SUMMARY

1. Overall, the EU remains an open and transparent economy and, as one of the biggest economies and trading entities in the world, plays a critical role in the multilateral trading system. Croatia became the 28th member State of the EU in July 2013. Although each member State has varying degrees of competence in several areas that affect trade and investment, such as taxation, the EU has exclusive competence for trade and investment and the EU economy is highly integrated and functions as a single market. Extra-EU trade is critical to the economy, with trade in goods and services equivalent to about 35% of EU GDP in 2013. Furthermore, exports have continued to grow as they increased in both nominal and real terms since 2009. On the other hand, the value of imports declined in 2013 relative to 2012.

2. Since the last Trade Policy Review of the EU in 2013, developments have continued to be dominated by low and fragile growth, with no increase in GDP in 2013 and 1.3% in 2014, and by the evolution of the monetary crisis in the euro area. The main macroeconomic indicators of most member States have improved, but some member States have seen only modest improvements. Furthermore, unemployment remains high, investment has been stagnant, and inflation has slipped into deflation in some periods. As a result, in early 2015, the European Central Bank began a period of monetary easing through its expanded asset purchase programme which has been extended to include bonds issued by euro area central governments, agencies, and European institutions. Combined monthly asset purchases are to amount to €60 billion and the intention is to continue the programme until at least September 2016. In addition, the Commission has initiated an Investment Plan for Europe which includes a European Fund for Strategic Investments to support the real economy. The Plan aims to mobilize an additional €315 billion in the period 2015-17 for strategic investments, such as in infrastructure. At the member State level, labour market reforms have also started to produce results with some improvements in employment, which is partly the result of lower earnings in some member States.

3. Although the focus of EU policy has been on macroeconomic developments, trade and trade-related policies have continued to evolve. The EU is engaged in trade negotiations with some trading partners, particularly the United States and Japan, and has concluded negotiations with others, including Canada. It has also continued to apply its GSP and GSP+ schemes for developing and its everything-but-arms scheme for least developed countries. The cumulative effect of the various preferential arrangements already in place or under negotiation would mean that only a few countries and territories will be trading with the EU on an MFN basis (although the GSP does not cover all products for all beneficiaries). Furthermore, the EU's deep and comprehensive trade agreements and its economic partnership agreements go beyond basic terms for trade in goods and services and include trade-related policies in areas such as investment, non-tariff barriers, and intellectual property.

4. In the WTO, the EU has continued to be one of the most active Members and has often stated its commitment to concluding the DDA. The EU, along with the member States, contributes a significant amount to aid for trade. At end-March 2015, the process of ratification of the Agreement on Trade Facilitation was under way in the EU.

5. There are significant differences among member States in the time and cost required to import and export but this is mainly due to differences in non-customs related factors, such as infrastructure, rather than customs procedures and requirements. Furthermore, the EU is implementing an electronic customs initiative that includes an automatic import/export system and single window, which will help to further reduce the time needed to process documentation. In addition, the system of authorised economic operators has continued to expand and the network of mutual recognition agreements for AEOs now includes China. On the other hand, the growing number of preferential trade agreements and schemes between the EU and other trading partners requires a considerable body of law on rules of origin.

6. The MFN tariff profile of the EU has not changed over the past two years as the small changes to the simple average tariff are a reflection of changes in *ad valorem* equivalents of non-*ad valorem* tariffs caused by changes in unit prices. Therefore, the average tariff remains at 6.5% with considerable differences from one product group to another: nearly one quarter of tariff lines are duty free; while agricultural products have a higher average level of protection and greater variation from one tariff line to another.

7. At end-November 2014, the EU had a total of 108 anti-dumping and 14 countervailing measures in force while it has not applied any safeguard measures since 2008. However, at 16, the number of anti-dumping investigations initiated during the review period was about half the number in the previous two years although the number of countervailing duty investigations, at 6, remained about the same.

8. The process of harmonization of EU standards and technical requirements has continued with the Alignment Package of eight directives in February 2014, which included directives on low voltage electrical equipment and electromagnetic compatibility. In addition, other legislation adopted in 2013 and 2014 covered alignments of standards in other areas, including radio equipment and recreational craft. Although there have been no major changes in sanitary and phytosanitary measures, the Commission has adopted a proposal for a package of measures affecting the agri-food chain.

