilateral engagement at technical and political level** on the implementation of trade and sustainable development commitments. At the October meeting of the Trade and Sustainable

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<sup>52</sup> For more detailed information on the dispute see section 8, 'Legal Enforcement'

Development Sub-Committee, Peru reported on the advances made on various fronts to address the EU's substantive concerns<sup>53</sup>.

## 5. AGRIFOOD TRADE UNDER EU TRADE AGREEMENTS<sup>54</sup>

### *Agri-food trade with preferential partners is on the rise*

In 2019, EU agri-food trade with preferential partners rose, both in absolute terms (value of products traded) and relative terms compared to overall EU agri-food trade. EU agri-food trade with preferential trading partner countries accounted for roughly 35% of EU agri-food trade with third countries – 30% and 40% of total EU agri-food exports and imports, respectively. This share has been rising over the past 10 years.

In 2019, the **three top export markets for EU agri-food exports** among preferential trading partners were **Switzerland, Japan and Norway**, together representing roughly 11% of agri-food exports. Canada came at the 4<sup>th</sup> place. Around 19% of EU exports were food preparations, such as chocolate, infant formula and pasta, and 12% were wine, vermouth, cider and vinegar.

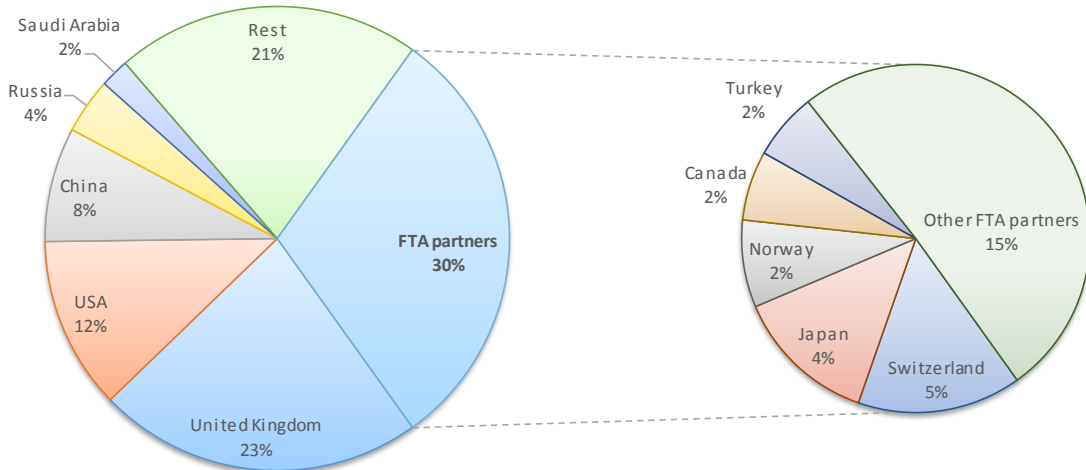
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<sup>53</sup> For more detail information, see the minutes of the meeting: [https://trade.ec.europa.eu/doclib/docs/2019/november/tradoc\\_158481.pdf](https://trade.ec.europa.eu/doclib/docs/2019/november/tradoc_158481.pdf)

<sup>54</sup> For the sake of this report, the WTO definition for "agri-food products" was used, i.e. agricultural products including the chapters 1-24 of the Harmonised System as well as a number of headings in chapters 33, 35, 38, 41, 43 and 51-53, but excluding fish and fish products.



Figure 12: EU agri-food exports, by partner (2019)



### Bohemian hops for premium beers

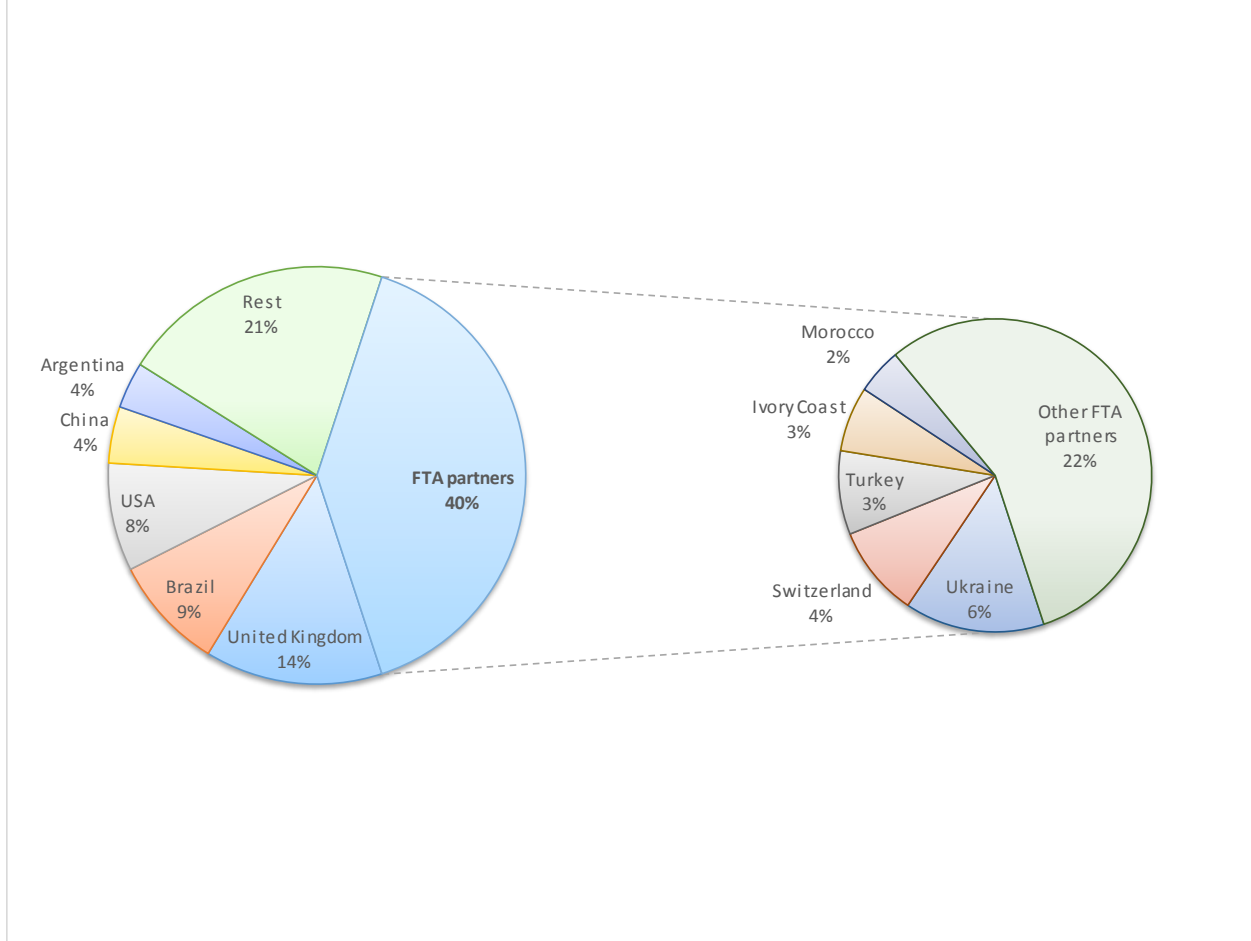
Czech company BOHEMIA HOP is a small company owned by Czech hop growers. Employing 10 people, it exports traditional Bohemian hops to several countries outside the EU. Under the EU-Japan Economic Partnership agreement, it can now export its products to Japan duty free.

