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

on Implementation of Free Trade Agreements

1 January 2017 - 31 December 2017

{SWD(2018) 454 final}

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TABLE 1 OVERVIEW OF THE AGREEMENTS COVERED BY THIS REPORT (PART 1)

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

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

TABLE 1 OVERVIEW OF THE AGREEMENTS COVERED BY THIS REPORT (PART 2)

<u>"First generation" FTAs</u>	
Partner	Applied since
EU-Chile Association Agreement	1 February 2003
EU – the former Yugoslav Republic of Macedonia SAA ²	Interim Agreement on trade 1 June 2001
EU-Albania SAA	Interim Agreement on trade 1 December 2006
EU-Montenegro SAA	Interim Agreement on trade 1 January 2008
EU-Serbia SAA	Interim Agreement on trade for Serbia: 1 February 2009; for the EU: 8 December 2009
EU-Bosnia and Herzegovina SAA	Interim Agreement on trade 1 July 2008
EU-Kosovo ³ SAA	1 April 2016
<u>Economic Partnership Agreements (EPAs)</u>	
Partner	Applied since
EU-Pacific	28 July 2014: Fiji; 20 December 2009: Papua New Guinea.
EU-Cariforum	29 December 2008: Antigua & Barbuda; Belize; Bahamas; Barbados; Dominica; Dominican Republic; Grenada; Guyana; Jamaica; St. Kitts & Nevis; Saint Lucia; St. Vincent & the Grenadines; Suriname; and Trinidad & Tobago.
EU-Eastern and Southern African (ESA) sub-region	14 May 2012: Madagascar, Mauritius, Seychelles and Zimbabwe.
EU- Central Africa EPA	4 August 2014: Cameroon
EU-SADC (Southern African Development Community) EPA	10 October 2016: Botswana, Lesotho, Namibia, South Africa and Swaziland; 4 February 2018: Mozambique.
EU-Ghana Interim EPA	15 December 2016
EU- Côte d'Ivoire Interim EPA	3 September 2016

² Stabilisation and Association Agreement

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

1. INTRODUCTION

1.1. Why this Report?

Bilateral and regional free trade agreements (FTAs) are major drivers of economic growth. Through harnessing globalisation, they bring important benefits for the people and companies in the European Union (EU) and in our partner countries. FTAs are major contributors to the EU's external trade performance as they open up new markets for exporters and offer a more predictable, rules-based business environment beneficial to consumer choice and competition. While removing tariffs and behind-the-border non-tariff barriers remain key features of trade agreements, other elements are gaining in importance. In particular, rules supporting free and fair trade (e.g. related to IPR protection and competition rules), but also rules protecting labour rights and the environment have come to the fore. In addition, some FTAs may offer an opportunity for closer cooperation between the parties on a range of issues, from research and innovation to standardisation and climate change.

As the number of trade agreements concluded by the EU has been increasing, so has public interest in their impacts. To analyse the real and potential benefits of major trade agreements⁴, the Commission itself in its "[Trade for All](#)" Communication⁵ committed to take stock annually on how these agreements are being implemented, shedding light on progress but also the challenges that remain and the steps the Commission is taking so that FTAs can reach their full potential.

In line with the [first report](#)⁶ published in November 2017 this second Annual Report on FTA Implementation (hereinafter: "the report") is meant to increase awareness and transparency on how the Commission implements FTAs. The report should enable the other EU institutions, EU Member States, civil society, business and everyone with a stake in EU trade policy to scrutinise and debate how the EU is applying its FTAs. The information gathered through this exercise will also inform future trade negotiations. In addition, the report also provides useful insights about the extent to which developing countries are benefitting from FTAs with the EU, and on how to better tailor development assistance in line with the newly updated [Aid-for-Trade strategy](#).

1.2 Data used for the report

General trade statistics⁷ in the report on the evolution of trade and investment flows use, except where indicated otherwise, EUROSTAT data (COMEXT) as was available on 15

⁴ An overview of all trade agreements concluded and negotiated by the EU can be found at : http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf

⁵ European Commission, Communication "Trade for All: Towards a more responsible trade and investment policy", COM (2015) 497.

⁶ Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 17 November 2017; Brussels, 9.11.2017 COM(2017) 654 final

⁷ General statistics on trade flows in goods and services for each FTA partner country can be found in the SWD.

July 2018.⁸ Except where indicated otherwise, the most recent annual data available for trade in goods is for 2017, that for services and investment, 2016. Statistics on preference utilisation rates (PURs)⁹ are based on administrative data collected by the importing country. PURs show to what extent trade flows make use of preferences under a trade agreement. The PUR reflects the share of imports or exports entering under trade preferences as a share of the total value of imports or exports *eligible* for preferences by partner country, i.e. total value of imports or exports eligible for use of preferences divided by the imports/exports that actually entered under the preference scheme. Preference eligible imports/exports exist if the applied preferential tariff is lower than the applied Most Favoured Nation (MFN) tariff. Subsequently MFN-duty free trade is not included in the calculations.

The PUR on imports into the EU from FTA partners is based on Eurostat figures. Eurostat merges tariffs and trade flows to build a dataset from which the Commission extracts information on both the treatment a product is eligible for and the extent to which this eligible treatment is used. The dataset obtained is harmonised and consistent¹⁰ and allows for comparison across partner countries and years.

By contrast, to calculate the PURs on exports from the EU to FTA partners the Commission uses administrative data collected by the respective importing third country concerned. These statistics are not harmonised. Hence, direct comparisons between partner countries or with EU imports should merely be seen as indicative. PURs are only provided where sufficiently reliable data was available.

1.3 Coverage and structure of the report

The present report provides an update of the Commission's activities in FTA implementation and summarises the main developments regarding 35 major EU trade agreements with 62 partner countries that were applied at least for several months in 2017 (see Table I). Detailed information on each individual agreement can be found in a Staff Working Document accompanying this report.

- Section 2 sums up some of the main findings across the main areas covered by the agreements, describing progress achieved and outstanding issues.
- Sections 3-6 cover the highlights within each category of FTA:
 - "New generation" FTAs (section 3)
 - Deep and Comprehensive Free Trade Areas (DCFTAs; section 4)
 - "First generation" FTAs (section 5) and
 - Economic Partnership Agreements (section 6).

⁸ As regards the Association Agreement with Central America, there are significant differences between EUROSTAT and Central American statistics; for reasons of consistency, only Eurostat data are used.

⁹ Information on PURs per partner country can be consulted in Annexes 1 and 2.

¹⁰ However, some margin of error is still possible since the data does not capture certain changes in the preferential status of imports, such as claims for preferences made by importers after the goods have been declared to customs and denial of preferences decided by customs after verification post-release of the goods.

- Section 7 looks at the implementation of commitments related to Trade and Sustainable Development (TSD).
- Section 8 takes stock of agri-food trade under FTAs.
- Section 9 examines the Commission's ongoing work to raise awareness and improve uptake of FTAs.
- Section 10 reflects the state of play in regard to legal enforcement.

THE STATE OF EU TRADE

2018



- EU & Customs union (Andorra, Monaco, San Marino, Turkey)
- European Economic Area (Norway, Iceland, Liechtenstein)
- Applied preferential trade agreement (FTA, EPA, DCFTA)
- Preferential agreement awaiting application
- Pending negotiations for a preferential trade agreement
- Potential preferential trade partners
- Pending negotiations for a stand-alone investment agreement
- Preferential agreement in the process of modernisation

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2. OVERVIEW OF MAIN FINDINGS

2.1 Background

FTAs are major catalysts in opening markets and generating the framework conditions conducive to trade and investment. Trade agreements enable EU companies to increase their exports and imports, which contributes to increasing the EU's gross domestic product (GDP). A clear link has also been established between (EU and foreign) employment and value added generated by EU exports to the rest of the world.¹¹ But FTAs also pursue a range of additional objectives, both general and specific to the partner country or region. The EU is committed to ensuring that trade policy is also about promoting values, such as the protection of human rights, labour rights, the environment and the fight against climate change.

In addition, the Deep and Comprehensive Free Trade Areas (DCFTAs) with our Eastern Neighborhood partners Moldova, Ukraine and Georgia rely heavily on gradual legal approximation of these countries to the EU acquis. The Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific (ACP) countries are asymmetric agreements that provide our partner countries with duty-free, quota-free access to the EU market, flanked by technical assistance and development aid measures. The agreements with the Western Balkans are built on a strong European perspective of these countries aspiring towards future EU membership.

FTA implementation is, by its nature, trailing the negotiation process and will have to be adjusted to ensure the achievement of the specific policy objectives of the agreement at stake. Meaningful conclusions can only be drawn once an agreement has been applied for several years. In order to examine their impacts the Commission carried out ex post evaluations for the EU's "first generation" FTAs with Chile (2012) and Mexico (2016), and is about to complete an in-depth analysis of the EU's first "new generation" Agreement with South Korea. The conclusion in 2016 of the Comprehensive Economic and Trade Agreement (CETA) with Canada marked new milestones in terms of scope and content and this will also be reflected in its implementation.

The more ambitious and comprehensive a trade agreement is the more complex and resource-intensive its implementation will be. It is thus nowadays even more crucial to monitor the functioning of our main FTAs periodically and systematically. The findings of what does and does not work under our different agreements can inform the negotiation of new agreements and the modernisation of existing ones. The Commission thus puts the emphasis on a smooth transition from negotiation to implementation phase and an improved preparedness for the day a new agreement will start to be provisionally applied, as can be seen from CETA and the Economic Partnership Agreement with Japan. Effective FTA implementation can therefore be seen as part of the trade policy cycle.

11 See Article by José M. Rueda-Cantuche and Nuno Sousa of February 2016: "EU Exports to the World: Overview of Effects on Employment and Income"; http://trade.ec.europa.eu/doclib/docs/2016/february/tradoc_154244.pdf

2.2 Trade in goods¹²

Total EU trade under FTAs in 2017 amounted to 1179 billion EUR, which is around 32% of EU total trade with third countries (around 3737 billion EUR in that same year). Our largest trade partners for trade under FTAs are Switzerland, accounting for 7% of total EU external trade, followed by Turkey with 4.1%, Norway with 3.4% and South Korea with 2.7%. Total imports under EU FTAs in 2017 amounted to around 542 billion EUR, whereas total exports were in the order of 637 billion EUR.

In 2017, overall trade in goods increased, in particular regarding EU exports. Where EU exports decreased, it seems to be caused mainly by external factors¹³ affecting the economy of the partner country concerned and not the result of any malfunctioning of the FTA as such. A sectoral analysis of trade flows showed considerable increases in EU exports of agri-food products and motor vehicles to some of our "new generation" FTA partners. At the same time a lot of untapped potential remains in certain sectors, such as transportation equipment or machinery where the underlying value of exports and potential duty savings are comparatively high across all EU Member States and FTA partners. For example, according to a recent study conducted by DG TRADE, EU exporters could save an estimated 15 billion EUR annually if they fully used the preferences offered by 18 EU FTAs.¹⁴

2.3 Preference Utilisation Rates (PURs)¹⁵

PUR on imports into the EU from FTA partners

In 2017 some positive developments could be observed in particular for the Latin American countries Chile and Mexico and EFTA partners Norway and Switzerland, who were able to make better use of FTA preferences granted by the EU. Overall, the Mediterranean FTA partners made good use of the FTA preferences, as did some Andean countries like Ecuador. Central American countries also show an upward trend, notably El Salvador and Panama.

