

# **THE EUROPEAN FREE TRADE AGREEMENTS: MAIN FEATURES AND PAST EXPERIENCES**

**Prepared by:**

**Prof Claudio Dordi<sup>1</sup> ([claudio.dordi@unibocconi.it](mailto:claudio.dordi@unibocconi.it))**

**Mr Federico Lupo Pasini<sup>2</sup> ([flupopasini@hotmail.com](mailto:flupopasini@hotmail.com))**

---

<sup>1</sup> Professor of International Law at Bocconi University (Milan), and MUTRAP III Team Leader

<sup>2</sup> Lawyer and consultant specialized in international economic law and policy. Based in Hanoi.

## EXECUTIVE SUMMARY

---

In its recent Free Trade Agreements, the EU eliminated import duties on nearly all products and promoted a far-reaching liberalization of trade in services covering all modes of supply. The agreements included provisions on investment both in services and industrial sectors and strong disciplines in relevant areas, such as protection of intellectual property, public procurement, competition rules, transparency of regulations and sustainable development (i.e. environment and social rights). Other rules have been agreed on specific commitments to eliminate and prevent non-tariff obstacles to trade in specific sectors (e.g., in the case of the agreement with Korea, automobiles, pharmaceuticals and electronics). The counterpart, normally, has to reduce the customs duties gradually and within a deadline of 10 years, with the possibility of excluding from the liberalization specific identified sectors. Regarding the technical and sanitary barriers the negotiation of an FTA is an important opportunity to discuss and deal with any problem faced by Vietnamese exporters in accessing the EU market.

The Vietnamese market is by one of the most attractive destination for FDI and is already receiving substantial amount of FDIs. Indeed, the total amount of **FDI in 2010** is estimated to be around **11 Billion** US\$, up to 10% compared with 2009. Nevertheless, it seems that is the quality of the investments that is missing. Vietnam has a lot to gain from a free trade agreement with the EU, both in terms of trade and also in terms of increased investment. From a qualitative analysis it seems that the biggest gains for Vietnam (in terms of volume and quality of FDIs, but also in terms of general economic benefits) would come from services liberalization.

The competitiveness of the manufacturing sector of Vietnam is undoubted. The combination of cheap labour force and free market access to the ASEAN+ area render Vietnam a potential export hub to the whole region. A free trade agreement with the EU not only will increase the propensity of EU firms to invest in Vietnam, but it will also bring additional benefits to the Vietnamese economy. These benefits resides in an increased appeal of Vietnam as a productive and export facility (cheaper and better goods from Europe; larger market of 3.5 billion people; increased technology transfer to Vietnam), which in turn will attract more and of better quality investments from within and outside the FTA region.

In spite of the possible increase of FDIs in the manufacturing sector, the greater gains for Vietnam seem to come from a preferential liberalization of some of its services sectors. These gains will not only come from the immense economic effects originating by services liberalization, but they will come also in form of EU FDIs. Indeed, the high export propensity of the EU services sector seems to match perfectly with the increasing needs of Vietnam to improve its productive capacity and, more in general, to further develop towards standards more in line with middle-income countries, which usually base their growth on a dynamic services sector. Despite these considerations, experience seems to indicate that the political economy of services liberalization renders difficult to liberalize services trade on a preferential basis. One solution might

be to use the FTA to endorse domestic regulatory and economic reforms as it happened in various north-south FTAs.

An ex-post analysis of three EU FTAs with Chile, Mexico and South Africa shows in general positive results for the EU partners.

**The EU negotiated an FTA with Chile that entered into force in 2005.** The EU-Chile trade showed a clear increase of trade flows from the entering into force of the FTA agreement (2005). The annual growth rate in the period 2005-2008 was 19.17% for the export and 12.47% for the import. As forecasted in a previous study, the effects of the FTAs on the trade relationships between Chile and the EU have been positive, but modest, regarding their magnitude. This is probably due to the already existing openness between the two entities before the entry into force of the FTA agreement.

Since the entry into force of **the EU-Mexico FTA**, the 1 July 2000, trade flows between EU and Mexico has been particularly dynamic. Bilateral trade grew from 18.4 bn. USD in 1999 to 56.5 bn. in 2008 (+207%). Exports climbed from 5.2 bn. in 1999 to 17.2 bn. in 2008 (+228%), while imports increase by 196% in the same period, reaching a value of 39.3 bn. USD in 2008. All the statistics prove that the EU-Mexico FTAs promoted a huge development of bilateral trade relations. Exports and imports increased substantially. The composition of Mexican imports from the EU, based mainly on inputs, later transformed in Mexico to be exported or distributed in the local market, promoted employment and transfer of technology. On the other side, trade balance with the EU degraded, showing a structural problem of the Mexican economy, i.e. a very low value of the products is added in the Mexican territory.

South Africa negotiated a comprehensive Trade, Development and Cooperation Agreement (TDCA) with the European Union (EU) in October 1999. The **EU-South Africa Agreement** came into provisional effect on 1 January 2000: both parties have committed to tariff reductions based on the applied rates in existence on the day of entry into the agreement on trade in almost all sectors.

The impact of the EU-SA FTA, according to the trade data, has been huge. Imports, in the period 2001-2008, increased from 10.5 bn USD to 27.4 bn. (+160%) with an annual growth rate of 14.7%. Exports grew from 9.7 bn. in 2001 to 23.6 in 2008 (+143%). Trade balance deficit grew from 0.8 bn. in 2001 to 5.8 bn. in 2007 and 3.8 bn. in 2008. The FTAs, however, did not increase the market share of EU products in South African imports (on the contrary, there has been a decrease from 41.1% in 2001 to 31.3% in 2008), neither the market share of South African products in EU imports (from 0.58% in 2001 to 0.56% in 2008). The huge improvement of trade relationships between South Africa and the EU are not directly connected with the reduction of customs duties; first, on the side of the EU, weighted average customs duties remained stable (as they were already low before the entry into force of the agreement); second, the reduction of tariffs applied by South Africa took place mainly after 2005 and in particular after 2007: therefore, taking into

consideration the economic and financial crisis, it is not possible to provide a clear answer on the impact of tariffs reduction promoted by the FTA.

# EUROPEAN UNION FREE TRADE AGREEMENTS

---

## INTRODUCTION TO EU FTAs

Free trade agreements (FTAs) are becoming increasingly sophisticated and complex trade policy instruments. The European Union began to systematically use FTAs in the nineties in order to extend its sphere of economic influence to neighbouring countries. With the time FTAs evolved to address also non-trade concerns. Indeed, compared with the initial wave of FTAs of the early nineties, which were used to address market access and trade in goods issues, the new generation of FTAs can be described as mature economic and foreign policy instruments that go well beyond reduction of trade barriers.

In general, the EU FTAs may be systematically categorized, on the basis of their respective scope and regulatory structure, into various groups. Each group has a different policy objective to be fulfilled, which in turn shapes also the form and the text of the Agreement.

