



2019 ANNUAL REPORT ON THE IMPLEMENTATION OF EU TRADE AGREEMENTS

On 14 October 2019, the European Commission released its third annual report on the implementation of EU free trade agreements (FTAs).

The report provides an annual overview of the EU's 35 largest preferential trade agreements.

FOUR TYPES OF TRADE AGREEMENTS

- 1. First generation agreements** focus on tariff elimination, mostly concluded before the European Commission's 2006 "Global Europe" Communication:
 - Agreements with Norway, Switzerland, eight Mediterranean countries, Mexico and Chile;
 - Customs Union with Turkey;
 - Stabilisation and Association Agreements with five Western Balkan countries containing additional provisions to prepare for their progressive integration into the EU market.
- 2. Second generation agreements** extend to new areas, including on competition, protecting intellectual property rights, customs cooperation, commitments on services and establishment and sustainable development:
 - Agreements with South Korea, Colombia, Peru and Ecuador, Central America and Canada.
- 3. Deep and Comprehensive Free Trade Areas (DCFTAs)**, concentrate on the tightening of economic links between the EU and its neighbours by bringing their regulatory framework closer to EU law, notably in trade-related areas:
 - Agreements with Ukraine, Georgia and Moldova.
- 4. Economic Partnership Agreements (EPAs)** with African, Caribbean and Pacific regions focus on development needs of these countries.

The annual report focuses on:

- The most important trends in trade and foreign direct investment flows;
- The extent to which EU companies used the tariff reductions and quotas available under the trade agreements;
- A first full calendar year assessment of the implementation of the EU-Canada Comprehensive Economic and Trade Agreement (CETA), which entered into force in September 2017, as well as an overview of the preparations for the entry into force of the EU-Japan Economic Partnership Agreement (EPA);
- Progress made on removing trade barriers for EU exporting companies and steps taken to improve the business environment;
- Progress on implementing provisions on labour rights, environmental and climate protection, and legal enforcement actions taken under EU trade agreements;
- Assessment of the benefits of EU trade agreements for small and medium-sized businesses.

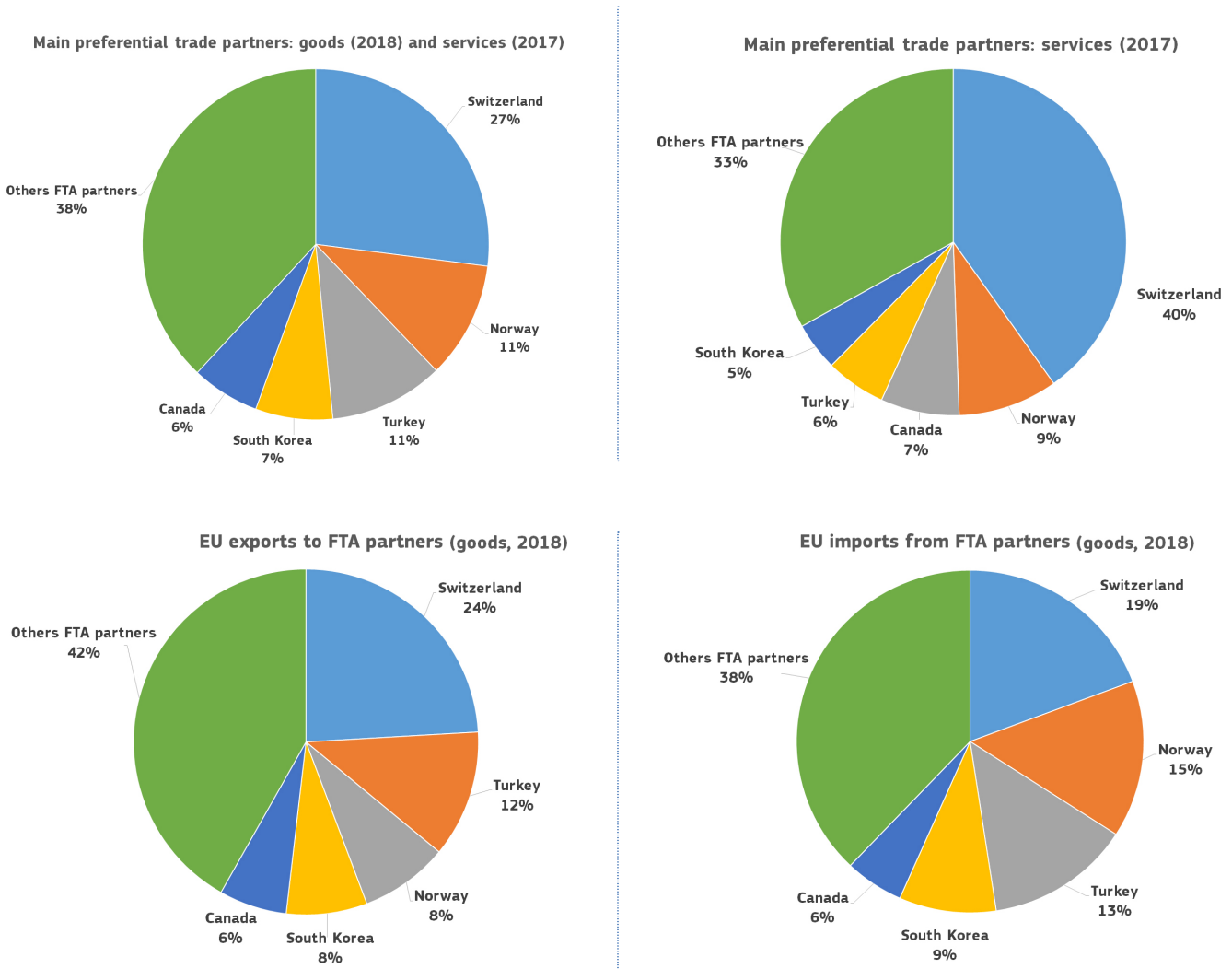
The report is accompanied by a staff working document that provides a detailed overview of each agreement.