PUR on exports from the EU to FTA partners

Calculating the preference use on exports from the EU to FTA partners remains a challenge in many cases, due to the absence of data or lack of reliable data. It should be noted that, as was the case last year, data on the PUR of exports from the EU to FTA partners was again *not* readily available from all FTA partners and in some cases data received appeared to be unreliable or inconsistent.¹⁶ This is due to the fact that each partner country uses its own

¹² Source: Eurostat

¹³ The specific political and geopolitical context can have an impact on trade flows as can other factor, not necessarily related to the implementation of the FTAs.

¹⁴ See study by Nilsson and Preillon (2018),
http://trade.ec.europa.eu/doclib/docs/2018/june/tradoc_156931.pdf

¹⁵ The underlying concept is further explained in Section 1.3 above. PURs per partner country are provided in Annex 1 and 2.

¹⁶ For example, the reported preferential imports sometimes concern tariff lines not falling under any preference. Sometimes there is a wide difference between reported total imports and exports as given by

method of collecting and reporting imports. In some cases the insufficiency is due to capacity shortcomings and a lack of expertise, while some countries claim not to collect these data at all.

The Commission has raised the issue with partner countries concerned, using the institutional structures under its FTAs to promote periodic exchanges between the parties. In the most recent FTAs starting from CETA a binding provision on a periodic exchange of trade data will be included.

On the basis of the information at the Commission's disposal there were improvements in the PUR on exports from the EU to a number of FTA partners, as was the case for South Korea, where PURs have been increasing for four consecutive years, as well as for Georgia and Chile. The PUR on exports from the EU to our largest FTA trade partner, Switzerland, remained stable at around 80%. Notwithstanding these positive developments, the utilisation of FTAs by EU exporters still leaves room for improvement. The Commission is working to enhance the uptake of FTAs by EU companies, using a mix of measures aimed at providing more timely information and practical guidance on complex issues, like rules of origin. The Commission is also working to improve its Market Access Database and Trade Helpdesk, in close cooperation with EU Member States and the business community, to adjust them to the needs of small and medium-sized enterprises (SMEs).

2.4 Services and investment

All "new generation" FTAs and DCFTAs contain ambitious provisions on services and investment. The most recent ones (e.g. CETA or the Economic Partnership Agreement (EPA) with Japan help to establish and solidify a regulatory framework to facilitate the provision of services, while protecting consumers. CETA and the EU FTAs with Singapore and Vietnam also contain state-of-the art investment protection provisions. EU FTAs go beyond the WTO as they liberalise investment not only in services but most economic sectors, including manufacturing and agriculture. This makes doing business easier for EU service providers and investors, offering a more predictable environment and increased legal security.

This being said, lack of disaggregated data makes it difficult to measure the precise impact of FTAs on services trade and foreign direct investment (FDI). The effects of FTAs in services would thus need to be studied in more detail to get a clearer picture. Here are some of the most important findings so far:

- ✓ Services trade has increased under the "new generation" FTAs with South Korea, Colombia, Ecuador, Peru and Central America, since their entry into force. For example, in the case of Central America, services trade in 2016 reached almost 40% of the value of total trade, with Panama alone accounting for over half of this increase.
- ✓ A similar upward trend can be observed for the "first generation" agreements with Chile and Mexico. The modernised agreements will bring further improvements. In particular,

Eurostat. The Commission corrects these discrepancies by elimination of trade in tariff lines for which no preference exists according to DG Trade's Market Access Database (e.g. where MFN=0).

Mexico has committed to keep its services markets widely open to EU suppliers, with comprehensive and ambitious concessions.

- ✓ "First generation" agreements with our Mediterranean partners have only very limited provisions on investment and services as they focus mostly on goods. Evolution of trade in services and investments has in general been positive, notwithstanding the recent decrease in some countries' tourism services due to instability or security concerns.
- ✓ The value of services trade provided by EU companies in Switzerland and vice versa is growing fast, with a positive balance for the EU.
- ✓ Trade in services and investment with Ukraine and Moldova under the DCFTAs continued to rise in 2016, recovering after the economic and political crisis, while this is not yet the case for Georgia.
- ✓ Among the EPAs in place only the one with the Caribbean covers services, investment liberalisation and other trade-related topics, whereas other EPAs have *rendez-vous* clauses for negotiations on these issues at a later stage.

2.5 Progress made and main open issues

The Commission uses the FTA's institutional framework to address concrete problems with partner countries, and successfully did so in 2017¹⁷. Here are some of the main achievements and outstanding issues to date:

Sanitary and Phytosanitary (SPS) measures

- ✓ Chile opened its market for EU beef, removing the last remaining obstacles for meat cuts and adjusting the terms of the export health certificate.
- ✓ Peru provided nearly full market access for dairy products from the EU.
- ✓ Colombia, Costa Rica and Panama improved SPS procedures, including prelisting of EU establishments.
- ✓ Moldova adopted and started to implement a SPS strategy and Georgia adopted a legislative roadmap.
- European beef exports to South Korea remain banned. This issue was again raised at the SPS Committee on 6 September 2017.
- In Colombia, some cumbersome SPS related procedures persist, in relation to plant products; in Peru, there is limited progress on the approval of harmonised certificates for the import of meat products.

¹⁷ See also the 2018 Commission's Trade and Investment Barriers Report:
http://trade.ec.europa.eu/doclib/docs/2018/june/tradoc_156978.pdf

- For some of our DCFTA partners, as for example Georgia, the institutional capacity in terms of food safety control still needs to be enhanced; Moldova needs to upgrade its laboratory diagnostic capacity for monitoring and surveillance of animal diseases.

Technical and administrative barriers to trade

- ✓ Mexico lifted barriers regarding the registration and approval of health products and agri-chemicals.
 - ✓ Turkey abolished export restrictions on copper and aluminium scrap and removed paper products from the scope of its import surveillance scheme.
 - ✓ Colombia modified its laws to create a level playing field for imports and sales of domestic and imported spirits and announced the creation of a level playing field for imported trucks (although these commitments are still to be implemented).
-
- Ukraine continued banning the export of wood logs with little progress on pending forest legislation that was supposed to remove this trade restriction.
 - Some Mediterranean countries, including Algeria, Egypt, Morocco and Tunisia, apply burdensome registration schemes, certification processes, technical controls in ports and pre-shipment inspections for industrial products, or local content requirements for public tenders.
 - In Turkey, trade restrictive measures included discrimination against EU exports of tractors, export restrictions on leather products as well as Turkey's localisation policy in the pharmaceutical sector.

Geographical Indications (GIs)

- ✓ The EU GI 'Prosecco' and the corresponding international trademark are now legally protected in Moldova.
- In case of South Korea, there have been difficulties to add further EU GIs to the list protected under the FTA.

Public procurement

- ✓ Ukraine adopted a comprehensive roadmap on public procurement, a further step towards a more transparent and open public procurement system.
- Due to lack of transparency EU competitors cannot yet benefit from the opening of local procurements markets in some countries of the Eastern Partnership.

Business climate, investment, access to markets by SMEs

- ✓ Mexico improved access to FDI by removing equity caps for important sectors, including telecom, energy and insurance institutions.
- ✓ Several countries in the Euro-Mediterranean region made changes to their laws regulating investments in an attempt to attract more FDIs: For example, Egypt and Tunisia enacted a new Investment Law, Algeria modified its Investment Code, Palestine adopted a number of legislations aiming at improving the investment climate and Jordan and Morocco established new institutions to develop investments. Effective implementation will be key for the success of such measures.
- Corruption and poor governance continued affecting EU businesses in some of the Western Balkan and Eastern Neighbourhood countries.

3. NEW GENERATION FTAs: SOUTH KOREA, COLOMBIA-ECUADOR-PERU, CENTRAL AMERICA, CANADA

For the purpose of this report "new generation" FTAs are comprehensive FTAs negotiated after 2006 with selected third countries. Of the applied agreements, the ones with South Korea, Colombia, Peru, Ecuador, Central America and Canada, belong to this category. These agreements typically go beyond tariff cuts and trade in goods and also cover services and public procurement. The agreement with South Korea and Canada also contain provisions on heightened investment liberalisation and CETA in addition covers investment protection (although not yet provisionally applied) and regulatory cooperation. Solid provisions on trade and sustainable development (TSD) are a core part of all "new generation" trade agreements concluded since 2010.

3.1 EU-SOUTH KOREA FTA

Evolution of trade and preference utilisation

The FTA has been applied for seven years. In 2017 EU trade with South Korea grew more robustly (5.7% per annum on average over the past 7 years) than overall external trade between the EU and third countries which grew at 3.8%, with the FTA as a pillar of this development. EU imports increased more strongly than EU exports, supported by the revival of the EU economy and strong domestic demand on the EU side.

EU exports to South Korea in motor vehicles increased again by 7.3%, after decreasing by 7.5% in 2016.

EU exports to South Korea and imports from South Korea in the agri-food sector increased by 10% and 11% respectively, exceeding the growth rate observed for EU agri-food exports and imports across all FTA partners taken together (which corresponded to 4% and 5%, respectively). Tariff rate quotas (TRQs)¹⁸ for sensitive agricultural products were also better used by EU exporters than in the previous two years.

In 2017, the EU registered a surplus of 2.6 billion EUR in agri-food trade with South Korea. Looking at the time period between 2010 and 2017, EU agri-food exports to South Korea have increased by 113%, imports from South Korea by 212% (albeit the latter from a very low value, from 65 to 203 million EUR).

The PUR on exports from the EU to South Korea was 74.3%, the highest rate ever. The PUR on imports into the EU from South Korea also slightly increased from 87% in 2016 to 88% in 2017.

EU trade in services with South Korea represents approximately 1% of extra-EU trade in services. Between 2010 and 2016 EU exports of services increased by 70%. In 2016, EU exports slightly decreased by 3.6% and EU imports decreased by 3.3%, when compared to 2015. Over the same period, EU inward FDI stocks increased by 46% and EU outward FDI stocks (EU investments in South Korea) increased by 34%.

¹⁸ TRQs set a quantitative threshold for a designated time period for imports of a protected domestic product. Imports above the threshold are subject to a higher tariff.