*“Japanese breweries are traditional customers for Czech hops and when it comes to trade we like simple solutions.”*

*Zdenek Rosa, Chairman, Bohemia Hop*

In 2019, the top three countries for EU agri-food imports from preferential trading partner countries were **Ukraine** (cereals, other than wheat and rice, and vegetable oils, other than palm and olive oils), **Switzerland** (roasted coffee and tea, and food preparations) and **Turkey** (tropical fruits, nuts and spices, and preparations of vegetables and fruits). Together, these made up 13% of total EU agri-food imports.

Figure 13: EU agri-food imports, by partner (2019)



***Trends and developments in agri-food trade flows***

In 2019, **EU exports of agri-food products** under preferential agreements **grew by 8.7%** (+€4.4 billion), as compared to overall agri-food exports to the rest of the world, which grew by 7.6%.

**EU imports of agri-food products** under preferential agreements grew at a similar rate to exports (8.3%), compared to a growth in agri-food imports from the rest of the world of only 2.3%. The agri-food trade balance under preferential agreements remained at +€6.4 billion. Imports from preferential partners **remain of strategic importance** to the EU agri-food sector, providing necessary supplies of products not grown in the EU for climatic reasons (tropical fruits, cocoa, coffee and other beverages) and inputs of products, where the EU is less competitive or does not produce enough to meet EU demand (oil seeds, animal or vegetable fats/oils).

### **Free trade promotes natural products**

Hamburg-based company Worlée NaturProdukte GmbH is part of the Worlée Group, a family-run medium-sized business that employs about 200 people. The EU's trade agreement with Chile cut customs duties on imports of rose hips from Chile to zero, saving Worlée about €24,000 per year.

*“Free trade allows us to pass on high-quality raw materials to our clients at competitive prices. The cheaper we can import a product, the more competitive we can be in the marketplace.”*

*Reinhold von Eben-Worlée, CEO Worlée Group*

EU trade agreements take into account **sensitivities of the EU agricultural sector**. Sensitive products, such as beef, poultry or sugar, are either excluded from preferential trade or preferential access is granted through carefully calibrated **tariff-rate quotas** of limited volumes. EU trade agreements also create new **export opportunities for some of these sensitive products exported by the EU**. A notable example is beef. EU beef and live cattle exports to preferential trading partners grew by more than 30% (from €406 million to €529 million) over the past five years, despite a slight decrease in 2019.

### ***Geographical indications (GIs)***

EU trade agreements pay special attention to the protection of geographical indications. In 2019, **five new EU food GIs** (Piave, Pancetta piacentina, Salame piacentino, Coppa piacentina and Vinagre de Jerez) were **granted protection in Canada** through a procedure of direct application for GI registration established under the EU trade agreement with Canada, CETA. Since the entry into force of the EU-Japan Economic Partnership Agreement on 1 February 2019, **211 GIs have been protected in Japan**.

Protection of GIs in EU trade agreements is becoming more important as the share of protected GIs in EU exports is rising. In 2019, a **European Commission study**<sup>55</sup> showed that, between 2010 and 2017 the share of GI+TSG (Traditional Speciality Guaranteed<sup>56</sup>) products in EU exports to third countries by value grew by 56%, representing €17 billion for the EU28 in 2017 and 23% of total EU GI/TSG product sales. Wines remained the most important product category in terms of extra-EU trade (50%) GI/TSG trade, followed by spirits (39%) and other agricultural products and foodstuffs (10%). The two largest GI agri-food product categories exported to non-EU countries were cheeses and meat products.

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<sup>55</sup> Study on economic value of EU quality schemes:

<https://op.europa.eu/en/publication-detail/-/publication/a7281794-7ebe-11ea-aea8-01aa75ed71a1>

<sup>56</sup> Although it was not possible to separate GIs and TSGs for the purposes of the study, only the former (GIs) are covered by EU trade agreements.