THE EU'S MAIN PREFERENTIAL TRADING PARTNERS

Among preferential partners, the EU trades most with Switzerland (27%), Turkey and Norway (each 11%).

Top destinations for EU goods' exports among FTA partners are Switzerland (24%), Turkey (12%) and Norway (8%). 19% of the EU's imports of goods from preferential partners come from Switzerland, followed by Norway (15%) and Turkey (13%).

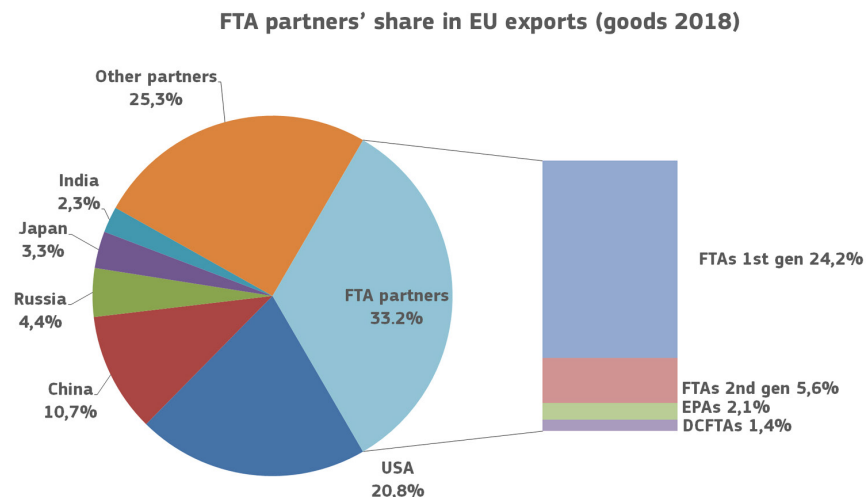
Switzerland is by far the EU's most important preferential trade partner for services, with a share of 40%, followed by Norway (9%), Canada (7%), Turkey (6%) and South Korea (5%).