Korea's thirst for Italian wine

The Col d'Orcia winery estate has been producing wine in Tuscany since 1890, famous for its Brunello di Montalcino wine typical for the region. Col d'Orcia has been exporting its wine around the world for 45 years, using EU trade agreements. A particularly strong market for Col d'Orcia is South Korea, as the EU-Korea FTA has lifted customs duties enabling the company to offer its products at much more competitive prices. Col d'Orcia now exports more than 1500 bottles of wine each year.

Swedish nanotech company Insplorion conquers Korea

Swedish company Insplorion uses cutting edge nanotechnology to produce ultra-high performance battery sensors, air quality sensors and research equipment. Insplorion offers a technology used to measure and address air pollution and increasing energy output, in particular through an improved charge rate at lower costs. Its solutions can be used for a multitude of purposes, from increasing the range of electric vehicles to cheaper energy storage and safer batteries. In view of increasing urbanisation and air pollution in countries such as South Korea the need for competitive air quality sensors has grown exponentially. The EU-Korea FTA has made it much easier for Insplorion to sell its based research instruments to Korean battery makers. The agreement also supports the strategic cooperation between Insplorion and its Korean partners, which is crucial to foster innovation.

EU trade deal secures jobs in German engineering sector

Kolbus, founded in 1775, is a German company from North Rhine-Westphalia specialising in book binding and paper processing machines. Thanks to the EU-Korea FTA a German manufacturer has found profitable markets in South Korea. Since 2015, Kolbus has doubled its export output to South Korea. A decisive factor in Kolbus' success is that customs duties have fallen from 8% to nill under the agreement, leading to potential savings of at least 25. 000 EUR/machine. Machinery are the second most important German export article at a total value of around 3.14 billion EUR, only trumped by motor vehicles (export value of 6 billion EUR annually).

Labour Rights

The Commission continued to express its serious concerns and stepped-up its messages vis-à-vis the new South Korean government regarding labour commitments under the FTA.

The issues raised included insufficient progress on labour reforms necessary to ensure respect for the principle of freedom of association and right of collective bargaining stemming from Korea's membership in the International Labour Organisation (ILO), and on the ratification of four outstanding fundamental ILO conventions¹⁹. The Commission recalled also the [European Parliament's report](#)²⁰ and civil society calls for initiating a formal dispute settlement procedure under the TSD chapter of the FTA.

Following EU interventions South Korea has recently communicated to the EU the steps the government intends to take domestically towards ratification of four outstanding fundamental ILO conventions (see: [Summary of Discussions at the 6th TSD Committee](#)). South Korea's approach is to carry out the necessary legal changes before adhering to the ILO conventions. South Korea has taken some steps communicated to the EU. The Commission continues to closely monitor this process and will respond accordingly to developments in South Korea.

Ex post evaluation of the EU-South Korea FTA

In accordance with its Communication "Trade for All" the Commission is currently preparing the release of its first ex post in-depth analysis of the performance of the EU-South Korea FTA. The lessons learnt will help improve the design of other FTAs currently negotiated as well as the implementation of FTAs recently concluded.

3.2 EU TRADE AGREEMENTS WITH COLOMBIA, ECUADOR, PERU

The Trade Agreement with Colombia and Peru in its fifth year of implementation is functioning well. It had a stabilising effect in the context of declining commodity prices which affected the economy of Andean Community countries in 2015-2016. The Agreement has created important business opportunities, which are being increasingly seized by businesses from both sides. In January 2017, Ecuador joined the Agreement with Colombia and Peru.

The Agreement showed a very positive impact on SMEs. For example, according to Colombian statistics, even when leaving the mining sector aside, a total of 1,155 Colombian companies were exporting to the EU in 2017, among them 328 SMEs and 582 microenterprises.

¹⁹ Convention 87 on freedom of association; Convention 98 on the right to organize and collective bargaining; Convention 29 on forced labour; and Convention 105 on abolition of forced labour

²⁰ European Parliament resolution of 18 May 2017 on the implementation of the Free Trade Agreement between the European Union and the Republic of Korea (2015/2059(INI))

Evolution of trade and preference utilisation

In 2017, reversing the trend observed in 2015 and 2016, all three partners reported an increase in bilateral trade with the EU – 7% for Colombia, 16% for Peru, and an impressive 20% in the first year of implementation with Ecuador.

The PUR on imports into the EU from Colombia and Peru remained stable at a rate of 97% and 96% respectively, and Ecuador used preferences at 97%. The PUR on exports from the EU to Colombia for 2017 was 68%, a slight decrease from 71% in 2016; 52% for Peru and 42% for Ecuador.

EU exports of agricultural products continued to increase with its three Andean partners and are expected to further expand after a full implementation of the SPS chapter. Colombia and Peru have improved the use of their TRQs in 2017 and the same is true for EU exporters. For Ecuador, which just joined the Agreement, the usage on both sides is still low. In 2017, the stabilisation mechanism for bananas was extended to include Ecuador. In addition to the agricultural sector, several industrial sectors, including pharmaceuticals, machinery and motor vehicles, have also benefitted from improved market access.

Services trade remained rather stable, with the EU registering a substantial surplus with all partners. The EU remains the largest foreign investor in Colombia and Peru. EU FDI stocks in Ecuador remain at lower levels, due to complex regulations and legal procedures and shortcomings in judicial enforcement of contracts.

Peruvian & Colombian fruit an essential ingredient in Luxembourg firm's growth

Harald-Sven Sontag's company TUKI headquartered in Luxembourg produces and sells exotic fruit juices in Luxembourg, Belgium, France and Germany. To offer high quality natural products Sontag uses guanabana lulo and mora fruits, imported from Colombia. Sales outside of Luxembourg account for 20% of turnover and Harald-Sven is now aiming to double sales.

Helped by the EU's trade deal and with its rising popularity requiring ever larger quantities of fruit, TUKI is now planning to source fruit directly from Colombian producers. Buying directly will help Harald-Sven to further expand his business.

A cable car for Bogotá, made in Austria

Having started out as a small workshop, Doppelmayr, based in Vorarlberg/ Austria, has become a world-leading cable car maker. The EU-Colombia FTA helped Doppelmayr to expand in South America. Thanks to the EU-Colombia agreement, Doppelmayr has built a cable car carrying 2600 people an hour which is scheduled to be added to Bogota's public transport system in 2018. Doppelmayr's success benefits local Austrian suppliers: contracts with companies based around Wolfurt are worth over 50 million EUR. Doppelmayr's contribution to Vorarlberg's economy stands at around 158 million EUR a year, while annual orders from Austrian businesses are worth 325 EUR million.

EU-Colombia FTA gives wings to Kaeser Kompressoren

KAESER Kompressoren, a medium-sized family owned firm from Bavaria/Germany, was founded a 100 years ago, manufacturing compressed air systems produced in its plants in Coburg (Bavaria) and Gera (Thuringia). Today it employs 6000 people worldwide and exports 90% of its production to countries around the world. The EU Trade Agreement with Colombia enabled Kaeser to grow its Colombian affiliate, Kaeser Compresores, in particular as result of the gradual reduction of the import tariffs, which will completely disappear in 2019. Compresores de Colombia employs 200 people.

"The EU Trade Agreement with Colombia enabled the company to significantly improve sales in the growing Colombian market, as result of reduction of the import tariffs" says Nelson Lopez, General Manager of KAESER Compresores de Colombia.

Progress in implementation and outstanding issues

Several positive steps could be noted in 2017. Colombia, following a challenge brought by the EU at the WTO, ended the restrictions on imported spirits by amending its spirits law. In parallel Colombia also announced the creation of a level playing field for imported trucks, although these commitments are still to be implemented. Furthermore, Colombia clarified its commitments under the government procurement annex of the Agreement, which should improve access for EU companies for tenders at the local level. Peru granted nearly full market access for dairy products.

Outstanding issues that the Commission is tackling with its partners in the Trade Committee include technical barriers to trade in Colombia and tax discrimination in Peru, which applies a preferential tax treatment for "Pisco", discriminating against imported spirits. EU agri-food exports still face restrictions through cumbersome obligatory import licenses and arbitrary limits on TRQs applied by Ecuador. Furthermore, the EU is still seeking to obtain acceptance by its three Andean FTA partners of splitting of consignments for originating products transiting a third country.

Labour and environmental rights

There has been increasing openness by the EU's Andean FTA partners to discuss the implementation of labour and environmental provisions under the TSD chapter. The EU engaged in cooperation activities with all three partner countries, including on labour inspection and labour formalisation with Peru, and on the implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the circular economy and corporate social responsibility with Colombia. With Ecuador actions were put in place throughout the year to raise awareness and build capacity to assist the initial stage of implementation of the TSD chapter.

Important challenges remain for all three Andean FTA partners. Peru needs to significantly improve its domestic consultative mechanisms and to step up efforts to implement its

substantive obligations. The creation of a domestic advisory group (DAG) in Colombia to complement its existing consultative mechanisms responded to repeated demands by civil society. With Ecuador, there has been constructive engagement in the first year of the implementation of the TSD chapter and work will now focus on concrete points of action.

3.3 EU ASSOCIATION AGREEMENT WITH CENTRAL AMERICA

Evolution of trade and preference utilisation

Five years after its entry into force, the FTA part of the Association Agreement between the EU and six Central American countries (Panama, Costa Rica, Honduras, Guatemala, Nicaragua and El Salvador) has seen a new vitality as EU trade flows with Central America grew by 7.2% in 2017.

Besides trade flows amounting to 11 billion EUR between Central American countries and the EU, the Agreement and its institutional setting, together with EU programs in the region, have been furthering regional economic integration in Central America. EU imports from the region experienced a solid upward trend in five of the six countries in the region. EU exports to Central America rose overall, albeit more modestly.

The use of TRQs improved in 2017 for both regions while focussing on specific products. Central America fully used its sugar and bulk rum quota, while EU exporters improved their use of TRQs, particularly in the case of powdered milk (at 91%).

The PUR on imports into the EU from Central America was again high with an average of 95%. Data to calculate the PUR on EU exports to Central America were not available.

Trade in services between the two regions continued to increase in absolute and relative terms and in 2016 represented almost 40% of the value of total trade. Panama is the destination for around 60% of EU exports to the region and over 60% of total trade in services.

EU investment in the region remained relatively strong. For example, in 2016 EU FDI stocks in Central America were double or more those in Colombia or Peru, with similar or lower trade values and were closer to those with Argentina, which in 2016 had a 50% higher trade flow with the EU.

Labour and environmental rights

A milestone was reached in implementing the TSD chapter, following the establishment of DAGs in all Central American countries. The EU again funded various activities in conjunction with the ILO, the OECD and local civil society amongst others covering the region, with a focus on important topics such as corporate social responsibility and responsible business conduct, including expert meetings. The EU also provided funding to the ILO Regional Office to support the effective implementation of ILO fundamental conventions in El Salvador and Guatemala.

Progress in implementation and outstanding issues

Following a long and arduous process, the Association Committee in 2018 agreed on a mutually satisfactory solution of principle that should pave the way for the full incorporation of Croatia into the Agreement, which will follow the necessary legal requirements to become effective.

