

SUMMARY

1. The EU is a large, open economy with a GDP of €14,711 billion and a total population of 508 million. Trade is very important to the economy, with exports and imports of goods valued at €3,518 billion and services at €1,517 billion. The EU has competence over the customs union and commercial policy. There is free movement of goods, capital, and labour within the EU, and 19 of the 28 member States share a common currency. Since the last Trade Policy Review of the EU in 2015, the EU economy continued to grow, but trade and economic developments varied considerably from one member State to another.

2. Exports and imports increased between 2013 and 2015, reaching €1,789 billion and €1,729 respectively, but were expected to have declined slightly in 2016. The EU remains critically important to world trade as the second-largest exporter and importer of goods, the largest exporter and importer of services, and the largest trading partner for 80 countries. The EU is also important as a destination for, and source of, investment, although foreign direct investment, both inward and outward, fluctuated over the 2013-2015 period.

3. In October 2015, the European Commission issued a new trade and investment policy for the EU – *Trade for all: Towards a more responsible trade and investment policy*. The new policy is intended to support the growth of global value chains, services trade, and e-commerce. The main objectives include reducing non-tariff barriers and increasing trade in services, while benefiting from improved technology to facilitate cross-border provision of services and recognizing the importance of labour mobility and mutual recognition of professional qualifications. While actively participating in the WTO, the EU has also continued to negotiate trade agreements, which cover trade in goods and services, intellectual property, investment, government procurement, access to energy and raw materials, customs and trade facilitation, competition, and regulatory cooperation. The Comprehensive Economic and Trade Agreement between Canada and the EU was signed in October 2016. The EU-Singapore Free Trade Agreement awaits approval, pending an opinion of the Court of Justice of the EU on a question of EU competence. Negotiations on a number of other trade and investment agreements are also under way.

4. The EU has exclusive competence over the customs union, while the customs administration authorities of the member States are responsible for applying the common customs legislation. Practically all customs procedures are electronic and cleared within one hour; paper forms are rarely required. On 1 May 2016, the main provisions of the new Union Customs Code (UCC) became applicable, replacing the Community Customs Code of 1992. The UCC aims to simplify and modernize customs procedures, bringing the rules into line with the EU treaties, and to move towards harmonized IT processes.

5. Among the changes introduced by the UCC are: improvements to the Authorised Economic Operator (AEO) programme (which, in 2015, already covered 14,000 operators accounting for 71% of imports); simplification of the systems for customs warehouses, free zones, and temporary storage; improving the common risk management framework; reducing the validity of binding tariff information to 3 years and making it binding on the importer; phasing in electronic systems for customs by 2020; and streamlining and reorganizing rules of origin and customs valuation.

6. The simple average applied MFN tariff, at 6.3%, was slightly lower in 2016 than in 2014, as the EU applied the expanded list of ITA products and adjusted its nomenclature. Tariffs on agricultural products (WTO definition) remain higher (simple average of 14.1%) than on non-agricultural products (4.3%). In addition, more agricultural products are subject to non-*ad valorem* tariffs, and tend to vary considerably within and among product groups. The EU has a comprehensive network of arrangements for preferential trade with free trade agreements and non-reciprocal preferences under the GSP, GSP+, and Everything-but-Arms regimes. GSP and GSP+ apply to over 6,000 of the EU's 9,414 tariff lines, with most of these products duty free under GSP+ and about half of them duty free under GSP. The coverage for specific countries varies based on the triennial reviews by the EU, the most recent of which was conducted in 2016 and resulted in graduation of some product sections for India, Indonesia, Kenya, and Ukraine.

7. New regulations relating to anti-dumping and countervailing measures were introduced in 2016, although these were essentially a consolidation of earlier regulations and amendments. The EU is among the WTO's most frequent users of contingency measures. However, from 2009 to 2013, there was a downward trend in investigations and the number of measures in force has remained fairly constant since then (varying between 121 and 137, with 136 in force at end 2016). New regulations on safeguards were introduced in 2015, which, like the regulations on anti-dumping and countervailing duties, were essentially a consolidation of existing regulations and amendments. No safeguard investigations were initiated during the review period, although surveillance measures were invoked in 2016 for some iron and steel products.