### *Promoting EU agri-food products*

In the context of trade agreements, programmes take place in the partner countries to promote agri-food products. In addition to the High Level Mission to Japan (May 2019), headed by then EU Commissioner for Agriculture and Rural Development, Phil Hogan, the EU participated in the major business-to-business agri-food fair in Asia (Foodex Japan), with an EU booth dedicated to the authenticity, safety and quality of EU products. At the same time, a seminar on the opportunities under the EU-Japan Economic Partnership Agreement (EPA) for the European and Japanese agri-food businesses was organised and the EU-Japan Centre for Industrial Cooperation created an EPA Helpdesk to address questions from SMEs, many of which are in the agri-food sectors. Promotional activities were also launched in Mexico and Singapore, among others.

### *Monitoring sanitary and phytosanitary measures*

Trade agreements support exchanges and cooperation between the partners, in particular through regular contacts between experts on sanitary and phytosanitary measures. This can help to address potential and existing trade barriers.

#### **Progress in market access for EU agri-food products in 2019**

- **Canada opened its market to tomatoes** from another EU Member State and for plants for planting.
- **Chile opened its dairy and beef markets to four** more Member States<sup>57</sup>
- **South Korea opened its beef market** for two more Member States.
- **South Africa lifted country-wide bans due to avian influenza outbreaks** for two out of six Member States, while keeping bans in force for four others.

### *Animal welfare*

Since 2002, has the EU consistently considered that animal welfare should belong to the objectives pursued in EU bilateral agreements by developing appropriate cooperation mechanisms where best European practices could be shared and promoted with the partner countries.

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<sup>57</sup> Chile opened its dairy market to four additional Member States (20 Member States authorised) and four additional Member States for beef (14 Member States authorized). Chile also authorised the imports of fresh poultry meat (8 Member States authorised).

## Results of bilateral cooperation on animal welfare - examples

- The **EU-Canada cooperation and the dialogue** between Canadian and EU experts contributed to the revision by Canada of its legislation, which since 2020 includes stronger animal transportation requirements.
- The **EU-Chile trade agreement** has been a driving force for developing Chilean legislation on animal welfare. Over time, cooperation on standards for animal welfare at slaughter has translated into Chilean measures mostly based on OIE standards. These exchanges have also facilitated the development of animal welfare standards during transport.
- The **EU-Ukraine agreement** includes provisions on animal welfare seeking a common understanding on animal welfare standards taking into account developments in the World Organisation for Animal Health (OIE).

## 6. SERVICES, PUBLIC PROCUREMENT, INTELLECTUAL PROPERTY RIGHTS

### 6.1 Services and Foreign Direct Investment (FDI)

Services account for approximately 75% of EU GDP<sup>58</sup>, industry for 25% and agriculture for 2%. The EU is the **largest exporter of services** in the world. Trade in services accounts for 25% of EU GDP, with EU services exports exceeding €900 billion per year. Trade in services supports 21 million EU jobs directly or indirectly. 60% of all EU FDI to the rest of the world is in services as is nearly 90% of all FDI coming into the EU.

#### *Services and investment provisions in EU trade agreements*

**EU trade agreements with provisions on services and digital trade** ensure that EU service providers are allowed to supply services in the partner countries' markets and are not discriminated against compared to national or foreign businesses in the same sector.

**Investment liberalisation provisions** follow the same principle, in both services (establishment) and non-services areas (manufacturing, mining, agriculture, etc.), in tackling restrictions on market access, foreign ownership and types of commercial presence. They also tackle discriminatory screening, licensing and approval procedures, constraints on foreign personnel,

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<sup>58</sup> [https://ec.europa.eu/growth/single-market/services\\_en](https://ec.europa.eu/growth/single-market/services_en)

economic needs tests and discriminatory treatment privileging domestic businesses over foreign companies.

All the EU's more recent trade agreements have provisions on services, helping to establish and bolster a **regulatory framework** to facilitate the provision of services, while protecting consumers.

In the '**schedules of commitments**', parties list the conditions for market access and national treatment that they grant each other in their respective territories. Specific commitments have an effect similar to a tariff binding: they are a guarantee to businesses in other countries that the conditions of entry and operation in the market will not change to their disadvantage.

EU-Canada Comprehensive Economic and Trade Agreement (**CETA**) includes some of the most far-reaching provisions on services trade negotiated by the EU so far and, for the first time, a **negative list** for commitments. EU exports of services to Canada rose from €16,926 million in 2017 to €19,000 million in 2018, an annual growth of 12.3%. Total trade in services increased by 15.2%.

#### **A Dutch IT company puts Canada on the map**

Dutch company Spotzi offers an interactive mapping platform that shows the world's demographic composition and people's behaviour, like travel patterns and shopping habits. Initially based in the Netherlands, Spotzi has developed operations in Canada to benefit from local talent and knowledge in Big Data. CETA makes it easier for firms to send staff for temporary work to the other side of the Atlantic. Easier procedures for processing visas of staff have been a particular help, making it easier for the Dutch and Canadian teams to work together.

*"I surround myself with good people who make me feel great and give me positive energy."*

***Remco Dolman, CEO at Spotzi***

Unlike the provisions in trade agreements on trade in goods, those on services and digital trade mostly bind existing levels of openness. Trading partners do not normally need to change or adjust legislation or regulation or take other measures to implement the agreement, beyond the need to avoid any roll-back on the possibilities for EU firms to offer services and invest in their territory. The only exception so far is CETA, where Canada went beyond binding its existing level of market openness in two areas.

### **New markets for EU services providers: EU-Canada Trade Agreement**

- **EU shipping companies can now offer some maritime transport activities** (feeder) between Halifax and Montreal, which were previously limited to national operators.
- **EU services providers can compete for services of commercial dredging** and the repositioning of empty containers. The commitments have since then been implemented as Canada has updated its coastal shipping laws accordingly.
- A change in the '**Investment Canada Act**' has increased the threshold for reviewing acquisitions of Canadian companies by non-Canadians from €658 million to €987 million. This now applies to all EU investors other than those that are state-owned enterprises.

Starting with CETA, provisions in EU trade agreements on regulating services have been substantially strengthened. The **EU-Japan agreement**, for example, includes **comprehensive commitments on services and investment**.