The Association Committee recently also considered the issue related to the lack of data required from Central American partners to calculate PURs on exports from the EU to Central America. The Market Access Sub-committee was tasked with identifying the reasons and potential solutions to remedy the shortcomings.

Spanish fish processing company rides on the wave of EU-Central America FTA

Grupo Calvo is a Spanish group of companies dedicated to fishing, processing and distribution of canned goods, that has grown over time from a small canning factory located in the Galician town of Carballo to become an international food group. Today it operates in more than 70 countries and employs over 5,000 people. One of the company's central markets is Central America, where it has its highest sales volume in Costa Rica, followed by Panama and El Salvador.

In 2013, following the entry into force of the trade agreement between the EU and six Central American countries, Grupo Calvo was able to use the quota assigned to Central American partners to export around 160 metric tons of tuna. Since then, continued and steady growth has been witnessed for the Grupo Calvo in Central America over the last couple of years. Since the signing of the Association Agreement, Grupo Calvo has continuously stressed the legal certainty and investment opportunities that the Agreement would bring to the region. This made it easier for the group to enter strategic alliances with national entities that allow local producers and SMEs to make use of best practices. Grupo Calvo has become a leader for innovative business models in Costa Rica.

3.4. EU-Canada Comprehensive Economic and Trade Agreement- CETA

First experiences

Provisional application²¹ only began on 21 September 2017 and conclusions on the impact on trade flows are not yet possible, but benefits have started showing.

- ✓ In the first 9 months of the application of the agreement (October 2017 to June 2018) EU exports of goods to Canada increased by 7%, with peaks in agricultural exports: fruit and nuts (29%) and sparkling wine (11%).

²¹ In accordance with Article 218(5), following authorisation by the Council, the EU may provisionally apply a trade agreement or any other international agreement, in whole or in part, between the signature and the entry into force. Provisional application of treaties reflects a longstanding international treaty practice.

- ✓ Exports in machinery and mechanical appliances (one fifth of EU exports to Canada) also increased by 8%. Exports in pharmaceuticals (10% of EU exports to Canada) increased by 10%. Other important EU exports were also on the rise, as for example furniture (10%), perfumes/cosmetics (11%), footwear (8%) and clothing (11%).
- ✓ The Commission is carefully monitoring the uptake of and gathering information on allocation and transfers of the cheese tariff rate quotas (TRQs).

Steps taken to advance implementation

Work progressed speedily on building the comprehensive institutional framework consisting of 13 committees and 6 specialised dialogues, reporting to the CETA Joint Committee. Several committees met in the first half of 2018, including those dedicated to geographical indications (GIs), SPS, customs and public procurement, e-commerce, wines and spirits, as well as the Dialogues dedicated to "Forest Products" and "Biotech Market Access." More information can be found [here](#).

The first TSD Committee took place on 13 September 2018, the [joint report](#) can be accessed here. The EU and Canada explored, among other issues, joint actions for implementing the Paris Agreement and ways for facilitating involvement of the respective civil society representatives. The Commission and Canada also discussed the early review of the TSD provisions, reflecting the Commission's commitment in the CETA ["Joint Interpretative Instrument" \(JII\)](#).

Furthermore, the Commission, in collaboration with Member States and Canada, prepared [Guidance on rules of origin in CETA](#) for stakeholders, which are being continuously enriched.

With CETA the Commission took another step towards increasing transparency, publishing timely information on the activities of the institutional bodies on a CETA specific ["Meetings and documents" webpage](#).

The new CETA step-by-step guide for businesses and a dedicated CETA space within the [Market Access Database](#) proved highly successful and these instruments can provide inspiration for future agreements.

To monitor and further improve implementation of CETA the state of play was discussed by the [Expert Group on EU Trade Agreements](#) on 11 July 2018.

Polish apples: Ready to reap the fruits of CETA

Warsaw based Ewa-Bis supplies both conventionally-grown and organic produce to over 25 countries. Its owner, Marek Marzec, with the help of EU funding received in 2014, was able to build a business-to-business IT system developing a database of suppliers and customers worldwide. Ewa-Bis has established a foothold in Toronto in expectation of expanding its business to make use of CETA, in particular zero customs duties on its fruit and vegetable exports to Canada. Ewa-Bis will also benefit from simplified and more speedy approvals for exporting plants, fruit and vegetables from the EU to Canada.

Top French cheeses set for Canada's tables

Maison Mons is a French family firm founded in 1964, specialised in refining and selling exceptional cheeses produced in the traditional way. The company sources 190 cheeses from 130 different farms and exports to over 25 countries, including Canada. With CETA now in place, the company is looking forward to increasing its exports, as CETA doubles the current duty-free quota for EU cheese exports to Canada, from 8,000 to 18,500 tons. Maison Mons and its products will also benefit from protection of 140 distinctive European regional food and drink products on the Canadian market.

CEO Herve Mon: "CETA is driving new business. We already have numerous orders for our cheeses from Canadian retailers since the agreement entered into force." Says Laure Dubouloz, Sales director North America: "Since CETA, we have started receiving enquiries from retailers in Canada about our cheeses. For them, the doubling of the duty free quota means they can offer a wider range of high end cheeses. We are excited about this new market opportunity".

Old Irish whiskey goes local in Canada

The Chapel Gate Irish Whiskey Company is Ireland's only Whiskey Bonder, based in County Clare. Founder Louise McGuane sources whiskey from multiple distilleries all over Ireland and matures it in a rack-house on site. When it is ready it is blended to create unique styles. Being a global SME, around 70% of its exports go to markets outside the EU, and revenues are expected to triple next year. Trade agreements like CETA make it easier for smaller companies like Chapel Gate to grow and compete successfully in these markets. In particular, CETA ensures more effective enforcement of the rules protecting its brand from imitation. CETA also reduces red tape, particularly at the provincial level, making facilitating exports.

CEO Louise MaGaune: "The agreement opens the way for small businesses like mine who must export to survive and grow. By lessening the tax burden we can become much more competitive in the global marketplace. Alcohol is generally a heavily protected sector around the world, so breaking down trade barriers is essential for us to access markets we otherwise would not be able to."

4. DEEP AND COMPREHENSIVE FREE TRADE AREAS (DCFTAs)²²

State of play

The EU's Association Agreements with Georgia, the Republic of Moldova (Moldova) and Ukraine aim to deepen political association and prepare for gradual economic integration between the EU and its three Eastern partners in the framework of the Eastern Partnership as part of the European Neighbourhood Policy.

The DCFTAs have two main components:

- reciprocal market opening for goods with some asymmetry benefitting the Eastern partners; and
- far-reaching regulatory approximation to the EU law, notably in trade-related areas.

After more than two years of application with Ukraine and more than four years with Moldova and Georgia good results are becoming visible and trade has been increasing. Legislative approximation is advancing gradually. Its impact in terms of trade dynamics and their sustainability needs to be seen mid- to long-term.

Evolution of trade and preference utilisation

The EU is the largest trading partner of all three countries, in 2017 accounting for 56% of total trade in case of Moldova, 42% for Ukraine and 27% for Georgia. The EU has a positive trade balance with all three countries.

- ✓ Trade between EU and Ukraine has been growing strongly. EU exports to and imports from Ukraine grew by 22% and 27%, respectively, due to a great extent to the stabilization of the economic situation after the economic crisis of 2014-2015.
- ✓ Trade with Moldova also increased, with EU imports growing by 23%, slightly more than exports, which grew by 19% in 2017. The Moldovan economy is growing and Moldovan companies improved their performance as suppliers of machinery, foodstuffs, certain agricultural and textiles' products.
- ✓ EU- Georgia trade increased by 6%, with exports growing by 1.4% only, while EU imports increased by 23%, mainly consisting of mineral products, such ores, slag and ash.

The PURs on imports into the EU from the three DCFTA partners, despite a slight decrease when compared to 2016, remained relatively high with 77% for Georgia, 85% for Moldova and 87% for Ukraine. The PUR on exports from the EU to Georgia strongly increased from 71% in 2016 to 77% in 2017. Data from Ukraine and Moldova was not available.

²² EU-Ukraine DCFTA was provisionally applied since 1 January 2016. DCFTAs with Georgia and Moldova were provisionally applied since 1 September 2014.

Ukraine, Moldova and Georgia fell short of fully using the preferential TRQs for agricultural products granted by the EU, as they do not yet meet all SPS requirements and are facing some problems in positioning their products on the market.

In 2015-2016, EU exports in services to the three partners increased by 6% and imports by 3%, respectively. EU exports to Ukraine increased by 9% while imports decreased by 2%. EU imports from Georgia remained stable while EU exports declined by 33%. EU exports of services to Moldova decreased by 16% while imports increased by 35%.

In 2016, EU FDI flows to Moldova increased by 183% (albeit from a very low level) while Moldovan investment flows into the EU decreased by 145%. Investment flows from Georgia remained stable while flows from the EU to Georgia decreased compared to 2015. EU FDI in Ukraine remained at a low level in 2016.

Progress in DCFTA implementation and outstanding issues

The higher export duties on metal scrap exports to the EU were not applied by Ukraine, while the export ban on raw wood imposed in 2015 remained, despite strong efforts by the EU to get Ukraine to resolve the issues. The constructive approach by the Commission and Ukraine's reluctance to progress means that the Commission is now considering addressing this trade irritant through the dispute settlement mechanism provided for under the DCFTA.

Moldova resolved shortcomings with the protection of the EU GI *Prosecco*, following a ruling by the Supreme Court. Moldova still needs to address concerns related to the lack of transparency in electricity distribution and the ongoing discrimination in respect to a law on local sourcing for retailers. These issues are being discussed in the implementation bodies and at political level.

On SPS measures, good progress was made by Moldova, which adopted and started to implement its SPS strategy in December 2017, while Georgia adopted a legislative roadmap. Ukraine should follow suit in 2018. The number of companies receiving EU authorisations to export agricultural products to Ukraine has been growing.

Ukraine and Moldova have shown interest in starting negotiations on Agreements on Conformity Assessment and Recognition of Industrial Products (ACAAs).

All three countries took encouraging steps in improving their public procurement regimes, and were implementing comprehensive reform strategies. This includes an e-procurement system in Ukraine and Moldova, which should enhance efficiency and reduce corruption.

EU support to reforms

The EU provides financial and technical assistance in all three partner countries to support domestic reforms deriving from the DCFTA and to foster the administrative capacity of institutions that will design and implement these reforms. The EU support covers a wide range of areas such as food safety, technical regulations and standards, public procurement, intellectual property, competition, etc. EU assistance is being delivered using a whole set of modalities (such as Twinning, [TAIEX](#) or the EU Sector Reform Performance Contracts, involving budget support against implementation of policy measures).