8. Under the Animal and Plant Health Package, which was adopted by the Commission in 2013, new legislation on animal health, plant pests, and official controls were introduced in 2016. The Package aims to simplify and modernize existing legislation on the food chain by condensing nearly 70 different legislative acts down to four.

9. There was no major change to the laws on technical requirements, standards, and related issues. The approach remains unchanged of setting out the essential requirements for products in legislation, while establishing the technical means to meet those requirements through standards. In 2016, the Commission adopted a Standardization Package and issued a Communication on standardization priorities for ICT for the Digital Single Market. Harmonized product legislation applies to many categories of products, with cableway installations, personal protective equipment, and gas appliances added in 2016. Once work has commenced on a European standard, members of the standards bodies cannot commence or continue national work on the same subject, and once a European standard has been developed, any conflicting national standards must be withdrawn.

10. As part of the State Aid Modernisation (SAM) initiative, a new General Block Exemption Regulation came into force on 1 July 2014 and covered about 40% of the total value of aid measures in 2015. On 1 July 2016, new transparency requirements came into force and these are accompanied by an annual monitoring exercise by the Commission to review a sample of block-exempted aid measures. Aid not falling under the block exemption or *de minimis* regulations is subject to Commission guidelines. In addition, in May 2016, the Commission issued a Notice on the notion of state aid which included clarification on state measures concerning infrastructure, culture and heritage conservation, and tax rules that could give an enterprise or group of enterprises a selective advantage. Total state aid (excluding transport and agriculture) by member States increased from €60 billion in 2012 to €91 billion in 2014, largely due to an increase in aid for environmental protection (including energy saving). During the review period, the Commission reached final decisions on a number of tax planning practices in Luxembourg, the Netherlands, Belgium, and Ireland, which are currently under appeal before the Court of Justice of the EU.

11. The basic legislation on competition policy in the EU was not changed during the review period. Responsibility is shared between the EU and the member States, with the European Competition Network helping to ensure efficient and consistent application of the legislation across the EU by the Commission and the national authorities. Several important cases have been dealt with over the past two years covering cartels, abuse of dominant position, and mergers and acquisitions.

12. The EU and the member States are parties to the Government Procurement Agreement and adopted the revised GPA through Council Decision 2014/115/EU. Under the revised GPA, the EU extended its commitments to provide for further market access opportunities for suppliers offering goods and services originating in GPA parties' economies. New sectors and contracting authorities/entities were included in the EU schedules, for example, the European External Action Service at EU level and a number of central government contracting authorities and sub-central entities of member States. Government procurement above the thresholds in the Classical, Utilities, and Concessions Directives must be published on the online Tenders Electronic Daily (TED) and member States may advertise tenders on TED below these thresholds. Below these thresholds, national rules apply and these must respect general principles of EU law, including the principles of non-discrimination, equal treatment, transparency, mutual recognition, and proportionality set out in the Treaty on the Functioning of the EU. About 17% of the total value of public procurement (excluding utilities) was advertised on the TED, but the proportion varied, from 6% in Germany to 65% in Latvia.

13. Intellectual property rights continue to be very important for the EU economy with over 40% of GDP generated by IPR-intensive industries (2011-2013). Under the Commission's 2011 strategy for IP, a number of legislative measures were adopted, including a trademark reform package and a directive on trade secrets. Based on the Digital Single Market Strategy for Europe, presented by the Commission in May 2015, work was under way during the review period to further modernize the legal framework for copyright protection and enforcement, in particular as regards copyright-protected goods in the online environment. While the entry into force of the Agreement on the Unified Patent Court was still pending, significant steps were made to advance the administrative framework for the unitary patent. Comprehensive sections on the protection of geographical indications for agricultural products were included in the more recent generation of FTAs that the EU concluded with a number of its trading partners. Modernization of the EU's regime regarding IPR enforcement also continued to be under consideration. Meanwhile, a number of studies were released by the EU Intellectual Property Office that map the economic impact of counterfeiting and piracy in the EU, including a series of studies that quantify IPR infringements by sector.