### **Ambitious disciplines on services trade: The EU-Japan EPA**

- **Japan agreed**, for the first time, **to apply domestic regulation principles** on licensing and qualification requirements and on procedures and technical standards, not only to services sectors but also to investments in non-services sectors, such as agriculture, manufacturing, mining etc.
- Japan opened **additional distribution channels** for **EU private insurance companies**: the latter can now also offer their insurance products through Japan's network of post offices
- For postal and courier services, rules were agreed to **address anti-competitive practices of universal service providers**, such as cross-subsidisation.

### ***Monitoring the effectiveness of services provisions in EU trade agreements***

Since there are no 'tariffs' on services and investments, assessing the implementation of services and investment commitments in EU trade agreements is less straightforward than for goods. Together with the monitoring of trends of services trade and investment flows and in order to gauge the effectiveness of EU trade agreements, the European Commission primarily relies on complaints by individual companies or business associations reporting problems in accessing a partner country's market. EU companies can report these issues to the EU or their national authorities. The European Commission may then, in turn, raise the problems with its trading partners, for example in the Services and Investment Committees set up by the agreements.

### **Raising trade concerns in services – examples in 2019**

- **EU-Japan Economic Partnership Agreement:** the European Commission raised concerns with the Japanese authorities about access conditions to the Japanese market for postal and courier services.
- **EU-South Korea Trade Agreement:** the European Commission raised concerns with the Korean authorities about measures taken in the maritime transport sector and for used car sales and repair.
- **EU-Colombia/Peru/Ecuador Trade agreement:** the European Commission raised concerns about measures taken by Ecuador in the individual life, group life, personal, health and motor reinsurance, which discriminated against foreign reinsurance companies.

Finally, EU trade agreements, if implemented effectively, **tend to strengthen the economic relationship between the EU and the respective partner**, resulting in increased mutual investment in both services and non-services sectors. This also applies to trade agreements without specific provisions on services and investment. For example, the **EU's Economic Partnership Agreements with African countries** for now cover only trade in goods but contribute to making African economies more attractive for EU investment, notably in view of local transformation and the development of industrial capacity. Similarly, EU investment in Morocco steadily increased after the **EU-Morocco Association Agreement** entered into force in 2000, linking with local value chains, particularly in the automotive sector.

### **EU trade agreements enhancing investment in Morocco**

- EU stocks of foreign direct investment in Morocco increased by 17% over the first five years of implementation of the EU-Morocco Association Agreement<sup>59</sup>. According to a recent analysis, “the EU-Morocco Association Agreement appears to have increased investor confidence in the Moroccan economy, *inter alia* by locking in liberalisation of services and by establishing greater policy discipline in realms ranging from macroeconomic stability to labour markets and product regulations.”<sup>60</sup>
- EU investment in Morocco was especially prominent in the automotive sector, which has become the country's biggest exporting sector (27% of Morocco's total exports in 2019), creating 116.000 jobs between 2014 and 2018, and with a 60% integration rate of local manufacturers.<sup>61</sup>

<sup>59</sup> Eurostat, 2012-2017, EU 28

<sup>60</sup> Policy Center for the New South, *Has Morocco Benefited from the Free Trade Agreement with the European Union?*, February 2020

<sup>61</sup> Source: Moroccan Ministry for Industry <http://www.mcinet.gov.ma/en/content/automotive-0>

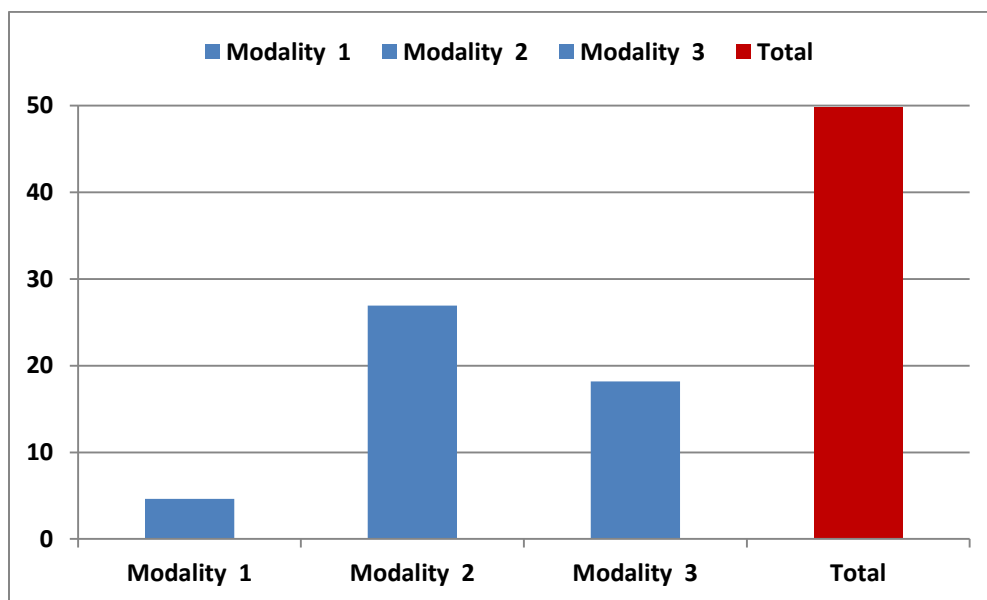


## 6.2 Public Procurement

The EU public procurement market<sup>62</sup> shows strong signs of openness across all three modes of supply<sup>63</sup>.