1. MORE AND MORE EU EXTERNAL TRADE IN GOODS IS WITH PREFERENTIAL PARTNERS

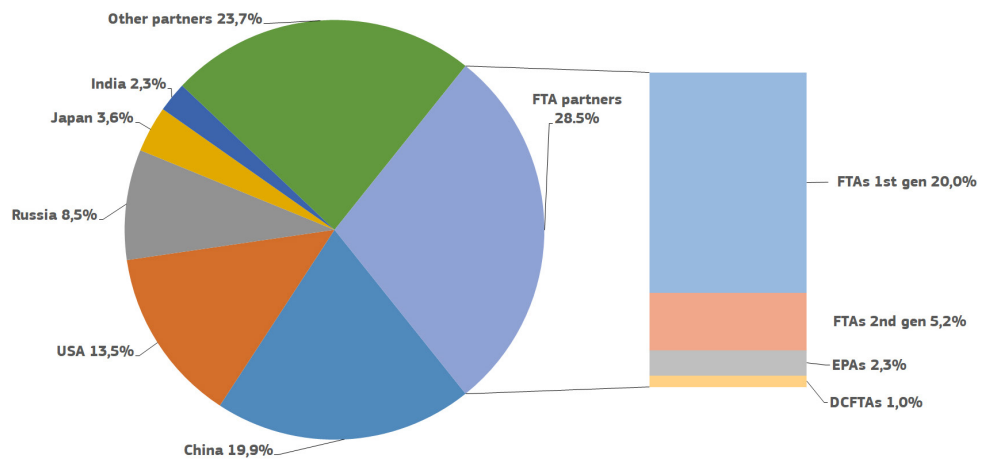
In 2018, 31% of EU trade in goods with the rest of the world (33% of EU exports and 29% of EU imports) took place with preferential partners.

Where EU exports go....



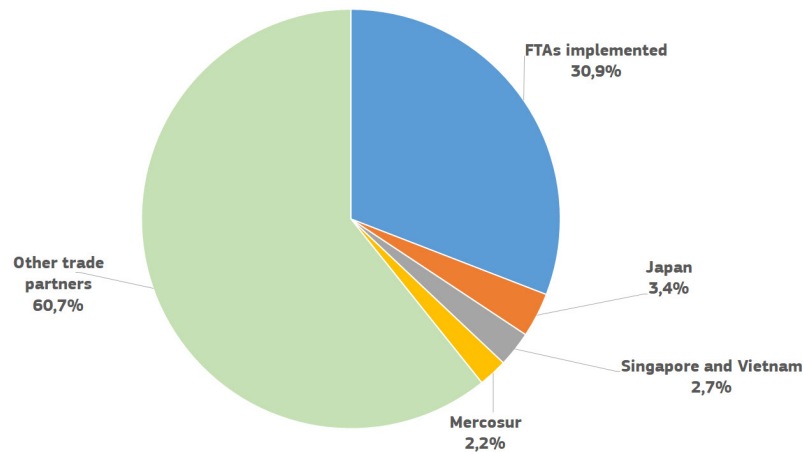
Where EU imports come from....

FTA partners' share in EU imports (goods 2018)



Including also potential preferential trade partners, with whom the EU has concluded negotiations, this share rises to almost 40%.

FTA partners' share in EU trade (goods, 2018)
(FTAs existing and pending)