9. Export credits and other supports to industry and services provided by the member States fall under EU rules on state aid. Although state aids which favour certain undertakings or the production of certain goods are, in principal, prohibited by the Treaty on the Functioning of the EU, there are a number of exemptions and exceptions and specific rules for services of general economic interest. These state aid rules are undergoing reform based on the Communication from the Commission on State Aid Modernisation that aims to streamline the rules, allow better targeting, and improve enforcement. The overall trend for the total level of state aids has been declining for several years although the total, at over €62 billion (excluding transport), remains significant. In addition to regular state aids, state aids related to the financial crises that started in 2008 continued to be used in 2013 and 2014 and the rules were revised in the 2013 Banking Communication from the Commission. Effective use of crisis-related aid has been much less than the amounts approved by the Commission: authorization for guarantees reached €3,893 billion; but outstanding guarantees peaked at €835.8 billion in 2009; and, as at October 2014, called-in guarantees were €3.1 billion.

10. To a large extent, direct taxes are the responsibility of the member States, and the systems and rates of income tax, corporation tax, and social contributions vary from one to another. Overall, the high level of social contributions by employers relative to profits may act as a disincentive to job creation. Although there is a common system and a minimum standard rate for value added tax there remains a considerable amount of flexibility in the rules and derogations from the rules which "prevent a coherent system of VAT rates in the EU from being applied".

11. There are common rules on government procurement that are applicable through the EU, but differences in the data provided by member States make it difficult to draw conclusions about spending in one State compared to another. A series of new directives were agreed in 2014 which have reformed the legal framework and their provisions are being transposed into national laws in the member States. The package is intended to improve transparency and enforcement, and simplify procedures. Among other changes, the package reinforces rules on aggregation of below-threshold procurement contracts, introduces the concept of life-cycle costing that includes environmental externalities, and applies specific rules to concessions contracts.

12. Intellectual property is very important to the EU economy and a main driver of growth that is governed by an extensive body of legislation at both the EU and member State levels. At the EU level, under the 2011 Blueprint for intellectual property rights, the Framework Programme for Research and Innovation for 2014-2020, and other official papers, the review and modernisation of legislation has continued with several directives which are being transposed into national laws in the member States. Preparatory work for the implementation of the unitary patent package has also followed its course. In addition, the review of the EU trademark regime and consideration of a proposed directive on the protection of trade secrets are well advanced. The Court of Justice of the EU has continued to develop its jurisprudence in several key areas of intellectual property rights, including by clarifying the patentability of human stem cells.

13. The Common Agricultural Policy underwent significant reform with the adoption of several directives and implementing rules covering direct payments to agricultural producers, market measures, and rural development while export refunds for all agricultural products were set at zero from July 2013. Although the reform in the CAP may reduce distortions to production in the EU, the total funding for agriculture and rural development will remain over €50 billion a year. Furthermore, as with earlier reforms, market access measures, including tariffs, tariff quotas, and

the use of the special agricultural safeguard are not directly affected and, therefore, agricultural producers will continue to be insulated from changes in international prices.

14. In the aftermath of the global financial crisis, legislative reform affecting the financial sector, particularly prudential measures, has continued under three pillars: rules for global banking; rules aimed at establishing a safer and growth enhancing financial sector; and rules aimed at completing banking union to strengthen the Euro. Several directives and regulations have been introduced under each pillar with proposals for more from the Commission.

15. In telecoms, the transposition into national laws of the regulatory framework described in previous Reviews has been completed while related rules have been adopted at the EU level. Further legislative changes under the Connected Continent Package were proposed by the Commission in September 2012 and are under discussion in the Parliament and Council.

16. Distribution services are one of the largest services sectors in the EU with wholesale and retail trade accounting for over 11% of GDP and nearly 15% of employment in the EU. The sector is characterized by increasing concentration and vertical integration. To a large extent, distribution services are regulated by the member States through a combination of laws, including those relating to labour, competition, and establishment. However, several EU level laws are applicable, including the Services Directive and, in recognition of the importance of distribution services to the EU economy and to the operation of internal market policy, further EU policies are currently being developed.

17. Audiovisual services along with other creative industries, contribute about 2.6% to the GDP of the EU. The principal rules regulating the sector are the Audiovisual Media Services Directive and two communications from the Commission on control of state aid to public broadcasters, and supports for films and other audiovisual works.

18. As noted in the previous Trade Policy Review, the EU is a highly integrated economic unit with common policies and laws covering most trade-related areas. Furthermore, integration is increasing and, despite macroeconomic and fiscal problems affecting some member States, overall the EU has an open and transparent trade and investment regimes. However, the economic recovery remains fragile and there remain significant differences among the 28 member States in some policy areas, including direct taxation, state enterprises, fiscal policy, and government procurement, all of which affect trade and investment.