1. Agreements with geographically proximate countries, which might eventually accede to the EU.

This category encompasses the agreements that the EU has concluded with neighbouring third countries, including in the process of their accession to the Union (*i.e.*, the Stabilisation and Association Agreements with the Western Balkans and the, now obsolete, Europe Agreements with the Central and Eastern European States);

2. Agreements aiming at ensuring overall stability in the wider EU region.

This second category encompasses those agreements that the EU has concluded with the aim of establishing a climate of economic and political stability around its borders. The rationale behind the conclusion of such agreements is that any turbulent economic and political conditions in the wider EU region might result in negative spill-over effects within the EU itself; the possibility for any disruptions must, therefore, be minimized (*i.e.*, the Euro-Mediterranean Association Agreements);

3. Agreements whose primary focus is to foster the development of a certain region.

This category contains the agreements that the EU has concluded with third countries on the basis of historical and developmental considerations. Their conclusion aims at the reduction of poverty and at boosting the economic growth in developing and least developed countries that in the past had colonial ties with the EU (*i.e.*, the EPAs with ACP Countries); and

4. Agreements having as a primary objective to secure commercial benefits for the EU exporters.

This category encompasses trade agreements that the EU has concluded primarily with the goal of ensuring that its traders enjoy the greatest possible commercial benefits when exporting their products to the respective third countries. The Agreements with Chile, Mexico, South Korea, Colombia and Peru fall under this grouping.

In addition to these Agreements, the European Union has begun various talks with strategic trading partners in order to explore the possibility of signing free trade agreement. The new European strategy was set officially by the Commission in the communication “Global Europe – Competing in the World”, which spells out the new trade policy of the European Union. In the framework of such policy the signing of new and ambitious free trade agreement with strategic partners is among the priorities

In terms of content, *Global Europe*'s goal is to have strong, comprehensive, “WTO-plus” FTAs. Tariffs and quantitative restrictions should be eliminated. Presumably, this should apply to at least 90-95 per cent of tariff lines and trade volumes in order to comply safely with the “substantially-all-trade” criterion in Article XXIV GATT. There should be “far-reaching” liberalisation of services and investment. Services provisions should presumably be compatible with the “substantial sectoral- coverage” criterion in Article V GATS. A model EU investment agreement, developed in coordination with EU member-states, is envisaged. There should be provisions going beyond WTO disciplines on competition, government procurement, intellectual property rights (IPR) and trade facilitation. There should also be provisions on labour and environmental standards. Rules of origin (ROO) should be simplified. More generally there should be strong regulatory disciplines and regulatory cooperation, especially to tackle non-tariff barriers. This should involve improved transparency obligations, mutual recognition agreements, regulatory harmonization, regulatory dialogues and technical assistance.

On the basis of such new strategy, on 23 April 2007 the Council of the European Union authorized the EU Commission to start negotiating a FTA with the Association of Southeast Asian Nations (hereinafter, ASEAN). Negotiations were officially launched at the EU-ASEAN Economic Ministers Consultations held in Brunei Darussalam on 4 May 2007. Negotiations between the EU and ASEAN were intended to take place on a region-to-region approach, while recognizing and taking into account the different levels of development and capacity of individual ASEAN members. As progress in the EU-ASEAN negotiations was slow, both sides agreed in March 2009 to suspend the negotiations. On 22 December 2009, the EU Commission announced that EU Member States authorized the EU Commission to pursue negotiations towards FTAs with individual ASEAN countries.

Furthermore, the EU commission has begun talks with Canada, India, Mercosur, the Gulf Cooperation Council and has entered into negotiation for the signing of an association agreement with the Central American Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

## MAIN CONTENT OF EU FREE TRADE AGREEMENTS

In our analysis we chose four Free Trade Agreements that for their modernity and their similarities with the kind of FTA will be proposed by the EU, will be more likely a useful benchmark on which evaluate the EU's demand vis-à-vis Vietnam. The Agreements are:

- EU – Chile
- EU – Korea
- EU – CARIFORUM
- EU – Colombia and Peru

	<b>EU - Korea</b>	<b>EU - Chile</b>	<b>EU – Col/Peru</b>	<b>EU - CARIFORUM</b>
<b>Trade in Goods</b>	YES	YES	YES	YES
<b>Trade Remedies</b>	YES	NO	YES	NO
<b>Technical Barriers to Trade</b>	YES	NO	YES	YES
<b>Sanitary and Phytosanitary Measures</b>	YES	NO	YES	YES
<b>Customs and Trade Facilitation</b>	YES	NO	YES	YES
<b>Trade in Services and Investment</b>	YES	ONLY TRADE IN SERVICES AND ESTABLISHMENT	YES	YES
<b>Payment and Capital Movement</b>	YES	YES	YES	YES
<b>Government Procurement</b>	YES	NO	YES	YES
<b>Intellectual</b>	YES	NO	YES	YES

Property				
Competition	YES	YES	YES	YES
Transparency	YES	YES	YES	YES
Sustainable Development	YES	NO	YES	YES
Dispute Settlement	YES	YES	YES	YES

## TRADE IN GOODS

### Tariff Reduction

Tariff reduction has always been at the core of a free trade agreement. Depending on the trading partner of the FTA, and especially with developing countries, the reduction of custom duties on “substantially all the trade” will be at the centre of the negotiations. Of course the reduction of duties will come from both sides, but it will be on the EU-partner country the heaviest burden.

In fact, by looking at the EU tariffs on goods it is clear that they are almost uniformly low on all the products, with only the notable exception of fishery and agricultural products. In the negotiations European trade negotiators will invariably leave the barriers to trade in agricultural and fishery products high and will reduce the tariffs on all the other products.

On the contrary, by examining the reduction of tariffs of EU FTA-partner countries (PC) it is clear that the reduction of tariff is higher in the long term. Partner countries cannot accept the asymmetry of concession and therefore the EU usually give up on other issues to rebalance the concessions. Usually even in PC the agricultural sector is left behind in terms of market opening in order to prevent EU subsidies agricultural products to invade the domestic market. The EU routinely excludes or strictly limits concessions on products such as beef, sugar, a range of dairy products, some cereals and cereal products, rice, some fresh fruits and vegetables, some cut flowers and fisheries products. The partner developing country also excludes a range of agricultural products, not least to protect their agriculture from imports of subsidised agricultural goods from the EU such as, beef, sugar, dairy products, and cereals. As a result, in the case of the agreement with Mexico, only 62% of bilateral trade in agricultural products is fully liberalised, while in the case of the agreement with South Africa 62% of EU imports are liberalised while South Africa fully liberalizes 82% of its imports from the EU. EU negotiators will also allow PC to take a longer time to reach the completed scheduled liberalization in trade in goods. In this respect, while usually the EU will complete its liberalization process in five years, PC will complete it in a period that could take from 5 to 15 years. The removal of customs duties is done over a transitional period so that domestic producers can gradually adapt to the lowering of customs duties. Consumers will benefit from lower prices and exporters from strengthened



competitiveness. The pattern of tariff reductions in the developing country usually takes the form of duties on capital and intermediate goods being abolished before those on final consumer goods, which are also subject to significantly higher initial duties and which are only liberalised towards the end of the transitional period.