2. DEVELOPMENT OF EU TRADE WITH PREFERENTIAL TRADE PARTNERS

SOME HIGHLIGHTS IN 2018

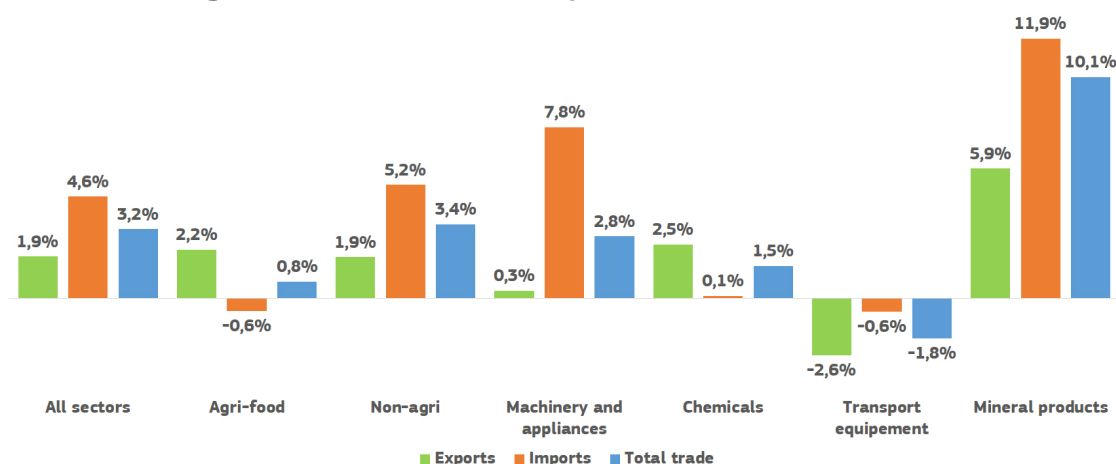
- Imports and exports to EU FTA partners continued to grow by 4.6% and 2%, respectively.
- The EU had a surplus of €84.6 billion (compared to its overall trade deficit of €24.6 billion).
- EU agri-food exports increased in particular to partner countries of second-generation trade agreements, such as Canada (+4.1%) and South Korea (+4.8%).
- EU industrial exports increased for mineral products (+6%), base metals (+4.4%) and chemicals (+2.5%), with machinery (remaining stable at +0.3%) and transport equipment decreasing slightly (-2.6%).

In 2018, EU trade with FTA partners grew by 3.2%, slowing from 7% in 2017. Subdued EU exports to South Korea¹, accounting for half of EU exports under the modern trade agreements, contributed to this development and could be explained to some extent by weak domestic demand in South Korea over the reporting period. A number of trade restrictive measures taken by Turkey, the EU's fifth largest trade partner overall, representing 12% of the EU's exports under FTAs, also played a role².

¹ In 2018, EU exports to South Korea declined by 1.8% as compared to a 13.7% growth in 2017.

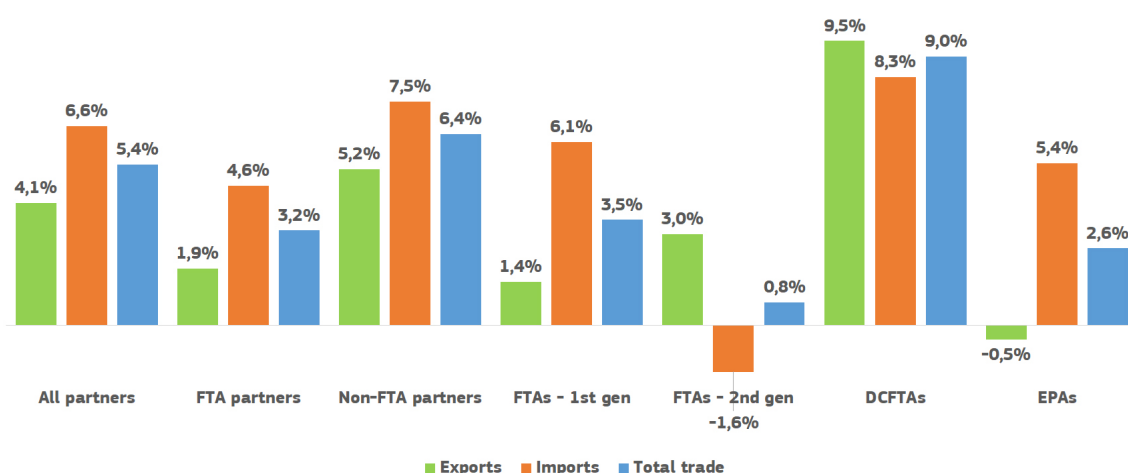
² In 2018, EU exports to Turkey declined by 8.9% as compared to a 8.9% growth in 2017.

Annual growth of EU trade with FTA partners (main sectors, 2017-2018)



Trade growth with FTA trade partners in 2018 was lower than growth with non-FTA partners (+6.4%). This result is partly due to strong growth in EU exports to its two main trade partners, the US (8.0%) and China (6.2%), which represent nearly a third of the EU's total external trade.