The below chart shows the value of cross-border public procurement contracts awarded directly or indirectly to companies outside the EU in 2017. All three modes combined, the amount corresponded to € 50 billion.<sup>64</sup>

**Figure 14: EU openness in foreign procurement, by modes of supply (€ billion)**



Public procurement represents on average 10-25% of GDP<sup>65</sup>. Looking at the most recent Eurostat and OECD national accounts data in the EU, public procurement expenditure in respect to GDP

<sup>62</sup> Source: Tenders Electronic Daily (TED) database (2017)

<sup>63</sup> Mode 1: Direct cross-border international procurement; Mode 2: commercial presence procurement ; Mode 3: indirect international procurement:

<sup>64</sup> See also “*Public Procurement: How open is the European Union to US firms and beyond?*”; Article by Lucian Cernat and Zornitsa Kutlina-Dimitrova in CEPS, March 2020; <https://www.ceps.eu/ceps-publications/public-procurement/>

<sup>65</sup> Source: OECD (2002); see also WTO GPA staff working document of Robert Anderson (2011) and DG TRADE website: <https://ec.europa.eu/trade/policy/accessing-markets/public-procurement/>

account for 13.7% of EU GDP or in absolute terms to some €2,015.3 billion (excluding utilities and defence contracts).

### *Provisions on public procurement in EU trade agreements*

EU trade agreements' chapters on public procurement provide EU companies access to public contracts used to buy goods and services, including public works. **Market access or coverage of the agreement** defines the scope of the opening up of one country's public procurement market to EU bidders, goods and services. **Applicable rules** determine conditions of market access to ensure the transparency of procedures and provide for **non-discrimination** and **equal treatment** between the parties, allowing local suppliers and suppliers of the other Party to tender under the same conditions and securing effective review in case of public procurement complaints. Some concrete examples include:

**EU-South Korea FTA:** the agreement expands the market access commitments of both parties to areas not provided to each other under the WTO Agreement on Government Procurement, namely public works concessions in the EU and Build-Operate-Transfer (BOT) contracts in South Korea, which include building and operation of roads.

**CETA:** it covers a wide range of sub-central government procurements, particularly public procurement done by municipalities.<sup>66</sup>

**EU-Japan EPA:** Japan grants non-discriminatory access for EU suppliers to the procurement markets of 48 cities of around 300,000 inhabitants, representing roughly 15% of the Japanese population. At national level, Japan agreed to open up tenders to EU bidders for 87 hospitals and academic institutions and 29 electricity distribution entities. The EU also got greater access to the Japanese market for railway equipment and infrastructure.

### *Implementation of public procurement provisions – working in Trade Committees*

The European Commission continued to monitor the implementation of procurement commitments in its preferential trade agreements, working closely with its trading partners in the joint procurement and trade committees set up under EU trade agreements, as well as through specific dialogues.

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<sup>66</sup> The full list is available here: <http://data.consilium.europa.eu/doc/document/ST-10973-2016-ADD-4/en/pdf#page=11>

### **Monitoring implementation of public procurement commitments – examples in 2019**

- With **Colombia**, the EU reiterated its concerns that EU suppliers lacked national treatment at sub-central level. Both sides agreed to continue technical discussions with a view to finding a mutually agreeable solution.
- With **Peru**, the EU raised concerns about technical specifications in some tenders and stressed the need to ensure equivalence of standards as stipulated by the agreement. Peru agreed to raise awareness on the need to set non-discriminatory technical specifications and to accept international standards in procurement procedures.
- With **Ukraine**, the EU proactively supported its counterparts in developing a new public procurement law that conforms to the relevant EU rules. It was adopted on 19 September 2019<sup>67</sup> and, for the first time, it provides the tools for more strategic public procurement, taking on board sustainability aspects, such as life-cycle costs, environmental, innovative and social considerations.

In addition, the European Commission made significant efforts to **promote transparency in public procurement procedures** by establishing one-stop-shop electronic platforms for tenders. For example, at the second CETA Committee on Government Procurement, **Canada reported on progress** made to date in establishing a **Single Point of Access (SPA)**, which will provide companies access to all public tender procedures covered by CETA.

The **European Commission took further steps to improve communication on public procurement** in EU trade agreements. In 2019, the European Commission published a new guidebook on Government Procurement in Canada.<sup>68</sup> The EU-Japan Centre for Industrial Cooperation, sponsored by the European Commission and the Japanese Ministry of Economic Affairs, launched an **EPA Helpdesk to support and guide EU SMEs** looking for information. In addition to running webinars, the Centre published a factsheet and a guideline on public procurement<sup>69</sup>. The European Commission has also offered guidance to the EU's public buyers on treatment of bids from third countries<sup>70</sup>, underlying the respect of the commitments taken by the EU in the different trade agreements.

**To inform EU trade negotiations on public procurement**, the European Commission presented its new database **'International Public Procurement Initiative (IPPI)'**, the world's first comprehensive database of detailed procurement data and barriers to international

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<sup>67</sup> New Edition of the Law on Public Procurement (as adopted on 19/09/2019 with № 114-IX), replacing Law No. 922 of 2015; the new law entered into force on 20 April 2020.

<sup>68</sup> [https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc\\_158655.pdf](https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc_158655.pdf)

<sup>69</sup> The fact sheet and guideline can be accessed at <https://www.eubusinessinjapan.eu/library/publication/infopack-epa-government-procurement#>

<sup>70</sup> C(2019) 5494 final, adopted on 24 July 2019 "Guidance on the participation of third country bidders and goods in the EU procurement market"

procurement. The database is the most complete of its kind, with information on nearly 40 million public contracts. To date, only one preferential trading partner, Canada, is covered by the database.<sup>71</sup>

### **Innovative solutions from Southern Europe enter Peru**

Portuguese construction equipment manufacturer BERD/“One bridge-One Solution” is building 125 modular bridges in Peru, helping the country to re-build roads and infrastructure following the El Niño Costero natural disaster. BERD was able to do so after winning a €15 million public tender published by Peru’s Ministry of Transport and Communications.

Through its affiliate Green Power Peru, Italian company Enel operates 10 power production plants (hydro, wind and solar) and in 2019 carried out 37 sustainability projects with 8,000 beneficiaries in Peru. Enel Peru won contracts in Peru for the two largest renewables projects, the Rubi solar park and the Wayra I wind farm.