### **Non-Tariff Barriers (TBT)**

In the context of the new “Global Europe Strategy” the EU seeks deepen market access through the removal of non-tariff barriers (NTBs). NTBs are all barriers to trade other than tariffs and arise in many different shapes. In the WTO Agreements, there is an agreement that deals exclusively with NTBs, or Technical Barriers to Trade (TBT) as they are officially called. Such barriers take the form of differences in standards, requirements, regulations, and testing and certification procedures. The costs created by non-tariff barriers are a high burden, often higher than custom duties, particularly for smaller and medium enterprises. Since a number of these barriers are a side effect of the otherwise legitimate pursuit of public policy objectives, overcoming the negative side effects requires finding carefully balanced solutions.

The annexes on NTBs address effectively those regulatory and other barriers that EU industry has identified as being the most important obstacles to access to the foreign markets in the sectors concerned. In view of their detailed and technical nature, these barriers are very difficult to address and require entering deeply into the regulatory practices of trading partners. It is therefore of particular value that the rules on NTBs could largely be based on the European regulatory model.

The EU negotiators have in each agreement analyzed chose some sector of particular relevance to EU exporters or importer and have negotiated specific annexes that try to recompose the asymmetry of regulations between the two countries. Usually this happens through the recognition of international standards as equivalent to domestic standards.

Specific annexes have been negotiated on: Consumer Electronic, Pharmaceuticals, Automotive and Chemicals products.

In the context of the NTB strategy, EU FTAs usually contain also a chapter that reiterates the provisions of the WTO TBT Agreement. In addition, are inscribed provisions to cooperate on standards and regulatory issues, and where appropriate, to establish dialogues between regulators, with the intention of simplifying and avoiding unnecessary divergence in technical requirements applying to products. The agreement includes specific undertakings on good regulatory practice: transparency in making rules, use where possible of international standards, providing the other Party with an opportunity to discuss rules before they are made, and allowing sufficient time for the other Party to comment on them and to take account of their adoption. Similar considerations apply to technical standards.

There are also provisions on marking and labelling, whereby requirements to mark or label products will be minimised as far as possible, and will be non-discriminatory. Finally, a mechanism for co-ordination is set up between the FTA members to keep these matters under consideration and to address any specific issues.

### **Sanitary and Phytosanitary Measures (SPS)**

The main objective of the Chapter on Sanitary and Phytosanitary (SPS) measures is to further facilitate trade between the EU and PCs in animals and animal products, plants and plant products while maintaining the high level of human, animal and plant health. Another objective is to ensure full transparency as regards sanitary and phytosanitary measures affecting trade.

With the aim of having a common understanding on animal welfare, the chapter also includes provisions on cooperation. These objectives will be achieved by the introduction of the following key elements:

- A formal dialogue on SPS issues affecting trade;
- Specific commitments on: transparency (in particular with respect to import conditions), consultation, working towards developing a common understanding on international standards and equal treatment of all EU Member States;
- A procedure for the recognition of disease-free areas, i.e. areas eligible for exporting products to the other Party.

In the framework of FTA, a specific mechanism for co-operation between the parties can be established (Committee on SPS measures) for the implementation of the SPS Chapter. This Committee will develop the necessary procedures and arrangements, will monitor progress, and provide a forum for discussion of problems arising from the application of certain SPS measures.

### **Customs and Trade Facilitation**

The agreement will enhance co-operation in customs and customs-related matters. In particular the Parties commit, amongst other, to:

- Pursue harmonisation of documentation and data requirements with the aim to facilitate trade between them;
- Develop effective communication with the business sector;
- Assist each other in matters related to tariff classification, valuation and preferential origin of goods;
- Promote strong and efficient enforcement of intellectual property rights regarding import, export and transit;
- Improve the security, while facilitating trade, of sea-containers and other shipments imported into, transhipped through or transiting the Parties.

The agreement can also provide a comprehensive benchmark for the application of modern and trade friendly customs and border related procedures. It builds on international standards and addresses the majority of the issues raised in the WTO Trade Facilitation Negotiating Group. To provide increased transparency and legal certainty, the Trade Facilitation provisions included in the FTA could provide for advance rulings, appeal procedures and detailed rules for publication of customs and trade related legislation, fees and charges, the designation of inquiry points and consultations with the representatives of the trading community. To simplify and streamline border procedures the chapter could contain provisions on the reduction of fees and charges, risk management, electronic submissions, the elimination of pre-shipment inspections, simplified customs procedures and customs valuation.

The agreement establishes a Customs Committee, which consists of representatives of the customs authorities and other competent authorities of the Parties responsible for customs and trade facilitation matters.

The Committee serves a forum to discuss and endeavour to resolve any difference that may arise between the Parties with regard to customs and trade facilitation matters including, amongst others, tariff classification, origin of goods and mutual administrative assistance in customs matters. It may also formulate recommendations and opinions, which it considers necessary for the attainment of the objectives established in the customs and trade facilitation chapter of the agreement. In between the Committee meetings, both sides cooperate closely through informal channels and also in the margins of the many International meetings (e.g. in the framework of the World Customs Organisation or the World Trade Organisation).

## **Trade Remedies**

The trade remedies chapter includes provisions relating to the use of the traditional trade defence instruments already existing in the WTO legislation (anti-dumping, anti-subsidy and global safeguard).

The key guiding principle concerning the traditional instruments is to re-affirm the need to respect the rights and obligations foreseen by the WTO legislation, while at the same time setting out disciplines in order to limit the use of these instruments to situations where this is necessary and to ensure a fair treatment for all the parties concerned. Those are already standard in the EU legislation.

For example, the FTA requires that the level of duty should be lower than the full amount of dumping or subsidy to the extent that this is sufficient to eliminate the injury. It also gives the possibility to conduct a public interest test in order to balance the various interests at stake and to examine the possible impact of the duties on the economic operators before imposing any measures.

There are also provisions aiming at increasing transparency of the investigation process, also giving the possibility of the economic operators involved in the proceedings to file documents in English, which would allow interested parties to better exercise their rights of defence and to avoid costly translations.

The agreement includes a bilateral safeguard clause, which allows either party to reintroduce temporarily the tariffs applied to WTO members in case an increase of imports would cause or threaten *serious injury*. The EU will monitor the market in sensitive sectors and will be ready to activate safeguard procedures whenever the conditions are met. At the same time as the entry into force of the agreement, a EU Regulation will introduce rapid and effective procedures for the implementation of the bilateral safeguard clause.

Finally a working group on trade remedies has been established in order to set up a forum for dialogue on trade remedy co-operation. This will allow the investigating authorities of each party to have a better knowledge of their respective practice and exchange views in order to increase standards used in trade defence proceedings.

## **TRADE IN SERVICES, ESTABLISHMENT AND E-COMMERCE**

The new EU FTAs rely heavily on market access in services and try to the extent possible to reach a level of trade and regulatory concession beyond that of the GATS. So far EU FTAs, on the contrary to other countries' FTAs, do not contain a separate chapter for trade in services and investment. Rather, in the title that groups all the services concession, investment is limited only to commercial presence. This will probably change in the future as the EU had acquired unique competence also on investment.