EU support for SMEs

SMEs in countries that have signed an Association Agreement, including a DCFTA with the EU, get additional support from the DCFTA Facility for SMEs. This facility will receive approximately 200 million EUR of grants from the EU budget to unlock at least 2 billion EUR of new investments by SMEs. These funds help businesses in Georgia, Moldova and Ukraine to adapt to new market requirements, by streamlining processes and investing in new equipment to comply with EU rules in areas such as quality and safety, energy efficiency and environmental compliance.

Romanian software solutions for banks in Moldova

The Romanian company Allevo headquartered in Bucharest employs 50 staff and provides software solutions that help financial institutions operate, process payments and comply with European and local standards and regulations. As foreseen under the DCFTA Moldova is adopting EU regulations allowing Moldovan banks to better position themselves in the wider financial services market. This opens up business opportunities for Allevo, who is offering solutions tailored to fit the banks' needs. Furthermore, under the DCFTA, EU companies like Allevo, operating in Moldova are now treated like Moldovan companies, making it easier for them to operate. Thanks to the DCFTA, Moldova now bases most of its financial regulation on the EU model, simplifying the sale of EU services.

Polish outdoor equipment company climbs to new heights in Ukraine

Polish company Fjord Nansen based in the village of Chwaszczyno near Gdynia specialises in outdoor equipment such as tents, backpacks, sleeping bags, vacuum flasks and outdoor clothing. As confirmed by its owner, Dariusz Staniszewski, exports are increasingly important to Fjord Nansen. A key market is Ukraine. In 2011 the company exported a record 23% of its production there. The EU-Ukraine trade free trade area, in application since January 2016, facilitates growing the business and unleashing its full potential.

Ukraine fashion company uses FTA as stepping stone to supply leading European brands

Supporting business development and hence greater economic stability in partner countries is a key objective pursued with DCFTAs. "Uzhgorod clothing factory" has been performing to the orders of famous European customers such as Gerry Weber and Marc O'Polo and collaborating with Hugo Boss and Dolce & Gabbana. The Director of the factory underlines as very important the moment when on 1 January 2016 as a result of start of application of the DCFTA the Ukrainian custom authorities started issuing certificates of origin for goods, which ensured the preferential customs duties when imported into the EU. Uzhgorod supplies 400-450 thousand pieces of clothing each year to Europe and has 300 employees.

Labour and environmental rights

The implementation of the TSD chapters has progressed. In Moldova and Georgia civil society advisory mechanisms have been operating for a few years now. The next step for Moldova is to set up a TSD implementation work plan. Georgia adopted a TSD workplan in 2018 and constructive dialogues involving civil society bodies were led on labour standards, in particular labour inspectorates as a key institution for their effective implementation, as well as on environmental and climate change related issues. In Ukraine, the dialogue between the Parties has started, with a focus on sustainable forest management; labour provisions still have to be discussed by the TSD Sub-Committee. The Ukrainian civil society advisory group remains to be established.

5. FIRST GENERATION FTAs

Introduction

For the purpose of this report, "first generation" FTAs are agreements negotiated before the 2006 "Global Europe" Communication" and Stabilisation and Association Agreements (SAAs) with Western Balkan countries concluded between 2009 and 2016. Of the applied agreements, the report covers the following²³:

- FTAs with Switzerland and Norway²⁴, dating from the 1970s
- FTAs with the EU's Mediterranean partners²⁵ as part of Association Agreements concluded in the 1990's
- FTAs with Mexico and Chile (dating from 2000 and 2003)
- Customs Union with Turkey (1995),
- SAAs with five Western Balkan countries (concluded between 2001 and 2016).

Two way trade increased in all cases during the application of the FTAs. PURs on imports into the EU from partner countries varied between 97% (imports from Algeria and Egypt) and 69% (imports from Norway) with an average of 87%. Statistical information needed to calculate the PURs on exports from the EU to partner countries was not available from all partners. Where data was available, PURs varied between 86% (exports from the EU to Israel) and 44% (exports from the EU to Egypt)²⁶. Services are not covered by the "first generation" FTAs, except in the cases of Mexico and Chile.

The EU and Mexico reached an 'agreement in principle' on the trade part of a modernised EU-Mexico Global Agreement in April 2018. Negotiations to upgrade existing FTAs are ongoing with Chile and Tunisia, and have started with Morocco. The Commission has received the green light to start negotiations with Jordan and Egypt, when these countries are ready. The Commission also proposed starting negotiations to modernise the Customs Union with Turkey.

5.1 Switzerland

Evolution of trade and preference utilisation

Switzerland is the EU's largest FTA trade partner and its third largest trade partner overall. EU exports between 2016 and 2017 grew by 6%, slightly more strongly than over the past decade (5%), while EU imports decreased by 9%. The downward trend of the PUR on imports into the EU from Switzerland was reverted in 2017 when the PUR was back to 85%. The

²³ The agreements with Iceland and the Faroe Islands are not covered by this report. The FTA with South Africa has been superseded by the EPA with Southern African Development Community (SADC; see section 6.1).

²⁴ The European Economic Area (EEA) agreement of 1992 with Iceland, Liechtenstein and Norway enhanced the free movement of goods, services, investment and people across that area. It is not subject to this Report.

²⁵ Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine and Tunisia.

²⁶ The Commission is looking into the possible reasons for the low PUR on EU exports to Egypt. Among the possible reasons could be low tariffs for most items or onerous procedures applied by the local authorities to establish the origin.

PUR on exports from the EU to Switzerland has remained stable over the past four years and amounted to 78% in 2017.

Switzerland is the EU's second largest partner in services. The value of services provided by EU companies in Switzerland, and vice versa, is growing fast. Between 2016 and 2017 EU exports of services increased by 12% while EU imports decreased by 26%, more than doubling the EU trade surplus, which amounted to 58 billion EUR in 2017.²⁷ There is no comprehensive services agreement between the EU and Switzerland, only a partial coverage through the Land and Air agreements and the Free Movement of Persons agreement, showing the potential for further trade development.

Improving the institutional setting for EU-Swiss trade

The improvement of the institutional setting for EU-Swiss trade relations, which today are governed by the FTA of 1972 and several sectoral agreements, is also discussed in the broader context of the negotiations on an Institutional Framework Agreement between the EU and Switzerland.

5.2 Norway

Evolution of trade and preference utilisation

Norway is the EU's third largest FTA trade partner and its seventh largest partner for trade in goods overall. Trade in goods is very dynamic between Norway and the EU. Between 2016 and 2017, imports from Norway grew by 22%. Exports to Norway grew also, albeit at a slower pace (by 4.9%).

TRQs granted by Norway for key agricultural products (beef, pork, cheese) have been fully or almost completely utilised by EU exporters since 2012. Norway only used four TRQs granted by the EU.

2017 was the first year since 2013 that the PUR on imports into the EU from Norway (70%) increased again.

New Agreement on agriculture

In 2017, the EU exported agricultural products worth 4.5 billion EUR to Norway and the trend is increasing. The agreement on agriculture signed in December 2017, once provisionally applied, will offer new trade opportunities for EU and Norwegian exporters, with 36 fully liberalised tariff lines and TRQs to be opened by both sides.

5.3 Mediterranean countries

Granting access to the EU market is a key instrument supporting the European Neighbourhood Policy in its objective to promote prosperity in the partner countries. In this context, the FTAs with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine and Tunisia provide for reciprocal liberalisation of all trade in industrial goods and, to different degrees, of trade in agricultural, processed agricultural and fisheries products. They include

²⁷ For Switzerland, data on services for 2017 was already available.

elements of asymmetry in favour of most Mediterranean countries to promote economic development in the region and its closer integration into the EU internal market.

Evolution of trade and preference utilisation

For most of these countries, the EU is the leading trade partner and the main source of imports. The EU is also the main destination for products from the five biggest economies in the region (Algeria, Egypt, Israel, Morocco and Tunisia). While trade has grown on both sides, EU exports to its partners, except for Tunisia and Israel, have grown faster than imports since the agreements came into force, although looking at the period 2016-2017 EU exports grew slower than imports in most cases (with the exception of Jordan, Palestine and Tunisia). EU exports to Algeria and Egypt decreased over the same period, as they face significant trade barriers.

Countries that have progressed relatively more in diversification, such as Morocco, Tunisia and Israel have relatively smaller and steadier trade deficits with the EU. In 2017 Algeria has practically recovered from its trade deficit with the EU and will probably be back to a trade surplus with the EU, as was the case in the years preceding 2015. This appears to be driven by the increase in oil prices but also trade restrictions applied by Algeria affecting EU exports.

Our Mediterranean partners made good use of trade preferences in 2017, the average PUR on imports into the EU from the eight countries is 87%. Data on the PUR on EU exports were only available for Israel (86%), Lebanon (58%) and Egypt (44%)²⁸. Agricultural TRQs granted by the EU are underutilised by most partners, except for Israel and Morocco, partly due to difficulties in complying with EU SPS rules. The utilisation of quotas granted to the EU is also not entirely satisfactory at this stage.

As for trade in services and FDI the EU is either the largest or one of the top partners in services trade and the main provider of FDI in all countries concerned.

Spanish company finds beef market in the Middle East

The Spanish family firm Cecinas Nieto specialises in gourmet meat products. The award winning company, founded in 1965, exports its products to many countries around the world with a recent focus on the Middle East.

The EU-Lebanon trade agreement helps European companies such as Cecinas Nieto to export their products there without restriction, benefitting also from progressive tariffs elimination, which will disappear completely in 2018. This enables European beef exporters to keep pace with stiff competition from the likes of India and Brazil.

Lebanon is not the only country where Cecinas Nieto has experienced growth. Its international business has enabled Cecinas Nieto to maintain employment levels and boost economic activity in the region.

²⁸ See footnote 26 above.

A caffeine boost for global trade: Austrian coffee energises markets in the Mediterranean and beyond

For centuries, Vienna has been famous for its coffee houses. Coffeeshop Company, opened its first shop there in 1999, roasting coffee, developing coffee machines and creating an authentic atmosphere under one roof.

When expanding into markets outside the EU, understanding local coffee cultures and local traditions has been a key to the company's success. In addition, the company benefitted from the EU trade deals with Morocco in 2000 and Egypt in 2004: Establishing franchises became easier and less costly and products cheaper. Today Coffeeshop Company has over 300 franchises employing 4 500 people, including 36 in Egypt with 54 more set to open there. The business was founded by the Schärf family and remains part of the Schärf Group, which was established in the 1950s and is an important employer in Neusiedl am See where it is based.

There are plans to upgrade some of these FTAs to DCFTAs that correspond better to the more complex economic exchanges that take place today between the EU and its Mediterranean partners. Negotiations to upgrade the FTAs are ongoing with Tunisia and have started with Morocco and the Commission received the green light to start the negotiations with Jordan and Egypt, when these countries are ready.