Both companies benefit from the EU-Peru Trade Agreement, in force since 2013. It has created a more solid and transparent legal framework for public procurement and investment, and ensures European suppliers and their products are not discriminated against compared to local bidders. The agreement also promotes trade schemes for sustainable energy policies.

### **6.3 Intellectual Property Rights (IPR)<sup>72</sup>**

**93 % of all goods and services** that the EU exports are **covered by at least one intellectual property right.**<sup>73</sup> A study<sup>74</sup> by the European Patent Office and the European Union Intellectual Property Office published in September 2019 concluded that in 2016 IPR-intensive industries in goods and services sectors accounted for 86% of EU imports and 93% of EU exports.<sup>75</sup>

#### *IPR in EU trade agreements*

EU trade agreements aim to ensure EU right holders’ intellectual property rights are effectively protected in trading partner countries and rightholders can enforce their rights. Instead of eliminating tariffs, the agreements bind the parties to the rules and principles set out in the IPR

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<sup>71</sup> The other key EU trading partners covered by IPPI are Australia, Brazil, China, India, Indonesia, New Zealand, Thailand and the United States.

<sup>72</sup> For detailed information on IPR protection and enforcement see the EU Commission’s Third Country Report [https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc\\_158561.pdf](https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158561.pdf) and the EU Counterfeit and Piracy Watchlist: [https://trade.ec.europa.eu/doclib/docs/2018/december/tradoc\\_157564.pdf](https://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157564.pdf)

<sup>73</sup> Some goods and services are covered by several IPRs at the same time. This is called complementary protection. Examples are cars, furniture, watches and foodstuffs.

<sup>74</sup> The study is available here: <https://www.epo.org/news-events/news/2019/20190925.html>

<sup>75</sup> The study identified 356 IPR-intensive industries.

chapter. These cover copyrights, trademarks, designs, patents, plant varieties, undisclosed information (trade secrets), civil and border enforcement, and more. IPR provisions in trade agreements usually require the parties to adhere to the relevant international treaties and conventions, such as the WTO Agreement on Trade Related Aspects of Intellectual Property (TRIPS) and the World Intellectual Property Organization (WIPO) or go beyond these disciplines.

### ***Implementation of IPR commitments in EU trade agreements***

To assess the effectiveness of EU trade agreements in protecting IPRs the European Commission **monitors its trading partners' legislation** in this area, with a special focus on actual enforcement. It regularly contacts business associations in the EU and abroad, verifies any complaints and, if considered valid, raises them with its trading partners in the respective institutional bodies, such as in the IPR Sub-Committee or IPR Dialogues set up under EU trade agreements.

#### **Examples of issues raised by the European Commission in 2019 include:**

- **EU-South Korea Free Trade Agreement:** the EU raised concerns about the lack of remuneration for performers and records' producers for the public performance of their music.
- **EU-Association Agreement with Colombia, Peru and Ecuador:** the EU raised concerns about Ecuador's localisation requirements for the manufacture of patented products. On the EU's request, Ecuador withdrew the requirements.
- **EU-Ukraine Free Trade Area:** the EU raised concerns about a number of draft laws (ultimately dropped) that would have restrictive patentability and denied protection to certain substances and new uses of medicines.

## **7. SMALL AND MEDIUM-SIZED ENTERPRISES**

Small and medium-sized enterprises (SMEs)<sup>76</sup> are a **pillar of the EU economy**. They represent 99% of all EU companies and 87% of EU companies exporting. Exporting SMEs support over 13 million jobs in the EU, with goods and services having a similar contribution.

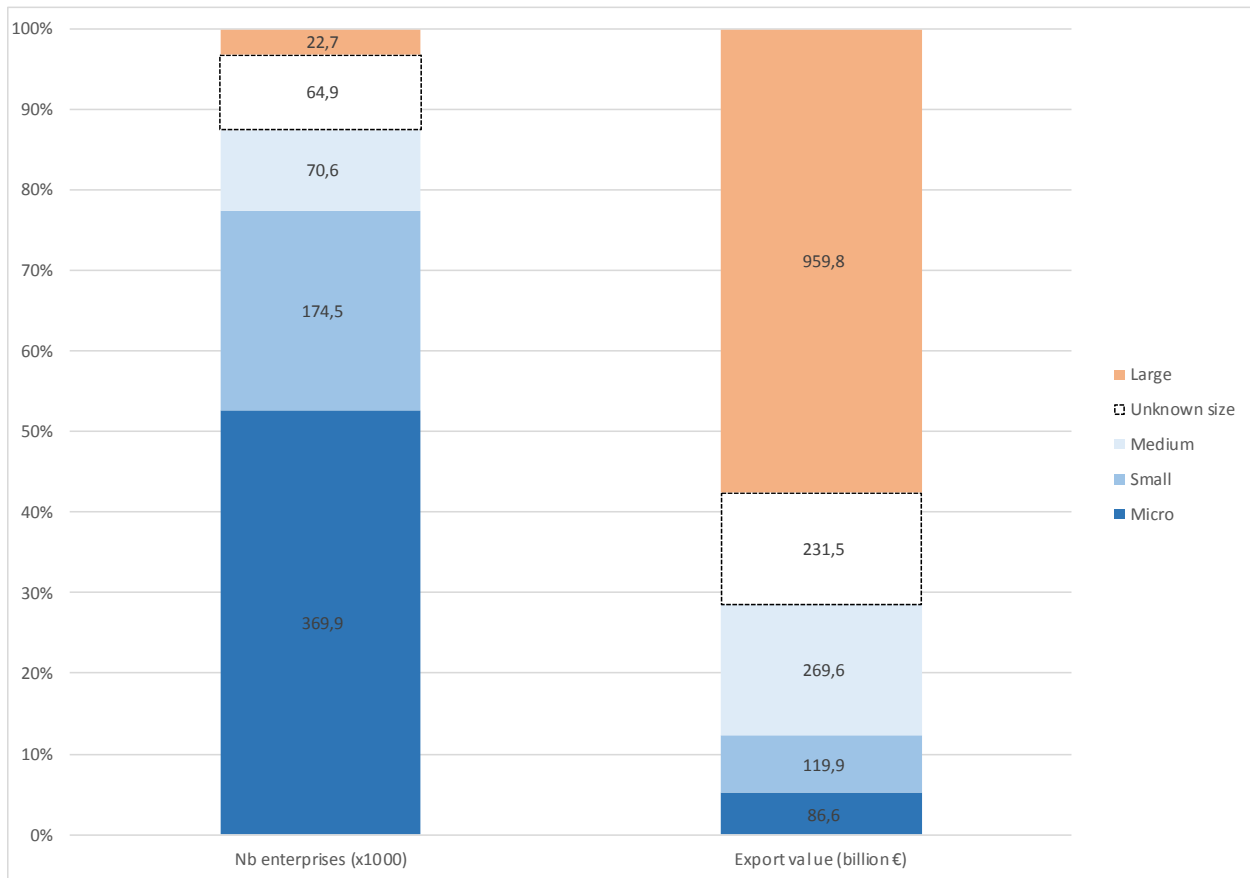
The below graphic shows EU27 exporters of goods by company size, number and value of exports: in 2017 (latest data available) more than 700,000 EU27 enterprises sold goods outside of the EU, of which 615,000 were SMEs, which represented between 28% and 30% in EU exports by value<sup>77</sup>.