The services title comprises between six to seven chapters. The first chapter sets out the general provisions. The second chapter, which deals with commercial presence/establishment, applies as under NAFTA-type agreements to both services and non-service economic activities. The third chapter relates to cross-border trade in services. The fourth chapter deals with the temporary movement of natural persons and the fifth one with the regulatory framework. The sixth chapter addresses the issue of e-commerce while the seventh could lay out the co-operation (aid for trade) package for services. In addition to that, EU FTAs contain additional and specific annexes on selected industries, such as transport, telecommunications, finance, legal services, environmental services, maritime transport and construction

Outside of the services title the EU FTAs also include provisions on free capital movement, which ensure the smooth functioning of the agreement. These include standard safeguards for both sides with a possibility to apply measures to ensure the stability of the financial system.

## **OTHER TRADE-RELATED ISSUES**

### **Government Procurement**

A chapter on government procurement can be found in all the EU FTAs. The Chapter applies to public procurement in both goods and services. The chapter's inclusion is noteworthy to the extent that many of

EU's trading partners do not have their own internal discipline on government procurement nor are a signatory to the multilateral 1994 Government Procurement Agreement (GPA).

In its *Global Europe* strategy the EC identified government procurement as a policy domain of key importance for EC companies to better compete in international markets. In the specific context of the FTAs negotiations, perhaps two motivations explain the EC's desire to include a procurement chapter. First, and most straightforwardly, the EPAs offer the EC the possibility of improved access to FTA partner's public procurement markets. Second, the EPAs provide a platform to promote potential economy-wide gains on the part of FTA partner countries by improving the business climates, helping in the fight against corruption, improving domestic regulatory regimes and administrative procedures and affording cash-strapped governments better value for money in procurement transactions and foster the establishment of firms capable of tendering from one island into the market of another.

### **Competition**

In many of the EU FTAs there is a competition chapter whose intrusiveness in the regulatory space of the partner's country has increased with the new FTAs. In the competition chapter, the Parties agree to prohibit and sanction certain practices and transactions involving goods or services, which distort competition and trade between them. This implies that anti-competitive practices such as, for instance, cartels or abusive behavior by companies with a dominant market position and anti-competitive mergers, will not be tolerated by the Parties and be subject to effective enforcement action, as they lead to consumer harm and higher prices.

In order to ensure an effective enforcement, the Parties agreed to maintain effective competition laws and an appropriately equipped competition authority responsible for addressing such anti-competitive practices. Both Parties recognize the importance of respecting the principles of due process in applying these competition laws. The agreement provides that competition law should also apply to state-controlled enterprises and that there is no discrimination by monopolies. This ensures that companies of both Parties have equal access to each other markets. Moreover, there are provisions laying down the main principles for consultations and cooperation between the Parties.

In the EU-Korea FTA there is also a section on subsidies, which provides that the Parties agree to remedy or remove distortions of competition caused by subsidies in so far as they affect international trade. This section is particularly significant in so far as it contains provisions that prohibit certain types of subsidies, which are considered to be particularly distortive. These are:

- a) Subsidies covering debts or liabilities of an enterprise without any limitation, in law or in fact, as to the amount or duration;
- b) Subsidies to ailing enterprises, without a credible restructuring plan based on realistic assumptions that would allow the recipient to return to long-term viability without further reliance on State support. The

turnaround has to be made within a reasonable time, and the enterprise must make a significant contribution to the costs of restructuring.

The section also contains transparency provisions according to which Parties have to report annually the total amount, types and the sectoral distribution of subsidies. Moreover, parties are obliged to provide further information on subsidy schemes or individual subsidies on request.

The agreement also contains a rendezvous clause for services: Parties will discuss 3 years after entry into force of the agreement if this section should also be applied to services. Last, but not least, this section is subject to the dispute settlement mechanism.

Much of the co-operation on offer is voluntary in nature. However, there are rules that must be adhered to when co-operation does take place. One such rule calls on competition authorities to inform other competition authorities about enforcement proceedings against anticompetitive business practices which fall within the scope of the chapter and are taking place in the latter Party's territory.

### **Intellectual Property Right**

The protection and enforcement of IPR is crucial to European competitiveness. In order to preserve the standard of protection applied in Europe, the EU FTAs contain an IP chapter, whose regulatory structure varies depending on each partner. The most ambitious IP chapter was contained in the EU-Korea FTA and included developed provisions on in particular copyright, designs and geographical indications (GIs), which served as a complement and up-date to the TRIPS Agreement. The chapter also included a strong section on enforcement of IPRs based on the EU's internal rules in the enforcement directive.

On copyright the provisions are in lines with the latest international developments. This part of the chapter also includes a provision that should facilitate for EU right holders to get adequate remuneration for the use of their music or other artistic works. Designs have lately become an economically important IP right. The chapter therefore includes provisions, which fills the gap in TRIPS as regards designs including provisions on unregistered designs.

EU wines, spirits, cheese or hams represent a good part of EU agricultural exports. The FTA offers a high level of protection for commercially important European GIs such as:

- *Champagne, Scotch or Irish whisk(e)y, Grappa, Ouzo, Polska Wódka*
- *Prosciutto di Parma, Szegedi szalámi or Jambon de Bayonne*
- *Manchego or Parmigiano Reggiano* cheese
- *Vinho Verde or Tokaji* wines as well as those from the *Bordeaux* and *Rioja* and many other regions like the *Murfatlar* vineyard
- *Bayerisches Bier* or *České pivo*

Around 160 major EU GIs will be protected directly at entry into force of the agreement. All agricultural GIs, and not only those relating to wines and spirits, will have the same high level of protection. Both sides are committed to protect additional GIs through a procedure envisaged in the agreement.

The FTA will also protect GIs from South Korea. This will provide EU consumers with clarity that when for example buying *Boseong green tea* they will savor the authentic Korean product.

### **Trade and Sustainable Development**

The EU FTAs include provisions establishing shared commitments and a framework for cooperation on trade and sustainable development. The agreement breaks new ground in the field of trade and sustainable development and enables close dialogue and continued engagement between EU and partner countries in the fields of environment and labour.

The chapter on trade and sustainable development includes firm commitments on both sides to labour and environmental standards. The agreement also sets up institutional structures to implement and monitor the commitments between the parties, including through civil society involvement.

Key elements of the Trade and Sustainable Development Chapter include:

- On labour, a shared commitment to ILO core labour standards and to the ILO decent work agenda, including a commitment to ratify and effectively implement all conventions identified as up to date by the ILO (i.e. going beyond those Conventions relating to the core labour standards).
- On environment, there is a commitment to effectively implement all multilateral environment agreements to which they are party.
- Confirmation of the parties' right to regulate, while aiming at a high level of protection in the fields of environment and labour, and a commitment to refrain from waiving or derogating from such standards in a manner that affects trade or investment between the parties.
- Strong monitoring mechanisms, building on public scrutiny through civil society involvement by both partner country and the EU. Each side will set up a civil society advisory group, including a balanced representation of environment, labour and business organizations. The two groups will meet annually in a civil society forum to discuss the implementation of the sustainable development aspects of the chapter. Cooperation activities and monitoring of the implementation of commitments will be undertaken in a high level Committee on Trade and Sustainable Development.
- Mechanisms for settling differences through an independent panel of experts. Recommendations by the panel of experts will be subject to monitoring in the Committee on Trade and Sustainable Development. The Panel of experts should seek the advice of the Domestic Advisory Groups and competent international organisations, such as the ILO or relevant multilateral environmental organisations. The reports of the panel will be made publicly available to the Domestic Advisory groups.