Regional instability continues to affect the economy in our Mediterranean partner countries, making it more difficult to attract foreign investors. In particular the economies of Jordan and Lebanon have been negatively impacted by the effects of the Syrian crisis. The trade facilitation measures linked to relaxation of rules of origin adopted in support of Jordan to enhance investments, export and job opportunities, both for Jordanian and Syrian refugees, have produced modest results. The EU is exploring ways to reinforce economic cooperation and trade-related assistance aimed at ensuring that Mediterranean countries benefit more from trade liberalisation with the EU.

5.4 Mexico

Evolution of trade and preference utilisation

In 2017, bilateral trade in goods increased by 15% compared to 2016, totalling 61.7 billion EUR. The EU trade surplus with Mexico also increased, although EU imports grew faster than EU exports.

The PUR on imports into the EU from Mexico was around 71%, a solid increase from 58% in 2016. The PUR on exports from the EU to Mexico²⁹, by contrast, decreased from 85% to 75%.³⁰

²⁹ Period covered: 1 July 2016 to 30 June 2017

³⁰ All but four EU Member States display lower PURs for their exports to Mexico in 2017 compared to 2016. Germany, accounting for close to a third of all preference eligible EU exports to Mexico, experienced a drop

Trade in services grew more modestly by 2.1%, with no change in the EU surplus as compared to 2015. With 27% (6.5 billion EUR) of the total FDI the EU was the second largest investor after the US.

Spanish chorizo heading to Mexico

The Spanish family company Tello started over 50 years ago in Toledo, central Spain, when Eusebio Tello decided to open a small business to sell locally-produced pork, cooked or cured hams, pâtés and other pork products. The Tello Group today exports to more than 40 countries.

The modernised EU- Mexico trade agreement will help companies like Tello to expand and access the Mexican market of 125 million consumers, by eliminating duties of currently 20% on imports of European pork. Thanks to the agreement, imports of pork from slaughterhouses in each EU country will become easier. For example, once Mexico has approved exports from an EU country such as Spain, it will automatically approve all other similar sites in that country.

Progress, outstanding issues and outlook

After discussions in the FTA framework, some difficulties faced by EU exporters in the registration and approval of health products and agri-chemical products in Mexico were solved. Mexico also removed FDI restrictions by lifting equity caps in various sectors. The modernised agreement between the EU and Mexico will help to significantly improve the situation as to IPR protection, SPS restrictions and government procurement. It will also include a TSD chapter.

5.5 Chile

Evolution of trade and preference utilisation

Although the FTA helped mitigate this effect, the EU has progressively lost market share in Chile to other trading partners, such as China and the US, and is currently Chile's third trading partner. In 2017 EU-Chile bilateral trade in goods grew by almost 7% when compared to 2016, with EU imports growing comparatively stronger, due in part to the recovery of copper prices.

EU exports by far exceeded the TRQs granted by Chile on cheese, although the quota increases by 75 tonnes each year. Chile only partly uses its quotas.

The PUR on imports into the EU from Chile has been stable around 95-96% over the past three years. The PUR on exports from the EU to Chile increased from 74% in 2016 to 76% in 2017. EU exports of services to Chile increased by 25% between 2010 and 2016, while EU

in its PUR from 82% in 2016 to 66% in 2017. This is primarily related to lower German use of preferences in HS Chapters 87 (Motor vehicles) and 85 (Electrical machinery).

imports increased by 18%. The EU remains Chile's first provider of FDI. The continuing decrease in EU FDI flows is caused by the decline in the relative importance of the mining industry in the Chilean economy, where it used to represent over 45% of total FDI in the country.

Italian design makes its presence felt in Chile using EU trade agreements

Moving is a chair manufacturer from Italy's Veneto region established in 1980. The company employs 45 people and generates an impressive 85-90% of its turnover from exports. The EU trade agreement with Chile which entered into force in 2003 eliminated all customs duties on furniture, leading to a rise in demand for Moving's products. Exports of Italian chairs to Chile have more than doubled since the EU-Chile trade agreement came into force in 2003, with increases of 103% in terms of value and 121.4% in terms of quantity. This contributed substantially to the company's overall growth in turnover. The EU trade agreement with Chile enabled Moving to compensate for a drop in demand from other international markets and maintain a stable workforce. In addition, Moving was able to invest €300 000 in new machinery and to channel funds into research for development of products specifically for the Chilean market.

Progress, outstanding issues and outlook

In March 2017 Chile opened its market for EU beef. It is currently assessing updates needed to the 2002 Wine and Spirits agreements. Chile will need to take further steps to fully implement its obligations on government procurement. As is the case for Mexico, the EU and Chile decided to upgrade and replace the existing trade agreement with a new and ambitious framework for bilateral trade and investment.

5.6 Customs Union with Turkey

Evolution of trade and preference utilisation

Turkey is the EU's second largest FTA trade partner, and the EU's fifth largest overall. In 2017, both EU exports to and imports from Turkey increased by 8.4% and 4.5%, respectively, when compared to 2016. Over the same time frame, the EU's trade deficit in agriculture significantly decreased from 1.4 billion EUR in 2016 to 0.8 billion EUR in 2017. Use of preferences remained high on both sides: The PUR on imports into the EU from Turkey remained stable around 92%, while the PUR on exports from the EU to Turkey slightly decreased from 95% to 94%.

Modernisation of the Customs Union

In 2016 the Commission adopted a proposal to modernise the Customs Union to improve its functioning and extend the scope to reflect its more recent trade agreements. The proposal is pending authorisation in the Council. However, the General Affairs Council on 26 June 2018 concluded that no further work towards the modernisation of the EU-Turkey Customs Union would be foreseen.

5.7 Stabilisation and Association Agreements with the Western Balkans

Overview- state of play

‘Stabilisation and Association Agreements’ (SAAs) concluded between 2001 and 2016 with our Western Balkan partners, including Albania, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Bosnia and Herzegovina and Kosovo*, support the economic development and political stabilisation of the region. The SAAs are the legal instrument for aligning the laws of these countries to the EU acquis to prepare for their progressive integration into the EU market. Except for Kosovo (where the SAA entered into force directly, also covering the trade part) the entry into force of the SAAs was preceded by the entry into force of Interim Agreements covering trade matters. These interim Agreements have established individual free-trade areas between the EU and each Western Balkan partner, eliminating duties and quantitative restrictions on bilateral trade for goods, with a few exceptions concerning mostly agricultural and fishery products. The SAAs also include additional provisions relevant to competition, protection of intellectual property rights and customs' cooperation, commitments on services and establishment, and approximation to the EU acquis on government procurement and standardisation.

All of the Western Balkan partners are either candidates or potential candidates to become EU Members. Serbia and Montenegro are currently negotiating their accessions.

The EU supports the Western Balkan partners' efforts, since 2017, to develop a Regional Economic Area, building upon the free trade area established by the [Central European Free Trade Agreement](#) in 2006. The Western Balkans Regional Economic Area aims at developing an area where goods, services, investments and skilled workers can move without obstacles.

Evolution of trade and preference utilisation

Trade with the Western Balkan region has more than doubled since 2007 and trade expansion has generally benefitted the Western Balkan countries: in 10 years, the region increased its exports to the EU by 142% against a more modest increase of EU exports to the region of 84%. In 2017 PURs on imports into the EU from all Western Balkan countries, remained high, averaging 91%. Where data was available, PURs on EU exports were also relatively high (78% for Albania; 89% for the former Yugoslav Republic of Macedonia; 86% for Montenegro and 91% for Serbia).

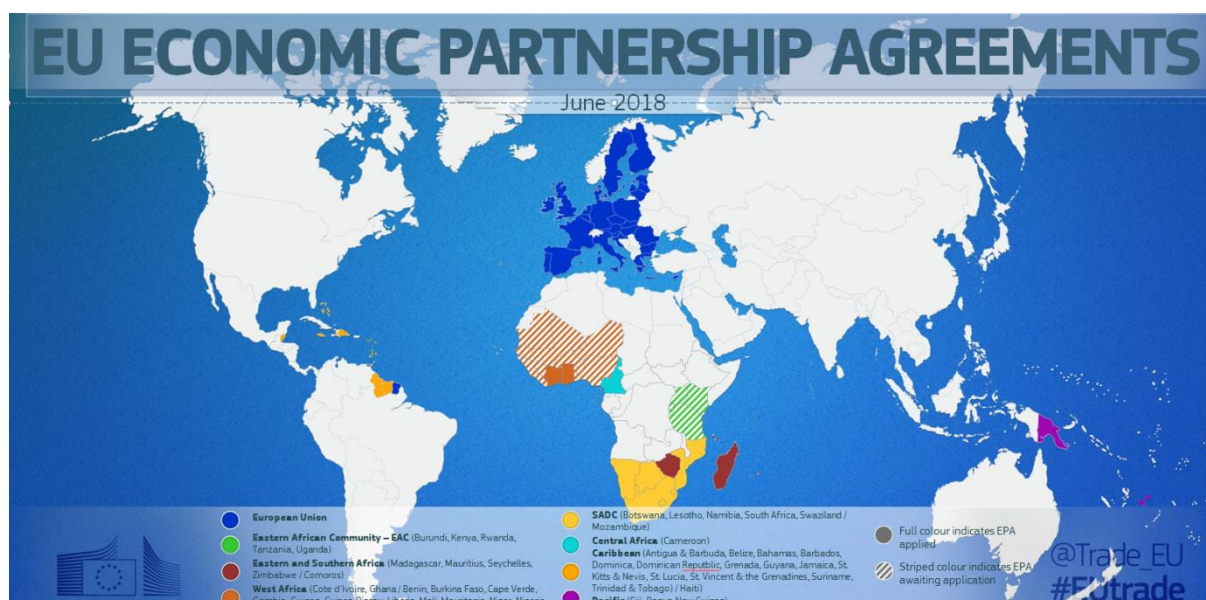
Main challenges in implementation

Challenges common to all Western Balkan partners include a lack of transparency, especially in the public procurement process, a large informal sector and a lack of systematic, efficient and transparent law enforcement, including in inspections and commercial dispute settlement. Improving the business climate will thus be crucial for companies to make full use of the opportunities under the SAAs.

* 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.

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

In 2017 a total of seven Economic Partnership Agreements were being implemented with 29 ACP countries. These include 14 Caribbean countries, 13 African countries and two Pacific countries.



Under EPAs, the EU grants duty- free, quota-free access for all products from day one favouring ACPs, while the latter commit to liberalise around 80% of trade over a period of 15 to 20 years. Rules of origin and special safeguards are designed to support economic development, export diversification and regional integration in partner countries. Exports of EPA partners are not yet sufficiently diversified, with fluctuations in commodity prices heavily impacting the value of year-on-year trade flows.

EU support to EPA implementation aims at supporting private sector development and job creation, at increasing trade and attracting investment, including in specific sectors, such as agriculture. Trade-related development assistance is provided in relation to all EPAs and funds are assigned within the framework of the European Development Fund (EDF). This support is complemented by EU Member States, who also provide funding, particularly under the [Aid for Trade \(AfT\) strategy](#)³¹, as well as by intra-ACP programmes. In the future, a smart combination of Aid for Trade, EPA implementation support and the [European External Investment Plan](#)³² will allow the partners to further seize the opportunities the EPAs offer.