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<sup>76</sup> SMEs are commonly defined as enterprises employing less than 250 employees.

<sup>77</sup> These figures are estimates as data received from EU Member States on extra-EU exports include a non-negligible number of enterprises of "unknown" size.

**Figure 15: EU27 exporters of goods by size, number of firms and value of exports, 2017**



Source: Commission/DG Trade Chief Economist Unit; calculations based on the Eurostat TEC database

There are gaps in the information available on SME exports to trading partners, including preferential ones, as only about half of the EU Member States use to submit information on exports per company size and trading partner. The Eurostat TEC (Trade by Enterprise Characteristics) database is more comprehensive than the STEC (Services Trade by Enterprise Characteristics) database *inter alia* because not all Member States report data under the STEC framework. A **Eurostat pilot project on SME participation in services trade (STEC)** aims to provide more information on firms' characteristics.<sup>78</sup>

Most recent empirical evidence suggests, however, that the **number of EU SMEs exporting extra EU has been growing steadily** between 2014 and 2017, i.e. by 6% on average, whereas the total number of EU firms exporting went down by 8%.<sup>79</sup> For exporting SMEs EU trade

<sup>78</sup> <https://ec.europa.eu/eurostat/web/experimental-statistics/stec>

<sup>79</sup> See Note of Chief Economist DG TRADE of 1 May 2020 (Role of SMEs in EU exports), available here: [https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc\\_158778.pdf](https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158778.pdf)

agreements are vital as they make it easier to do business abroad by removing trade barriers and inefficiencies, which disproportionately affect smaller companies.

### **Progress in 2019 in implementing SME relevant provisions in trade agreements**

- **Canada and Japan set up special websites** with information for SMEs, in line with their commitments in the respective trade agreements.
- The European Commission's **Market Access Database (MADB) was extended** to include information on the EU's trade agreements with Canada and Japan relevant for SMEs.
- The **EU's Green Gateway to Japan Programme** (Green Gateway) provided assistance to European SMEs wanting to export to Japan, helping them find the right partners.
- The **SME** contact points for EU's trade agreements with **Canada and Japan** began work in areas of common interest.

### **Activities in facilitating access by SMEs to EU trade agreements**

In 2019, the Commission continued its **Market Access Day events** organised jointly with EU Member States to raise awareness with local business on the opportunities offered by preferential agreements and how the Market Access Partnership helps them overcome obstacles. Sessions were held in Denmark, Spain, the Netherlands, Lithuania, Portugal, France and Latvia.

The Commission intensified its collaboration with the **Enterprise Europe Network (EEN)**<sup>80</sup> and **European Trade Promotion Organisations** in EU Member States to explore how business consultants and consortia forming the network could disseminate the information to businessmen and women. In 2019, the network started to nominate specific EEN contacts for trade agreements, who will receive specialised training from the Commission.

Important progress was also made on the development of a **new import and export portal**, which was launched on 13 October 2020.

#### **The new 'Access2Markets' portal offers:**

- A **single port of call for SMEs** looking for practical information on exports and imports of goods (tariffs, product specific information on import and export requirements, information on benefits under EU trade agreements, taxes, trade statistics etc.).
- **Information on the EU's trade agreements** and **step-by-step guides** on importing and exporting.
- **A Rules of Origin Self-Assessment tool** with a step-by-step check-list for companies to understand whether a product meets the criteria for preferential rules of origin treatment.

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<sup>80</sup> <https://een.ec.europa.eu/>

## 8. LEGAL ENFORCEMENT

Since the end of 2018, the EU has resorted to the bilateral dispute settlement mechanisms set up under the trade agreements with **South Korea, Ukraine and the Southern Africa Customs Union**. As of June 2020, these disputes are still pending; see details below.

Where the measure at issue appears to be in violation of both the WTO Agreement and a trade agreement between the EU and the partner country, the EU has a choice of forum, to be assessed on a case-by-case basis. The WTO remains a well-tested dispute settlement system, ensuring coherence in interpreting the relevant commitments. In 2019, the EU resorted to the WTO dispute settlement system in two cases.