### **Transparency**

As domestic regulatory environments have an impact on trade, the EU FTAs contain a chapter that set up the criteria to be followed in order to pursue an efficient and predictable regulatory environment for economic operators, especially the small ones. Lack of transparency of the regulatory environment has often been a concern expressed by European firms doing business in other countries. It is therefore of great significance that EU FTAs include strong transparency commitments that apply to all regulations having an impact on matters covered by the FTA.

In particular, the Chapter provides for:

- Commitments to allow interested persons to comment on proposed new regulatory measures.
- The establishment of enquiry or contact points to respond to questions arising from the application of regulations or to seek to resolve problems arising from such regulations.
- Due process requirements as regards administrative proceedings, including as regards the review or appeal of administrative actions in areas covered by the FTA.

### **Dispute Settlement**

In most of the FTAs in force there is always a dispute settlement chapter. In the EU FTAs, the Dispute Settlement mechanism is based on the model of the WTO Dispute Settlement Understanding, but its procedures are much faster.

The first step of the procedure is the consultation between the parties, with a view to reaching a solution. If the parties do not find an agreement, the dispute is referred to an arbitration panel. The panel is composed of three experts that are chosen by the parties, or selected by lot from a list agreed in advance. The panel receives submissions from the parties, and will hold a hearing that will be open to the public. Interested persons or companies will be allowed to inform the panel of their views by sending *amicus curiae* submissions. The panel's ruling, delivered within 120 days after the establishment of the panel, is binding on the parties. After the ruling, the party in breach of the FTA will have a reasonable period of time to bring itself into compliance with the FTA. This period is agreed between the parties or decided by an arbitrator.

By the end of the period for compliance, the party that was found in breach of the agreement must have remedied the situation. If the complaining party considers that the defending party is still in breach of the FTA, it can refer the issue back to the panel. If the panel confirms that the defending party is still in breach of the FTA, the complainant is entitled to impose proportionate sanctions. All time limits of the arbitration procedure are reduced in cases of urgency. The FTA also contains a mediation mechanism that the parties can use to tackle market access problems due to non-tariff measures. The aim of this mechanism is not to review the legality of a measure, but rather to find a quick and effective solution to a market access problem. Under the mediation mechanism, the parties will be assisted by a mediator that they have jointly agreed, or that has been selected by lot from a list agreed in advance. The mediator meets with parties and will deliver an advisory opinion and propose a solution within 60 days of its nomination. The opinion and the proposal of



the mediator are not binding: the parties are free to accept them, or use them as a basis for a solution.

The mediation mechanism does not exclude the possibility to have recourse to dispute settlement, during or after the mediation procedure.

## THE IMPACT OF EU FTAS ON THE TRADE AND ECONOMIC PERFORMANCE OF EU FTA-PARTNERS

---

### INTRODUCTION

The literature on the assessment of the economic and trade performances of the FTAs concluded by the EU is quite comprehensive: however, most of the researches are conducted before the agreement is negotiated and is entered into force, as they are intended to support the negotiators to understand the magnitude of the effects of each agreement. Few analytical studies have been published to analyze the impact on trade and on the economies of the FTAs members after the agreement entered into force. In this research we select, among the countries which participated to a FTA agreement with the EU, only those agreements which might represent a reasonable example for Viet Nam. For this reason we excluded all the agreements with EU members' candidates or with countries that are geographically close to the EU as well as the agreements with countries which are not comparable to that of Vietnam and we selected some agreements which already entered into force for a minimum number of years, allowing the possibility of an effective assessment of their impact on the members' economies.

For the above mentioned reason we will focus on the economic impact of the following agreements:

1. EU- Chile
2. EU- Mexico
3. EU- South Africa

The above agreements are part of an "older" generation of FTAs concluded by the EU: however, the main chapters regarding trade, investment and services are quite similar to the agreements of new generation analyzed in the previous chapter of this research.

### THE MAIN FEATURES OF THE EU PARTNERS

	<b>Chile</b>	<b>Mexico</b>	<b>South Africa</b>
<b>Surface</b>	756600 sq km	1964400 sq km	1219,1 sq km
<b>Population</b>	17 millions	107,6 millions	49,3 millions
<b>GDP</b>	116 bn. Euro	627,3 bn. Euro	205,9 bn. Euro
<b>GDP per capita</b>	6829,2 Euro	5832,2 Euro	4175,2 Euro
<b>Export/GDP</b>	32,1%	25,6%	18,9%
<b>Import/GDP</b>	28,3%	28,5%	25,5%
<b>Trade/GDP</b>	60,4%	54,1%	44,3%

## THE AGREEMENTS

	Chile	Mexico	South Africa
<b>Signed</b>	18.11.2002	8.12.1997	11.10.1999
<b>Entered into force</b>	1.3.2005	1.10.2000	1.1.2000

### 1. EU-Chile Free Trade Agreement

#### Main issues covered

The Association Agreement between the EU and Chile entered covers a number of relevant issues as follows:

- Progressive liberalization of trade in goods;
- Establishment of a agreed discipline on customs, rules of origin, TBT and conformity assessment procedures, SPS, safeguards, antidumping;
- Progressive liberalization of trade in services;
- Improvement of the environment for reciprocal foreign investments;
- Liberalization of movement of capitals;
- Government procurement;
- Protection of intellectual property rights;
- Protection of competition;
- Dispute settlement.

#### Trade performances

EU-Chile trade showed a clear increase of trade flows from the entering into force of the FTA agreement (2005). The annual growth rate in the period 2005-2008 was 19.17% for the export and 12.47% for the import.

**Exports:** the entry into force of the agreement boosted the exports only in the first year of implementation (2006). Since 2007 the exports growth rate has been limited (2007: + 3%) or negative (in 2008 and in 2009). While in the last two years this has been probably due to the economic and financial crisis, the data of 2007 probably illustrate that the trade effects of the agreement on exports have been quite limited. This is confirmed by data in table 2, which shows similar data regarding the annual exports growth in the pre-crisis (2005-2007: table 2) pre-agreement (2002-2005) periods (respectively: +30.77% and + 30.66%) annually.

The post-agreement period growth rate of **import** (+12.47%) has been lower than the pre-agreement one (+18.11%). The higher increase of exports compared to import amplified the **trade balance** surplus for Chile (in the post-period, +25.76%). The agreement did not influence the relative value of the trade balance:

indeed, comparing the period 2005-2007 (pre-crisis and post-agreement) with the 2002-2005 period (pre-agreement), table 2 shows similar growth rates (+51% vs. +54%)

Table 1.