14. Agricultural policies did not change significantly over the review period, but the reforms of the Common Agricultural Policy (CAP) adopted in 2013 have been fully applied since 2015. Under the CAP, member States have some flexibility within their national envelopes to decide the level of funding they apply to different direct payments schemes and to rural development. While most of the direct payment schemes are decoupled from current production, voluntary coupled support is permitted up to 15% of the national envelope, or a higher percentage with approval from the Commission; alternatively, under a derogation, member States are permitted to use up to €3 million. In addition, payments for cotton are also provided for in three member States. In response to measures taken by the Russian Federation banning imports of some products from the EU, a number of temporary measures were introduced to support dairy, livestock, fruit and vegetable producers, which included market support measures. Export refunds have not been granted since July 2013, although sugar produced outside the production quota is notified in the EU's export subsidy notifications. However, production quotas for sugar are to be abolished from end-September 2017. Production quotas for milk were abolished from end-March 2015.

15. The latest reform of the Common Fisheries Policy, which took effect on 1 January 2014, established a legal commitment to sustainable fishing levels, a ban on discards (the landing obligation), and measures to reduce overcapacity while continuing the use of multi-annual recovery and management plans. In February 2017, there were 12 plans combining different fisheries management tools, including a maximum sustainable yield, the landing obligation, technical measures, and total allowable catches (TACs) and fishing quotas. In 2014, 31 stocks out of 59 were fished in accordance with estimates of the maximum sustainable yield (MSY) and, by 2020, the TAC for all stocks are to be based on MSY estimates. EU fishing outside of EU waters is to be based on Regional Fisheries Management Organizations and through Sustainable Fisheries Partnership Agreements, while the EU cooperates with third countries and international organizations on illegal, unreported and unregulated fishing worldwide.

16. In financial services, the reforms undertaken following the 2008-09 financial crises were largely completed by 2015, but some new measures were introduced during the period under review. The legislation is grouped into three pillars: rules for the global financial system; rules to establish a safe, responsible, and growth-enhancing financial sector in Europe; and rules to complete the banking union to strengthen the euro. Under the first pillar, in 2015, a new regulation on securities financing transactions was adopted to improve transparency, and identify and quantify risks. In 2017, a new regulation was adopted which is intended to improve the liquidity profile and stability of money market funds domiciled or sold in Europe. Under the second pillar, new directives were adopted on insurance distribution, payment services in the internal market, interchange fees for card-based payment transactions, money laundering and terrorist financing, and occupational pension funds. In addition, regulations were adopted on long-term investment funds and financial benchmarks (e.g. LIBOR and EURIBOR).

17. In maritime transport, a new regulation was adopted in March 2017 establishing a framework for the provision of port services and common rules on financial transparency of ports which will apply from 2019. The regulation applies to the 319 ports identified by the Commission (out of a total of over 1,200) that carry 96% of all freight and 93% of all passengers and covers bunkering, cargo handling, mooring, passenger services, port reception facilities, pilotage and towage.

18. Regarding rail transport, in mid-2016, the EU adopted the "technical pillar" and, at end-2016, the "market pillar" of the "4th railway package", which is intended to create a single European rail area. These packages of directives and regulations essentially open domestic passenger services to competition through a system of open access for commercial services by 2020 and the introduction of the principle of competitive awards of rail public services contracts by 2023. They also reinforce independence requirements for infrastructure managers so as to avoid distortions of competition and ensure the progressive harmonization of technical and safety norms.

19. To a very large extent, the EU functions as a single economy with common import duties, import and export procedures, and rules on investment. Furthermore, the harmonization across the EU of many measures, including customs procedures, technical requirements, and SPS measures can facilitate access to the EU market and reduce the cost of developing and complying with regulations. However, in some cases, complying with EU requirements may add to the cost of doing business. Furthermore, agriculture remains relatively highly protected and the EU is a significant user of trade defence measures. The EU and its member States are important Members of the WTO and the development of their policies, politics, and economy affects many other countries. Therefore, the trade and investment policies of the EU are important to other countries and the multilateral trading system, and how the EU addresses current challenges are of interest to the WTO as a whole, including low average economic growth with large differences in growth among the member States, and the negotiations under Article 50 of the TFEU with the U.K. (Brexit).