On 2 April 2019, the EU requested **WTO consultations with Turkey** and, following consultations on 9 and 10 May that failed to settle the dispute, on 2 August requested the establishment of a WTO panel.<sup>81</sup>

On 15 November 2019, the EU initiated a **WTO dispute settlement** procedure and requested consultations<sup>82</sup> **with Colombia** over its imposition of illegal anti-dumping duties on imports of frozen fries from Belgium, Germany and the Netherlands. Consultations failed to settle the dispute. On 29 June 2020, following a request by the EU,<sup>83</sup> the WTO Dispute Settlement Body set up a dispute settlement panel.

**Enforcement of the EU's rights under trade agreements** is one of the central tenets of this European Commission's trade policy. The European Commission is closely monitoring the implementation of EU trade agreements and will consider using legal enforcement where necessary, 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 – for example, the dispute with South Korea on labour rights.

In the context of the COVID-19 pandemic, it is important to keep in mind that an open and rules-based trade will sustain any future economic recovery. Therefore, the European Commission continues to take the necessary steps to ensure proper enforcement of its trade agreements, as appropriate.

### 8.1 Trade and Sustainable Development dispute settlement with South Korea

Under the Trade and Sustainable Development Chapter of the EU-South Korea 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

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<sup>81</sup> [https://trade.ec.europa.eu/doclib/docs/2019/august/tradoc\\_158308.pdf](https://trade.ec.europa.eu/doclib/docs/2019/august/tradoc_158308.pdf)

<sup>82</sup> [https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc\\_158645.pdf](https://trade.ec.europa.eu/doclib/docs/2020/february/tradoc_158645.pdf)

<sup>83</sup> [WT/DS591 - Colombia – Anti-Dumping Duties on Frozen Fries from Belgium, Germany and the Netherlands](#)



and the right to collective bargaining. South Korea also committed to make “continued and sustained efforts” towards ratifying outstanding ILO conventions<sup>84</sup>.

In the absence of progress, on 17 December 2018 the EU decided to request consultations<sup>85</sup> with South Korea under the trade and sustainable development chapter. Due to the lack of sufficient efforts towards ratifying the ILO conventions concerned, on 4 July 2019 the EU requested the establishment of a Panel of Experts<sup>86</sup>, which was formally established on 30 December 2019. Proceedings are ongoing.

## **8.2 Dispute settlement with Ukraine**

In January 2019, under the EU-Ukraine Association Agreement’s bilateral dispute settlement regime the EU decided to request consultations<sup>87</sup> with Ukraine on the country’s export restrictions on wood. The restriction initially covered timber and sawn wood of ten species and since 2015 has been extended to all unprocessed wood, including since 2017 pinewood.

The EU had raised the issue with Ukraine on many occasions, as the export restriction is incompatible with the Association Agreement. In 2019, Ukraine made no attempt to repeal the ban. Therefore, and following bilateral dispute settlement consultations in February 2019 that failed to resolve the matter, the EU requested the formal establishment of a bilateral arbitration panel to adjudicate on the matter. The request was launched in June 2019<sup>88</sup> and the arbitration panel, the first one under any EU free trade agreement, was formally established on 28 January 2020. Proceedings are ongoing.

## **8.3 Dispute settlement with the Southern African Customs Union (SACU)**

On 14 June 2019, the EU requested consultations<sup>89</sup> 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 EU exports of frozen bone-in chicken cuts. The EU considers that SACU imposed the measure in violation of the principles and rules of the EU-SADC EPA. The safeguard will expire on 11 March 2022. However, it could be extended for a further 4 years.

Consultations held in September 2019 did not lead to a mutually satisfactory solution but confirmed the EU position that the safeguard measure is not in line with the provisions of the

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<sup>84</sup> 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.

<sup>85</sup> [http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc\\_157586.pdf](http://trade.ec.europa.eu/doclib/docs/2018/december/tradoc_157586.pdf)

<sup>86</sup> [http://trade.ec.europa.eu/doclib/docs/2019/july/tradoc\\_157992.pdf](http://trade.ec.europa.eu/doclib/docs/2019/july/tradoc_157992.pdf)

<sup>87</sup> [http://trade.ec.europa.eu/doclib/docs/2019/january/tradoc\\_157625.pdf](http://trade.ec.europa.eu/doclib/docs/2019/january/tradoc_157625.pdf)

<sup>88</sup> [https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc\\_157943.pdf](https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157943.pdf)

<sup>89</sup> [https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc\\_157928.pdf](https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157928.pdf)

EU-SADC EPA. On 21 April 2020, the EU requested the establishment of an arbitration panel<sup>90</sup> with SACU under the Dispute Avoidance and Settlement Part of the EU-SADC EPA.

## 9. CONCLUSIONS

In 2019, notwithstanding the protracted WTO crisis and protectionist tendencies, as well as a slow-down of global trade and investment, EU trade agreements continued to facilitate fair trade in goods and services and investment, solidify the framework of international rules, promote sustainability goals and to contribute to the international dimension of EU industrial policy<sup>91</sup>. This shows that these agreements can make an essential contribution to the recovery following the global Covid-19 pandemic, which is expected to result in a contraction of the EU economy of 8.3% in 2020.<sup>92</sup> In particular, EU trade agreements support diversification of European supply chains, facilitate digital trade and offer platforms for deeper engagement with EU trading partners on multilateralism and wider sustainability issues. Efforts to improve the effective implementation and enforcement of these agreements will be spearheaded by the new Chief Trade Enforcement Officer, in close liaison with other EU institutions, Member States, stakeholders and civil society.

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<sup>90</sup> [https://trade.ec.europa.eu/doclib/docs/2020/april/tradoc\\_158717.pdf](https://trade.ec.europa.eu/doclib/docs/2020/april/tradoc_158717.pdf)

<sup>91</sup> See COM(2017)479

<sup>92</sup> Source: Commission's 2020 Summer Economic Forecast: [https://ec.europa.eu/info/sites/info/files/economy-finance/ip132\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip132_en.pdf)