	Chile-EU Trade (000 USD)									Growth 2005-2008	Growth 2002-2005
	Value in 2002	Value in 2003	Value in 2004	Value in 2005	Value in 2006	Value in 2007	Value in 2008	Value in 2009			
Export	4290406	4972083	7882569	9569440	15883042	16364055	16193417	9646674	Annual	Annual	
Growth rate		15.9	58.5	21.4	66.0	3.0	-1.0	-40.4	19.17	30.66	
Import	3042924	3286535	3584266	5013443	5177083	5957093	7132448	6578245			
Growth rate		8.0	9.1	39.9	3.3	15.1	19.7	-7.8	12.47	18.11	
Trade balance	1247482	1685548	4298303	4555997	10705959	10406962	9060969	3068429			
Growth rate		35.1	155.0	6.0	135.0	-2.8	-12.9	-66.1	25.76	54.00	

Source: ITC, Trade Map

Table 2.

	Growth 2005-2007	Growth 2002-2005
Growth rate export	30.77	30.66
Growth rate import	9.01	18.11
Trade balance	51.14	54.00

Source: ITC, Trade Map

It is highly probable that trade flows have not been deeply influenced by the implementation of the agreement for a number of reasons. The very low level of average tariffs already applied in the reciprocal trade between the two FTA members before the agreement is probably one of this: table 3 below shows that the in the bilateral trade there had not been substantial reduction of tariffs.

**Table 3. EU tariffs applied on Chilean imports.**

Product Name	Year	Simple Average	Weighted Average	Standard Deviation	Maximum Rate
Total Trade	2004	4.01	1.84	5.55	57.6
Total Trade	2008	4.19	2.09	5.36	57.6
Agricultural	2004	6.12	9.22	8.04	57.6
Agricultural	2008	6.39	9.42	8.02	57.6
Industrial	2004	3.64	1.02	4.46	26
Industrial	2008	3.84	1.12	4.37	26

Source: World Bank, Wits

It should be taken into consideration, however, that the share of import from Chile in the total import of the EU increased from 0.24% in 2004 to 0.27% in 2008, while, like in 2004, Chile exports to EU amount to 25% of total Chilean exports. This shows that the FTA has probably helped Chile in maintaining, at least, the same market share in EU imports.

**Copper** is the most important product **exported** to the EU: in the period 2004-2008 its exports increased by 17% (6.8 bn. USD in 2008); the other four main products exported are Ores (+16.3%, 2.9 bn.), Edible fruit (+18.6%, 1.8 bn.), Beverages-spirits-vinegar (+10.7%, 0.8 bn.), pulp of wood (16.8%, 0.8 bn.) and seafood (+13%, 0.5 bn.). The economic crisis on Chilean exports to the EU (-40%); copper is still the most important products exported to the EU (amounting to 31% of total export towards EU in 2006, reduced to 19.7% in 2009).

The data available from the Central Bank of Chile shows that the export to EU of **industrial products**, in the period 2003-2009 (the official statistics take into account the date of signature), increased annually by 9.5%, while the growth rate of agricultural products, in the same period, was 15.8%.

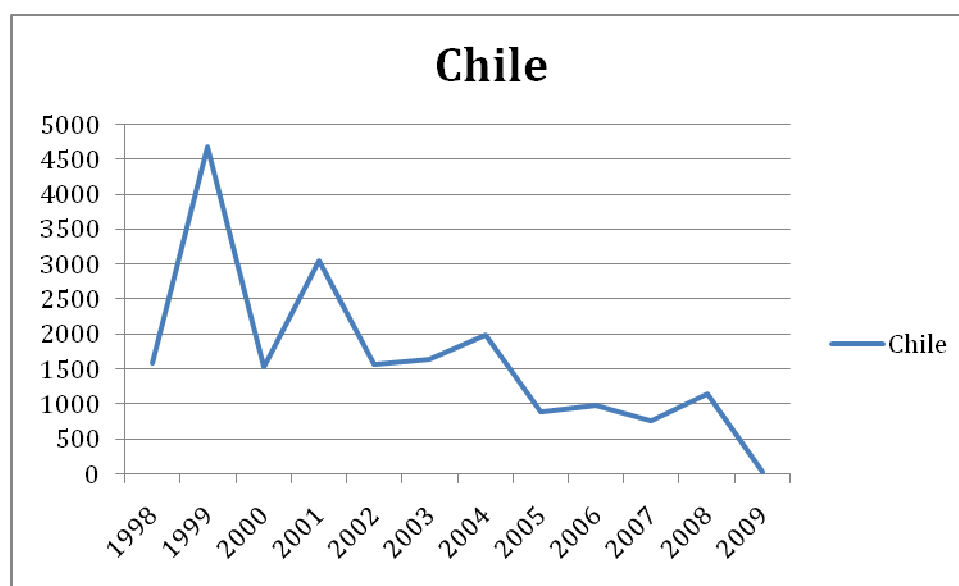
The share of EU export to total **Chilean import** in 2009 is around 15%, almost the same value of 2005 and 2004 (16%). The economic crisis had the effects of restoring the presence of EU products in the Chilean market (in 2008 the share was only 11%). Machinery (+6% in the period 2004-2008, 2.1 bn. USD the value of import in 2008), Electronics (+20.9% and 1 bn.), Automotive (+15.4% and 0.7 bn.), pharmaceuticals (+18.7% and 0.24 bn.) and articles of iron or steel (+15% and 0.28 bn.) are the most important imported products from the EU.

In line with the huge economic growth, there has been an increase of import of **capital goods** from the EU (annual increase of 10% from the signature of the agreement). **Consumers' goods** from the EU increased, in the same period, by 11.7%.

### **Investment performances**

The EU is one of the main investors in Chile, in line with the world tendency. The following table and charter illustrate the evolution of EU FTDIs in Chile since 1998 (data in millions of EURO).

partner\time	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Chile	1590	4676	1537	3048	1564	1643	1987	889	997	763	1157	39

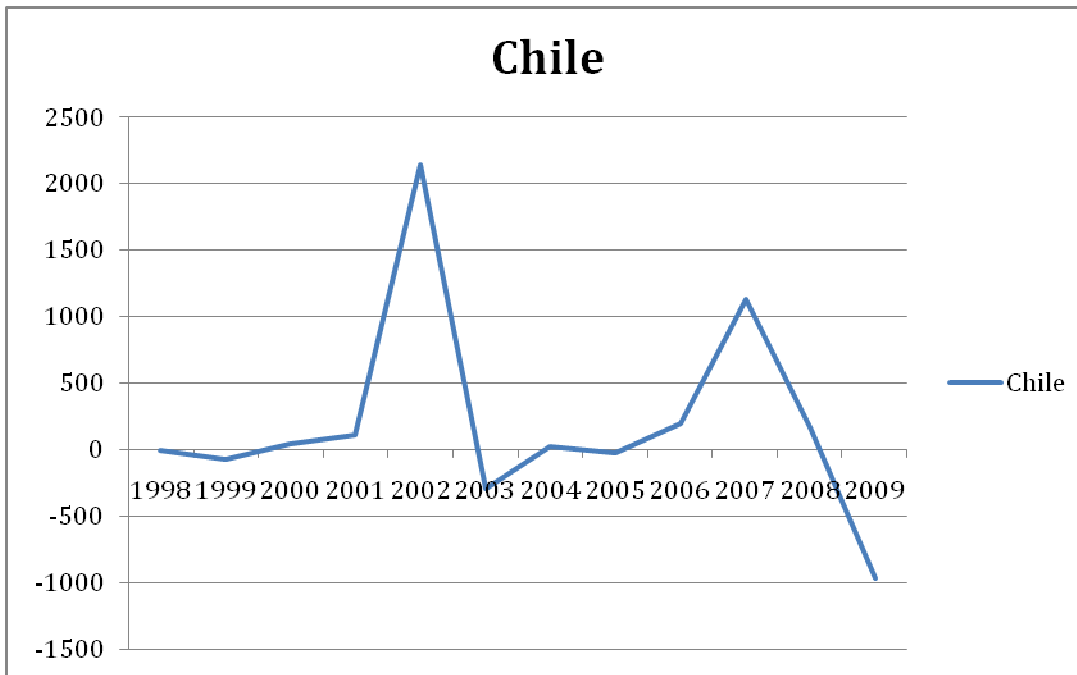


Source: Eurostat.