³¹ The EU Strategy on AfT is based on Council Conclusions of 12 December 2005 (doc. 15791/05), of 16 October 2006 (doc. 14018/06) and of 15 May 2007 (doc. 9555/07).

³² See Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank of 14 September 2016; COM(2016) 581 final.

Building capacity to trade – examples for EU implementation support under the EPAs

Support to EPA implementation aims to foster trade policy capacity, improve the business climate and strengthen supply side capacity of the private sector in partner countries. For example, in the ESA EPA region, Mauritius is implementing a project to improve the ease-of-doing-business and investment regulatory framework, with support from the EU. An e-licensing platform has been developed as a single point of entry for business licenses and permits, shortening and simplifying the application procedure. In the SADC EPA region, national administrations have received support in the area of customs, SPS management and trade facilitation, fostering both regional trade and exports to the EU.

In July 2017 the EU made an additional contribution of 5 million euro to the Hub and Spokes Trade Programme. Under the programme, trade advisers – the ‘spokes’ – strengthen and enhance the capacity of government ministries, while regional trade advisers – the ‘hubs’ – provide assistance to major regional organisations. The objective is to enhance the capacity of key stakeholders in the public and private sectors in ACP countries to contribute to the formulation, negotiation and implementation of trade policies and agreements, such as the EPAs.

A significant part of development cooperation (under the range of all EU external aid instruments available, including blending) provides support to EPA-related policy fields in the respective partner countries and regions, including SME development, industrialisation, vocational education, agricultural development and connectivity (transport and energy infrastructure).

6.1. Southern African Development Community (SADC) EPA

During the first full year of implementation of the Economic Partnership Agreement South Africa and the EU made ample use of newly liberalised tariff lines. For Botswana, Lesotho, Namibia and Swaziland, exports to the EU of soft drink concentrates, as well as tropical fruits and nuts increased. Some African EPA partners – particularly Mozambique, Swaziland and Zimbabwe (which implements the ESA EPA) – saw their sugar exports to the EU drop, due to increased global competition from other producers, as well as the end of the EU sugar quota regime. The first Civil Society Forum was organised in South Africa in October 2017. The Forum discussed the role of EPAs in sustainable development, including its environmental and labour aspects.

In 2017, the EU continued to raise trade irritants in poultry and textile sectors with SADC EPA States, especially South Africa.

6.2. Eastern and Southern African (ESA) Interim EPA

The four partner countries of the ESA interim EPA saw their exports to the EU increase again by 15.3% in 2017. The EPA partners proposed to deepen the agreement towards a full EPA, covering topics beyond trade in goods.

Mauritian edible flower wafers make their way to EU tables

In 2017, almost half of the Mauritius' exports found their way to the EU market. One of the companies benefitting from the EPA is Creasim Ltd, a Mauritian company that produces edible cake decorations of wafer-made flowers, fruits and leaves for pastry and bakery products. More than 180 tonnes of cake decorations per year are exported to EU markets, representing 60% of their turnover. Creasim has 230 workers, of which 30% have been employed since the EPA entered into force. Wafer is becoming more and more popular in the EU because of its low cost and calorie content. Registered patterns and models are hand-made productions and are subject to a strict quality control conforming to EU standards.

6.3. Forum of the Caribbean Group of ACP States (CARIFORUM) EPA

Caribbean exports to the EU increased by 12% in 2017 despite decreases in banana, cocoa and rice exports due to cyclones. Caribbean countries are yet to see major benefits accrue from trade in services liberalisation. Multiple factors play a role here, including lack of implementation for some partners, lack of supply capacity, but also EU Member States' visa regimes and a lack of data on Services. To tackle these issues, EPA partners agreed to establish a dedicated Committee on Trade in Services. Representatives of the civil society (the EPA's Consultative Committee) met for the third time in 2017. In its recommendations, civil society called for a timely adoption of a monitoring mechanism and stressed the need to observe social aspects and core labour standards in the implementation of the EPA.

6.4. Pacific EPA and EPAs with Ghana, Côte d'Ivoire and Cameroon

In the Pacific, Papua New Guinea continues to boost its exports of prepared and preserved fish products (mostly canned tuna). Exports increased by 48.7% in 2017. West and Central Africa, Ghana, Côte d'Ivoire and Cameroon continued to increase exports of processed cocoa products under their respective EPAs.

More Bananas from Côte d'Ivoire

EU imports of banana from Côte d'Ivoire expanded by 80% over the last decade (2007-2017), even as overall banana imports in the EU only increased by 50%. Exports in quantity increased to 316 000 tonnes in 2017 (amounting to 235 million EUR in value in 2017). The upward trend was aided by having secured long-term duty free and quota free access to the European market through the EPA. The production of bananas for exports accounts for about 10% of agricultural GDP in Côte d'Ivoire. Banana production is labour intensive, with a ratio of employment higher than other agricultural sectors in the country. The sector employs around 10 000 workers directly and another 3 300 workers are engaged in supporting activities. Taking into account family members, 60 000 people rely on the banana sector for their livelihood.

Processed cocoa from Ghana adds value locally

A key success story for Ghana has been its ability to increase exports of processed cocoa products to the EU thanks to duty-free quota-free market access under the EPA. Over the past 10 years, Ghana has increased its exports of cocoa butter, cocoa paste and cocoa powder to the EU by 237%. By comparison, Nigeria, which remained under the GSP trade regime saw its processed cocoa exports to the EU stagnating.

Moving beyond the export of raw cocoa beans towards locally processed cocoa products makes Ghana more resilient to fluctuating world market prices for raw materials. Low prices for Cocoa beans in 2017 lead to a 400 million EUR drop in cocoa beans exports from Ghana to the EU. By contrast, exports of processed cocoa continued on an upward trend.

7. TRADE AND SUSTAINABLE DEVELOPMENT (TSD): UPDATE ON RECENT ACTIVITIES

All "new generation" FTAs and DCFTAs the EU concluded since 2010 include a TSD chapter with legally binding commitments, the enforcement of which is overseen by TSD committees that meet once a year.

2017 saw a profound political debate involving EU institutions, EU Member States and the civil society on how to make the implementation of TSD chapters more effective and improve their enforcement, while also reaffirming core international commitments, including the Paris Agreement on climate change. With this in mind on 26 February 2018 the Commission services published a [non-paper](#) presenting a revamped strategy built around an Action Plan with 15 concrete points for action. These are grouped under four broad headings, reflecting the consensus that emerged from the debate regarding the areas where improvements are needed:

- (1) working together (with EU Member States, the European Parliament and international organisations);
- (2) enabling civil society, including the social partners, to play their role in implementation;
- (3) delivering (including by setting partner-specific priorities, more assertive enforcement and enhancing the thematic coverage in regard to labour and climate change provisions as well as increasing available resources under the [Aid for Trade \(AfT\) strategy](#) and beyond); and
- (4) enhanced communication and transparency.

The focus is now on the full-fledged implementation of the 15-Point Action Plan, bearing in mind that a review is foreseen after five years.

In implementing TSD chapters the Commission ensures close coordination with EU Member States through a dedicated TSD Experts Group that meets four times per year. Civil society DAGs have been established under the trade agreements and meet regularly, with the support of the European Economic and Social Committee.

The EU continues to push its partners to put in place mechanisms for balanced and transparent dialogues on TSD-related issues and is stepping up financial resources to promote the participation of stakeholders. The setting up of a DAG in Colombia can be highlighted as an important development in this regard.

Progress in implementing substantive TSD commitments proceeds at different speeds reflecting the nature of the challenges faced by each partner. Nonetheless, the stronger EU engagement is starting to deliver results. For example, there have been encouraging signals from South Korea as the authorities have communicated to the EU public a timeline for the tripartite discussions on reviewing the labour code and other laws to pave the way for South Korea's ratification of four outstanding fundamental ILO Conventions (see: [Summary of Discussions at the 6th TSD Committee](#)). The Commission services are monitoring this process closely and will take further actions as needed. In Central America, the EU has engaged with national governments and DAGs to push forward TSD commitments in challenging circumstances, in collaboration with the ILO and other international bodies. With Peru, the

EU is stepping up efforts to ensure that implementation work is accelerated. The submission that a group of civil society organisations filed with the Commission further exposed the need for the Peruvian authorities to formally engage its domestic civil society on TSD matters.

TSD-relevant activities are not exclusive to "new generation" FTAs and DCFTAs but are also related to other types of trade agreements, such as the EPAs (see for example the meeting of the first Civil Society Forum under the SADC, described in section 6.1).

A number of EU funded programmes and projects also contribute to the implementation of TSD objectives in the countries covered by EU trade agreements and beyond.³³

In addition, the [European External Investment Plan](#) and EU Regulation 2017/1601 of 26 September 2017³⁴ aim to support actions that will contribute to TSD objectives.

³³ See for example the "Switch Africa Green Programme", supporting countries in Africa to achieve sustainable development by engaging in transition towards an inclusive green economy; <https://www.switchafricagreen.org/index.php?lang=en>

³⁴ See Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.

8. IN FOCUS: AGRI- FOOD TRADE UNDER FTAS

How EU FTAs contribute to agri-food trade: state of play in 2017

Agri-food trade under the EU's FTAs is growing and contributes considerably to the success of EU agri-food exports. In 2017, EU agri-food trade with FTA partner countries made up for a third of total EU agri-food exports and more than 40% of imports. Trade under the EU's "first generation" FTAs (in particular with Switzerland, Norway and Algeria) made a substantial contribution to the EU's 20 billion EUR surplus in total agri-food trade in 2017. Under the "new generation" FTA with South Korea, the EU's fifth largest export destination in agri-food trade under FTAs, EU exports in the sector have increased by 113% over the past 8 years. Between 2016 and 2017, EU exports to South Korea increased by 10%, from 2.6 to 2.9 billion EUR. The agreement with Canada, CETA, is expected to bring major benefits as its implementation progresses. CETA aims at the gradual elimination of duties on 91% of all agricultural tariff lines.

EU exports under FTAs are fairly evenly split between primary agricultural products and processed food and beverages. In 2017, main export destinations were Switzerland, Norway, Turkey, Canada, South Korea and Algeria, accounting for 55% of agri-food exports to FTA countries and 19% of total EU agri-food exports. Ukraine is now the EU's first source of agricultural imports under FTAs (mainly for cereals, vegetable oils and oil seeds). In 2017, imports from this country increased by a third. Ukraine, Switzerland, Turkey, Ivory Coast, South Africa, Colombia and Chile accounted for 51% of all FTA agri-food imports and 22% of all EU agri-food imports in 2017. Most EU imports are primary agricultural products such as tropical fruits, cacao, vegetables and coffee (72%), processed food and beverages make up 22%.