Annual EU trade growth rate by partner (2017-2018)

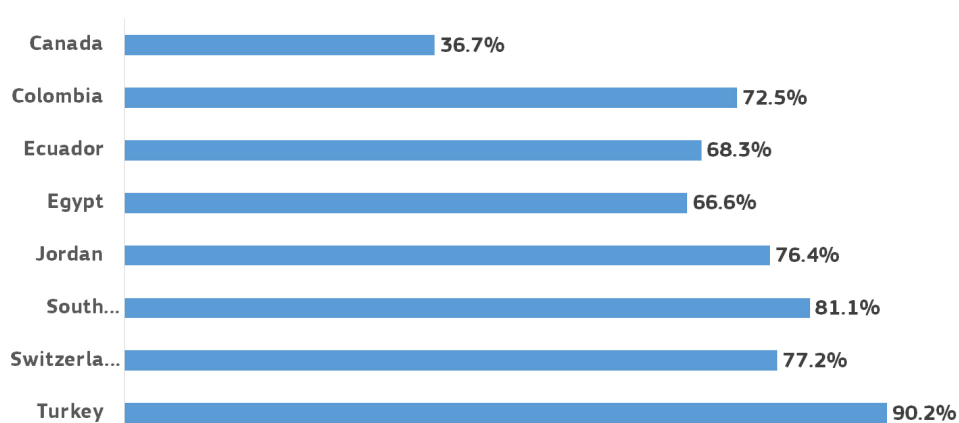


3. USE OF TARIFF PREFERENCES UNDER TRADE AGREEMENTS

'Preference utilisation rates' are used to measure how far tariff preferences were used over the reporting period, providing a rough indication of the uptake of EU trade agreements by companies from the EU and partner countries³.

In 2018, preference utilisation remained strong on EU exports to Switzerland and Turkey and increased for South Korea. It also improved for Colombia, Ecuador, Egypt and Jordan.

Preference utilisation rate on EU exports in 2018



³ More information on preference utilisation rates on EU imports and exports can be found in the report.

4. AN EXAMPLE OF OPPORTUNITIES FOR EU COMPANIES UNDER NEW AGREEMENTS: CETA

The EU's most recent trade agreements help companies to access new markets by:

- eliminating tariffs;
- easing administrative procedures;
- greater coherency on standards and rules for goods and services.

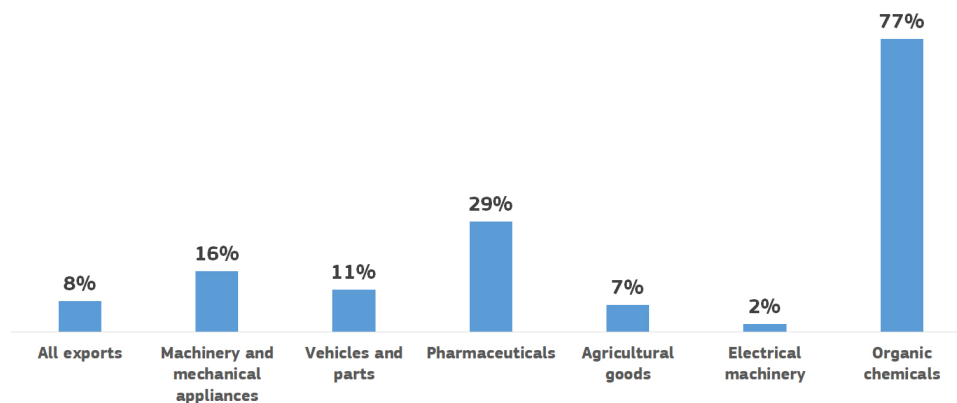
CETA is a case in point. During its first full calendar year of implementation, bilateral trade in goods grew by 10.3%, compared to the average of the previous three years (2015-2017). The EU's trade surplus with Canada rose by 60%. The EU's most important export items all saw significantly stronger export performance when compared to the average of the three previous years:

EU EXPORTS TO CANADA: DEVELOPMENTS IN 2018 (COMPARED TO 2015-2017)