It is apparent that FDI **from the EU to Chile** reveals great fluctuations until 2004. Afterwards, there has been, with some minor exceptions (2006 and 2008) a constant decline. The huge increase in 1999 was due to the important inflows of capital from Spain, traditional Chilean partner, following the process of internationalization carried out by Spanish enterprises in that period. The privatization processes in Spain of the second half of the 90s gave a unique opportunity to have liquidity to access to the Latino American markets of telecommunications, oil, electricity and financial services. Indeed, between 1997 and 2001, more than 55% of Spanish FDI had been directed to Latin America. In 2008, the main sectors of EU investments in Chile have been transport and storage (29,1%), mining (25%), electricity, gas and water (17,1%), financial services (13,1%).

There are no evidences of any effects promoted by the conclusion of the FTA, on the promotion of FDI from the EU to Chile.

partner\time	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Chile	-9	-72	46	110	2138	-295	23	-26	200	1125	168	-967



Source: Eurostat

The above chart and table show that after the entry into force of the FTAs there had been an important increase of FDIs from Chile to the EU (except in 2008 and 2009: however, due to the international economic and financial crisis, these data are not fully reliable). The investments are mainly concentrated in the services sector (60%) while 40% are focused on the industrial sector.

### Conclusions

As forecasted in a previous study, the effects of the FTAs on the trade relationships between Chile and the EU have been positive, but modest, regarding their magnitude. This is probably due to the already existing openness between the two entities before the entry into force of the FTA agreement.

#### 3.3.1. The EU-Mexico FTA

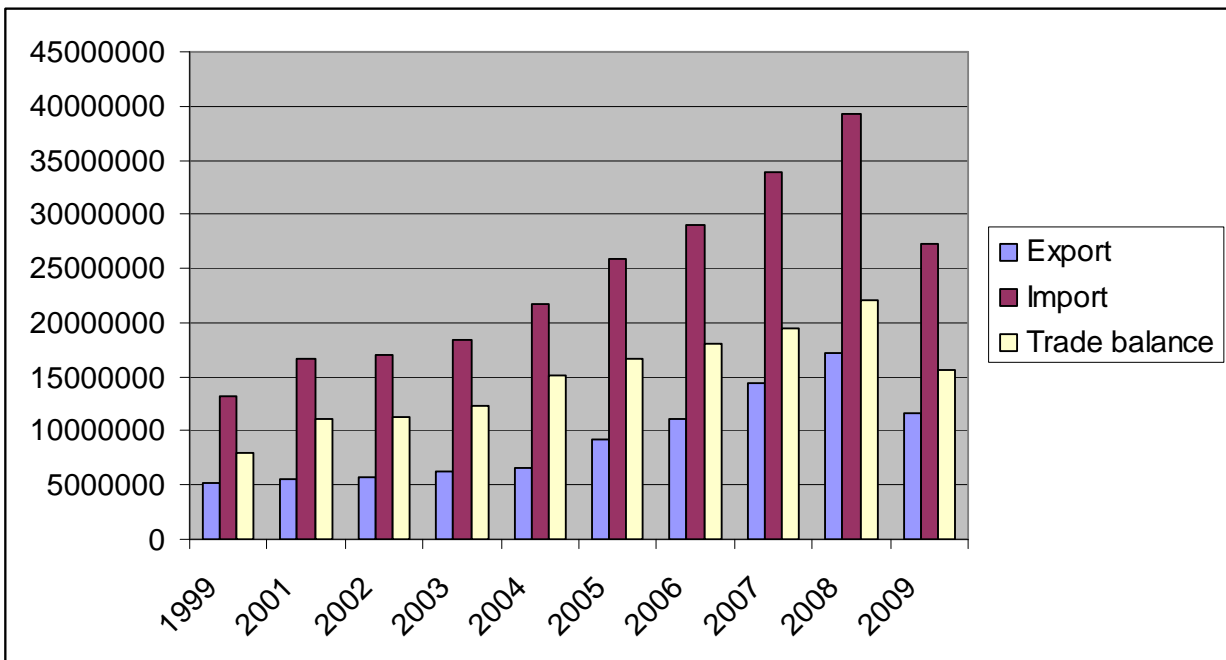
##### Trade performances

Since the entry into force of the FTA, the 1 July 2000, trade flows between EU and Mexico has been particularly dynamic. Bilateral trade grew from 18.4 bn. USD in 1999 to 56.5 bn. in 2008 (+207%). **Exports** climbed from 5.2 bn. in 1999 to 17.2 bn. in 2008 (+228%), while **imports** increase by 196% in the same period, reaching a value of 39.3 bn. USD in 2008.

**Table 1: Bilateral Trade Mexico-EU**

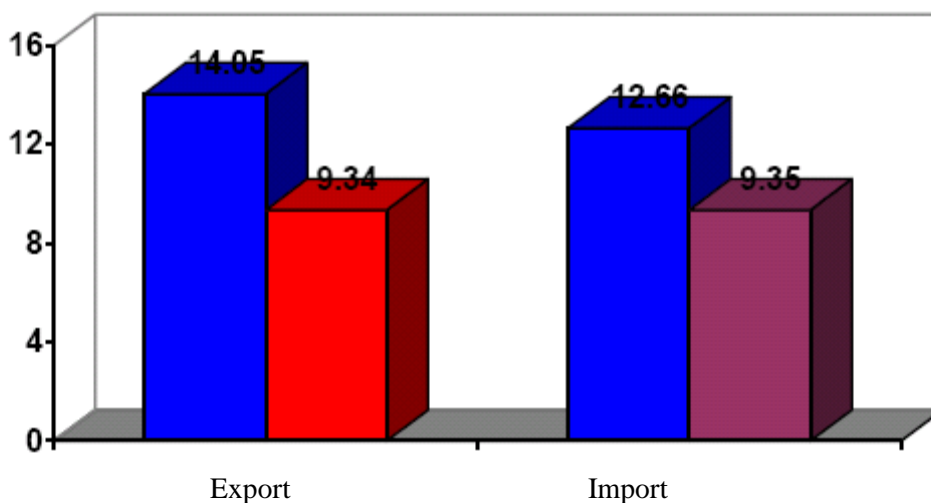
	1999	2008	Growth
<b>Export</b>	5.2	17.2	228%
<b>Import</b>	13.2	39.3	196%
<b>Total trade</b>	18.4	46.5	207%
<b>Trade balance</b>	-8	-22.1	176%

**Graphic 1: Export, Import and Trade Balance**



The important impact of the agreement on bilateral trade is testified by the trade growth rate Mexico-EU and Mexico world in the period 1999-2007 (graphic 2).