FTAs open markets for agricultural products, food and beverages, thus adding value and creating jobs in primary agriculture as well as food processing as shown by [a study on the impact of EU trade agreements on the agricultural sector](#) by Copenhagen Economics for the Commission, completed in 2016. In 2017, the Commission again reached out to promote agricultural trade, including through a high level visit to Canada and promoting EU food and beverage products at major international trade fairs (e.g. in Toronto and Abu Dhabi). On top of over 100 individual promotion programmes already running in 2017, the Commission selected 33 additional proposals to promote EU agri-food products in third countries, which will be implemented between 2018 and 2020. Some of these EU co-financed campaigns include for example the promotion of GI apples in Egypt or boosting exports of EU hams and cheeses to Mexico.

EU exporters can benefit from more than 600 preferential TRQs granted by our FTA partners. The utilisation of TRQs varies between countries and products, for various reasons, and the Commission is seeking to improve their uptake. In 2017, it succeeded in obtaining improved market access conditions for EU beef exports to Turkey.

FTA provisions on SPS aspects are used to address trade barriers related to SPS measures in partner countries. In 2017, for example, the Commission achieved increased market access for several EU Member States for pork in Mexico and EU dairy products in Peru. Ukraine lifted its temporary ban related to avian influenza on poultry and Japan removed the BSE (bovine spongiform encephalopathy) beef import ban for two additional Member States. FTAs also

contain provisions promoting a high level of protection of plant and animal health with EU trade partners, including in the Eastern Partnership countries and the Western Balkans. A recent success was the adoption by the relevant DCFTA subcommittees of SPS strategies for Moldova and Georgia. Ukraine is also finalising discussions with the Commission on that matter.

FTAs provide for the protection of EU flagship products such as AcetoBalsamico di Modena, Feta, Reblochon, Prosciutto di Parma or Queso Manchego, as well as wines and spirits, protected as geographical indications (GIs).³⁵ The more recent EU FTAs ensure high level and considerable scope of GIs protection in countries where, in most cases, no protection was offered before. For example, Ecuador will protect 116 EU GIs. Since September 2017, 143 EU agri-food GIs enjoy protection under CETA, in addition to the GIs for wine and spirits protected in Canada since 2003. The protection of Prosecco in Moldova has been secured, ending a long standing court case.

FTAs foresee protection of EU producers of sensitive products, such as beef, poultry or sugar. These are either fully excluded from preferential trade or, if they are partially excluded, they are covered by altogether around 360 EU TRQs. For sensitive fruit and vegetables an entry price system is applied during the peak harvest season in the EU.

In addition, FTAs aim to support the local agricultural sector in developing countries like the ACP countries or some Central and Latin American partners. EU EPAs focus on development goals and have delivered results in supporting agricultural sector capacity in many ACP countries: Between 2007 and 2017 imports of agri-food products from EPA countries have increased by 71% in value, mostly in agricultural commodities, such as tropical fruit, cocoa or coffee, which are not grown in the EU. Furthermore, while EU exports to Central America and Colombia, Ecuador and Peru have been increasing, the latter run a surplus in agri-food trade based on EU imports of fresh tropical fruits, like bananas.

The Commission cooperates with its FTA partners on a broad spectrum of important issues related to agricultural trade, ranging from EU technical assistance in the sector of agriculture and rural development to improving food safety control systems.

Implementing FTAs in the agri-food sector: current and future activities

The Commission is working on several fronts to ensure FTAs deliver benefits to the agricultural sector, among these the following:

- ✓ Resolution of pending market access issues, such as exports of EU beef to South Korea and the recognition of EU regionalisation, especially for EU poultry and pork exports to South Korea, Japan and South Africa;

³⁵ A geographical indication (GI) is a distinctive sign used to identify a product as originating in the territory of a particular country, region or locality where its quality, reputation or other characteristic is linked to its geographical origin

- ✓ Effective implementation of CETA (e.g. monitoring the uptake of and gathering information on allocation and transfers of the cheese TRQs) and preparation for the EPA with Japan (once fully implemented, it will liberalise 87% of current agri-food exports);
- ✓ Monitoring and improving the utilisation of TRQs;
- ✓ Enforcing the protection of GIs (e.g. CETA, Chile and Colombia, Ecuador and Peru) and advancing the process to add further EU GIs to the list protected under the FTA (South Korea);
- ✓ Monitoring the stabilisation mechanism for bananas from Colombia, Ecuador, Peru and Central America;
- ✓ Enhancing cooperation with FTA partners (such as Canada or Japan) on important issues of common interest, such as animal welfare and antimicrobial resistance;
- ✓ Mobilising the use of EU funds to provide technical assistance, e.g. in the Eastern Partnership region (to further regulatory alignment with the EU acquis in Georgia, Moldova and Ukraine), in the Western Balkans or the ACP countries.

9. UPDATE ON PENDING AND FUTURE ACTIVITIES

The Commission has been engaging in an open discussion with the European Parliament on FTA implementation, including on the [European Parliament's Resolution on the Commission's report on the implementation of the Common Commercial Policy](#). The Commission will continue to report annually on the implementation of EU FTAs to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

The Commission is engaged in numerous activities to help people and business to get the most out of FTAs, building on existing tools and practices as well as developing new ones:

- ✓ To facilitate the use of FTAs by SMEs the Commission is developing an online portal for EU import and export, integrating the information on its Market Access Database and EU Trade Helpdesk. Among others, the portal will be offering product-specific information and guidance on customs clearance processes, backed up by an alert system customised for individual users. Up-to-date information on preferential tariffs can also be found in the [EU TARIC database](#) and detailed information on preferential rules of origin and related procedures can be found on the customs-dedicated webpages of the Commission.
- ✓ The Commission is seeking to obtain reliable data from partners enabling it to establish the PURs on exports from the EU, raising the issues with partners and providing assistance, where appropriate. From CETA onwards, new agreements will contain a binding provision on periodic data exchange. The Commission is also seeking additional information that may result from looking at other proxies, like duty savings rates, which measure the extent to which duties are saved out of the total potential duty savings³⁶.
- ✓ The new Expert Group on EU Trade Agreements provides advice to the Commission on FTA implementation. Civil society provides input through, among other things, regular Civil Society Dialogue meetings.
- ✓ The Commission recently intensified collaboration with EU Member States on crosscutting issues related to FTA implementation through a dedicated FTA Coordinators Network.
- ✓ To discuss the implementation of TSD chapters, in particular the practical aspects of the 15 points TSD action plan, a dedicated TSD Member States' experts group now meets four times per year. In addition, the competent Commission services commissioned surveys in 2018 and 2019 on the application of core labour standards and on working conditions in 29 countries covered by commitments in GSP+ and in FTAs.

³⁶ This indicator could help to identify sectors in which the underlying value of exports and potentially duty savings are high and where it is important to improve performance (see also 2018 study by Nilsson and Preillon available at http://trade.ec.europa.eu/doclib/docs/2018/june/tradoc_156931.pdf)

- ✓ To increase transparency on implementation, the Commission, starting with CETA, will make information publicly available on FTA dialogues and committee meetings at its "[Transparency in Action](#)" webpage. The Commission will be striving to increase transparency for existing FTAs in liaising with its partners.
- ✓ To ensure FTAs become operational as quickly as possible, the Commission provides comprehensive information on its website in the run up to their application. In addition to the provisional FTA text the Commission, from CETA onwards, will publish factsheets, step-by-step guides for businesses, exporter stories and infographics. To be better prepared for the implementation of new FTAs the Commission, where appropriate, has been investing in studies on the domestic legal framework of several partner countries.
- ✓ The Commission is also promoting FTA implementation through its 'Market Access Day' events with EU Member States, using experience gathered through its Market Access Partnership. The [Enterprise Europe Network](#) (EEN) and Trade Promotion Agencies of the EU Member States, both in Europe and abroad, together with business and trade associations such as the European Business Organisations worldwide network (EBO WWN) are informing about and promoting specific opportunities offered by FTAs.
- ✓ Market Access teams at EU delegations in third countries are seeking to use EU funds to support FTA implementation, such as the Partnership Instrument or other relevant instruments. The EU [aid for trade strategy](#) and the [EU external investment plan](#) support small companies from developing countries to seize the opportunities stemming from the FTAs. The overarching European Economic Diplomacy initiative introduced in 2017 ensures that different EU policies reinforce each other in supporting key economic priorities, one of them being FTA implementation.
- ✓ The Commission will be releasing in 2018 its interim evaluation of the FTA with South Korea and will shortly launch an interim evaluation of the Agreement with Colombia and Peru. An [ex post evaluation](#) of the EU's FTAs with six Mediterranean partner countries is ongoing and expected for end 2019.

10. LEGAL ENFORCEMENT

The EU's FTAs provide for robust enforcement of the substantive commitments included in each Agreement with a view to ensuring an efficient and timely resolution of disputes that might arise in that regard. In 2017 the FTA dispute settlement was not used but the Commission continues to thoroughly and diligently monitor the implementation of FTAs. This allows the Commission to assess the appropriateness of using legal enforcement on a case by case basis.

ANNEX 1 – PREFERENCE USE ON IMPORTS INTO THE EU

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

ANNEX 2 – PREFERENCE USE ON EXPORTS FROM THE EU

Importing country	2015	2016	2017
"New generation" Free Trade Agreements			
Colombia	63%	71%	68%
Peru	28%	47%	52%
Costa Rica		38%	
Ecuador			42%
South Korea	68%	71%	74%
DCFTAs			
Georgia	72%	71%	77%
"First generation" Free Trade Agreements			
Mediterranean Partners			
Egypt	36%	62%	44%
Israel		89%	86%
Lebanon	74%		58%
Morocco		52%	
Western Balkans			
Albania	76%	80%	78%
the former Yugoslav Republic of Macedonia		90%	89%
Kosovo		44%	
Montenegro	85%	85%	86%
Serbia	89%	90%	91%
Latin American Partners			
Chile	76%	75%	76%
Mexico	76%	85%	75%
EFTA States			
Switzerland	79%	79%	78%

ANNEX 3 – LIST OF ACRONYMS

ACP	African, Caribbean and Pacific countries
Cariforum	Forum of the Caribbean Group of ACP States
CETA	Comprehensive Economic and Trade Agreement EU- Canada
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
DAG	Domestic Advisory Group
DCFTA	Deep and Comprehensive Free Trade Area
EBO WWN	European Business Organisations worldwide network
EEA	European Economic Area
EEN	Enterprise Europe Network
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GIs	Geographical Indications
IPRs	Intellectual Property Rights
ILO	International Labour Organisation
MFN	Most Favoured Nation
PUR	Preference Utilisation Rate
SAA	Stabilisation and Association Agreement
SADC	Southern African Development Community
SME	Small and medium-sized enterprise
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TRQ	Tariff Rate Quota
TSD	Trade and Sustainable Development