- EU goods exports rose by 15%
- Machinery and mechanical appliances up 16% (1/5 of total EU exports to Canada)
- Vehicles and parts up 11% (14% of total EU exports to Canada)
- Pharmaceuticals up 29% (accounting for 12% of total EU exports to Canada)
- Agricultural goods up 7% (accounting for 9% of total EU exports to Canada)
- Electrical machinery up 2%
- Organic chemicals up 77%

5. OPPORTUNITIES FOR THE AGRICULTURAL SECTOR

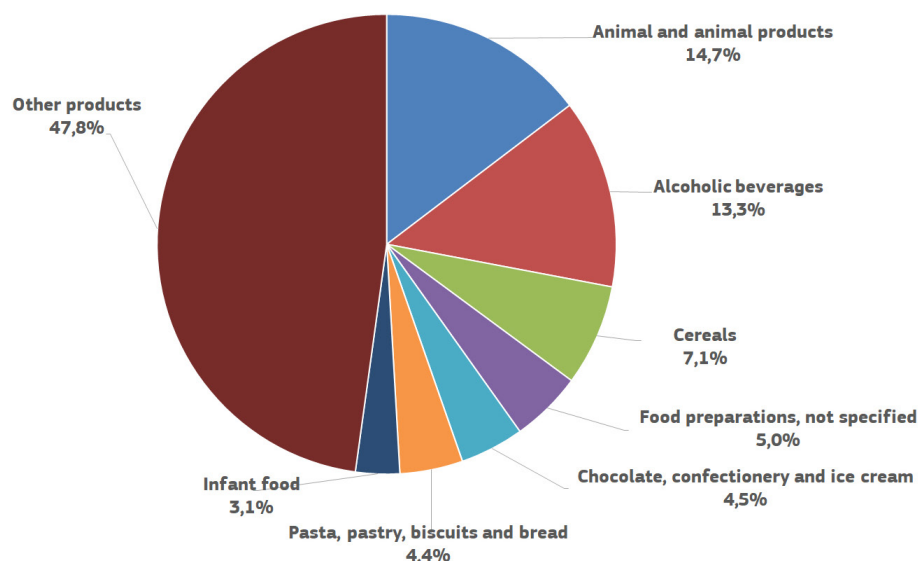
Growth of EU exports to Canada for main sectors (2018 compared to 2015-2017)



Trade agreements are very important for Europe's farmers. 34% of agri-food exports go to preferential partners. These exports are very diverse and represent a good balance of agricultural commodities, such as cereals or meat, and high value products, such as infant formula, beverages and other products of the EU food processing sectors.

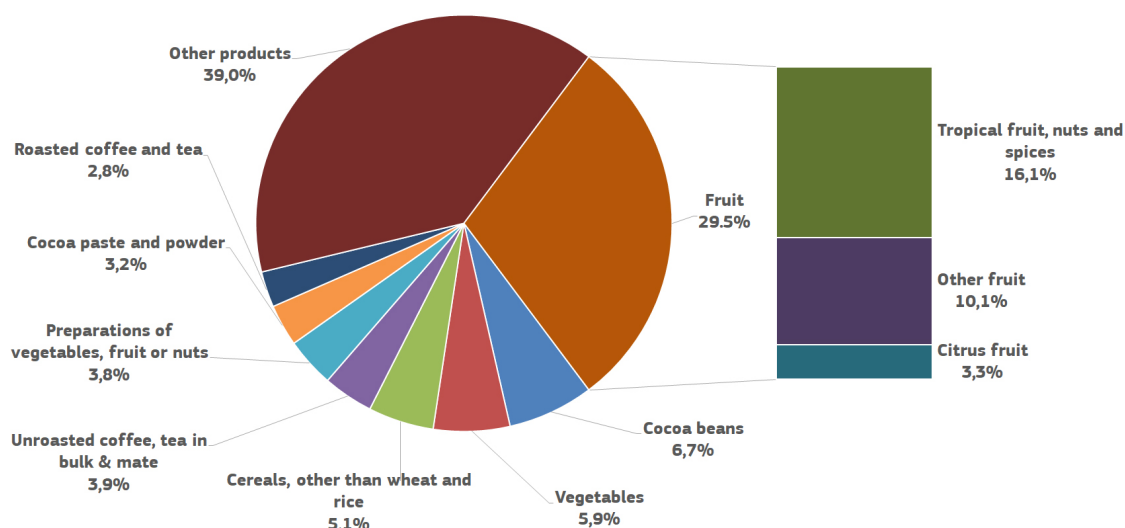
Trade agreements also open opportunities for importing counter-seasonal fruit and vegetables or agriculture commodities not produced in the EU or not produced in sufficient quantities, but which are important inputs for the EU food industry.

EU agrifood exports to FTA partners, 2018



In 2018, EU agri-food exports grew by 2.2% (+€1 billion), while imports fell slightly (-0.6%). Growth rates were particularly strong with partner countries of second-generation trade agreements (+5%) and Deep and Comprehensive Free Trade Areas (+11%).

EU agrifood imports from FTA partners, 2018



HIGHLIGHTS IN 2018

- **CETA:** + 4% growth rate in agri-food exports to Canada compared to 2017 (particularly high in citrus fruit, cheese and chocolate). EU producers of premium and industrial cheeses used up their quotas, at 99% and 71%, respectively.
- **FTA with South Korea:** + 12% growth in EU pig meat exports (South Korea is the EU's third largest export market for such products).
- **Egypt Association Agreement:** +128% growth in EU sugar exports to Egypt (=510,000 tonnes) thanks to the agreement which eliminated the 20% import duty otherwise applied by Egypt.
- **Beef exports to FTA partners surged:** beef exports to FTA partners increased by 20% or 160,000 tonnes, representing two third of EU total beef exports.

All the EU's new trade agreements include provisions for protecting geographical indications. These are signs used on traditional food and drink products from a specific geographical origin and which possess qualities or a reputation that are due to that origin. Since the entry into force of CETA, 143 names of food products are protected in Canada. Thanks to CETA, Canada has established a legal framework for protecting EU food products with geographical indications. In 2018, this framework made it possible for Prosciutto di Carpegna to also get protection in Canada following a direct application by its European producers.

6. REMOVING BARRIERS TO TRADE

EU companies still face a number of unfair measures in partner countries. These obstacles range from discriminatory practices, in particular in public tenders, to unjustified animal and plant health and hygiene measures.

EU trade agreements set up committees and working groups where the parties can:

- raise any issue that may occur with the way commitments are implemented;
- make progress in removing trade barriers and improving the investment climate

PROGRESS ON REMOVING TRADE BARRIERS: SOME EXAMPLES

- After almost 20 years, South Korea lifted import restrictions on beef and beef products from some Member States. Producers from Denmark and the Netherlands are the first to be able to resume exports.
- Egypt agreed to progressively lower tariffs on certain motor vehicles from the EU.
- Peru is gradually improving market access for agri-food products, such as breeding plants from Spain and the Netherlands.
- Chile opened its dairy market for 4 more Member States (bringing the total to 20), 2 more for beef (total: 10 Member States), one additional for pork (total: 12 Member States) and 4 more for meat products (total: 12 Member States).
- Mexico discontinued costly on-the-ground pre-shipment inspections, granting market access for stone fruit (Spain) and apples and pears (Portugal); Mexico also opened its dairy market for products from Portugal and Sweden.
- South Africa lifted the import ban on poultry meat from Poland and Spain.
- Japan has during the negotiation and after the agreement entered into force lifted its import restrictions on beef from some EU Member States, now 12 Member States are approved to export beef.

7. PROGRESS ON TRADE AND SUSTAINABLE DEVELOPMENT

The Commission is enhancing the implementation of the trade and sustainable development chapters of its free trade agreements guided by its 15-point action plan from February 2018. Concrete results are starting to emerge.

STRENGTHENING THE INTERNATIONAL LABOUR AND ENVIRONMENTAL RULES:

- The Commission's early efforts focused on the ratification of International Labour Organization (ILO) fundamental conventions by partners are starting to pay off: Mexico and Vietnam ratified the ILO Convention 98 on right to organise and collective bargaining in November 2018 and in July 2019, respectively.
- EU trade agreements with Vietnam, Japan, Singapore, Mercosur and Mexico include reinforced commitments to effectively implement the Paris Agreement on Climate Change.
- The EU and Canada decided to intensify cooperation on the implementation of the Paris Agreement with joint actions supporting trade's role in the transition to low greenhouse-gas emissions.

SUPPORTING THE ROLE OF CIVIL SOCIETY:

- The Commission launched a €3 million project to support civil society's monitoring role in the implementation of the trade and sustainable development commitments in EU trade agreements. This project provides logistical and technical support to all EU domestic advisory groups set up under modern EU trade agreements. It also supports the domestic consultation mechanisms of the EU's trade partners, such as Central America, Colombia-Ecuador-Peru, CARIFORUM, Georgia, Moldova, Southern African Development Community and Ukraine.

- The Commission launched a €9 million programme in cooperation with the ILO, the Organisation for Economic Cooperation and Development (OECD) and the United Nations High Commissioner for Human Rights (UHCHR) to promote corporate social responsibility/responsible business conduct in Latin America. This complements a similar project that is already being implemented in Asia.

8. LEVERAGING TRADE AND INVESTMENT FOR SUSTAINABLE DEVELOPMENT IN AFRICAN, CARIBBEAN AND PACIFIC (ACP) COUNTRIES

The core objective of the EU's Economic Partnership Agreements (EPAs) concluded with several African, Caribbean and Pacific countries and regions is to foster long-term economic development and poverty reduction in partner countries. Economic Partnership Agreements expand the choice and affordability of goods and inputs for local consumers and producers, offer ACP exporters free market access to the EU and reassure local and international investors who seek a predictable investment climate. The agreements are asymmetric in nature. For example, while the EU immediately and completely opens its market to all goods originating from these countries, partner countries only gradually open carefully selected sectors of their economies. These agreements are also accompanied by Aid for Trade.

SOME RECENT DEVELOPMENTS

1. Exports to the EU from the 31 ACP countries currently in EPAs increased on average by 5%.

For example:

- vanilla (+€50 million or 12.7%) and textiles (+€25 million or 7.3%) from Madagascar
- grapes (€65 million or +28%) from Namibia
- cocoa butter, fat and oils (€72 million or +27%) from Cameroon
- cashew nuts (€11 million or +76%) from Mozambique.

2. Exports from EPA implementing countries are gradually diversifying: Manufacturing exports to the EU increased by 7.7%.

3. More African, Caribbean and Pacific countries joined the EPAs: Comoros and Samoa acceded to the EPAs with Eastern and Southern Africa and the Pacific, respectively.

4. More partners started to open up: In early 2019, Côte d'Ivoire and Mozambique started to reduce import tariffs for some European products, such as chemicals, electrical machinery and transport equipment.

5. EPAs come with dedicated development funds aimed at boosting trade. For example, in a trade facilitation project in Lesotho, the EU has helped fund a one-stop export application facility. It used to take seven days to complete export formalities and exporters used to fill in a 23-page document; today the form is only two pages long.

9. ENFORCEMENT ACTION OF PROVISIONS UNDER EU TRADE AGREEMENTS

In 2018 and 2019, the Commission took action to settle disputes with South Korea, Ukraine and the Southern African Customs Union because they had not honoured certain commitments in the trade agreements.

EU-South Korea Free Trade Agreement: The EU requested the establishment of a panel following South Korea's failure to ratify International Labour Organization Conventions on workers' rights, notably freedom of association and collective bargaining.

EU-Ukraine Association Agreement: Following unsuccessful consultations, the EU requested a panel to address an export ban of all unprocessed wood from Ukraine.

EU-Southern African Development Community (SADC): The EU requested consultations to settle a dispute after the decision of the Southern African Customs Union's⁴ decision to impose a 35.3% unjustified safeguard duty on EU exports of frozen chicken.

⁴ SACU comprises South Africa, Botswana, Eswatini, Lesotho, Namibia