**Graphic 2: Growth rate of trade with EU (blue) and world (red)**



The trade relationships between Mexico and EU, in the period 1999-2007, have been more dynamic than that to the US (Import from EU, 12,7%, from US 4,1%; export to EU 14.1%, US 8.6%). Regarding the export, only China (+37.3%) growth rate has been higher than that with the EU (on import China and Japan performed better, respectively +41.4% and +17%). As a consequence, the EU substantially increased the presence on the Mexican import, amounting to the 12% of total Mexican import, while EU import from Mexico the 1.1% of total imports.

**Table 2: rank in the bilateral trade EU-Mexico**

	1999		2007	
	Rank	Market rate	rank	Market rate
<b>Import to Mexico from EU</b>	2	9.1%	2	12.0%
<b>Import to eu from Mexico*</b>	30	0.7%	25	1.1%

As already highlighted, the bilateral **trade deficit** with the EU substantially increased; indeed, a number of EU enterprises relocated their production in Mexico to export into the US, benefiting indirectly from the NAFTA agreement.

The most important imports from the EU are machinery (29.45% of the total), Oil (22%), electronics (14.87%) and Vehicles (13.48%).

**Table 3: Most imported products from EU**

Products Exported	2008	%
<b>All products</b>	39250965	
<b>Machinery</b>	8042020	29.45
<b>Mineral fuels, oils, etc</b>	6015834	22.03
<b>Electrical, electronic equipment</b>	4060701	14.87
<b>Vehicles</b>	3680223	13.48
<b>Pharmaceutical products</b>	2033693	7.45
<b>Iron and steel</b>	1835109	6.72
<b>Optical, photo, technical, medical, etc</b>	1490541	5.46



<b>Organic chemicals</b>	1404695	5.14
<b>Plastics</b>	1134468	4.15
<b>Articles of iron or steel</b>	872567	3.20

As a confirmation of the fact that Mexico is considered **a platform for exporting into the US**, most of the imports from EU are inputs and not consumers goods. This allowed the Mexican enterprises to benefit even from the necessary transfer of technology which has been useful to compete in the world trade.

Table 4 illustrates the most dynamic imported products:

**Table 4: growth rate of the 10 most imported products**

<b>Products</b>	<b>2001</b>	<b>2008</b>	<b>2001-2008</b>
All products	16716164	39250965	13.0
Machinery	4458923	8042020	8.8
Vehicles	2249146	3680223	7.3
Electronics	2606475	4060701	6.5
Mineral fuels, oils	117065	6015834	75.6
Pharmaceutical products	562343	2033693	20.2
Optical, photo, technical, medical etc.	536750	1490541	15.7
Organic chemicals	981316	1404695	5.3
Iron and steel	427596	1835109	23.1
Plastics and articles thereof	487858	1134468	12.8
Articles of iron or steel	314217	872567	15.7

The increase of import in Mexico is mainly due to the huge tariff reductions applied by the Central American country since the entry into force of the agreement. Table 5 illustrates clearly the magnitude of the tariffs decrease.

**Table 5: Tariffs applied by Mexico to EU imports**

<b>Year</b>	<b>Simple Average</b>	<b>Weighted Average</b>
1999	17.42	13.78
2008	11.78	10.38

As regard to **exports**, they increased, from 1999 to 2007, with an average of over 14%; all the sectors benefited from the entry into force of the agreement. Differently from the import side, the export side is relatively concentrated in few products. Oils, Vehicles, electronics and machinery account for more than 70% of the export to the EU.

**Table 6: the most exported products from Mexico to EU**

Product label	2008	%
All products	17162498	
Mineral fuels, oils, etc	4306933	25.1
Vehicles	3838472	22.4
Electrical, electronic equipment	2659597	15.5
Machinery, nuclear reactors, boilers, etc	1334172	7.8
Optical, photo, technical, medical, etc	603653	3.5
Pearls, precious stones, etc	582015	3.4
Iron and steel	558304	3.3
Organic chemicals	393270	2.3
Ores, slag and ash	256866	1.5
Plastics and articles thereof	246888	1.4
Beverages, spirits and vinegar	194234	1.1

Table 7 illustrates the most dynamic products exported from Mexico to the EU. It should be taken into consideration that, besides oils, Mexico exports include even inputs for the EU productions. The annual growth rate of export of some products (electronics, vehicles, chemicals) is stunning.

**Table 7: the dynamism of Mexico export to the EU**

Product label	2001	2008	Annual growth
<b>All products</b>	5641923	17162498	17.2
<b>Electrical, electronic equipment</b>	469801	2659597	28.1
<b>Mineral fuels, oils, etc</b>	1221603	4306933	19.7
<b>Vehicles other than railway, tramway</b>	864589	3838472	23.7
<b>Machinery</b>	1293061	1334172	0.4
<b>Optical, photo, technical, medical, etc</b>	148455	603653	22.2

<b>Organic chemicals</b>	360949	393270	1.2
<b>Pearls, precious stones, etc</b>	98043	582015	29.0
<b>Plastics and articles thereof</b>	88709	246888	15.7
<b>Beverages, spirits and vinegar</b>	115638	194234	7.7
<b>Tanning, dyeing extracts, etc</b>	70713	111666	6.7
<b>Zinc and articles thereof</b>	119	130557	171.8
<b>Iron and steel</b>	72310	558304	33.9
<b>Cereals</b>	10	96840	271.1
<b>Ores, slag and ash</b>	17139	256866	47.2
<b>Rubber and articles thereof</b>	32514	128248	21.7
<b>Coffee, tea, mate and spices</b>	37144	85740	12.7
<b>Articles of iron or steel</b>	20601	156690	33.6

The reduction of **tariffs** applied by the EU to Mexico following to the entering into force of the agreement is not as relevant as the inverse case. Indeed, in 1999 Mexico benefited from the GSP and the tariffs applied by the EU were already quite low. However, it is interesting to note the lower standard deviation and the lower maximum rate applied in 2008 compared to 1999: this is the evidence that EU tariffs vs. Mexico are more stable, with less tariff peaks. This, of course, had an important influence on Mexican exports.

**Table 8: EU tariffs applied to Mexico**

Tariff Year	Simple Average	Weighted Average	Standard Deviation	Minimum Rate	Maximum Rate
1999	5.1	3.85	11.92	0	284.67
2008	4.24	3.03	4.85	0	74.9

## **Investment**

The EU is the second source of FDI in Mexico, after US. The stock of FDI from 1999 to 2008 amounted to 67.7 bn. USD, the 34% of total FDI in Mexico (US FDI represent the 55.8%). Since the entry into force of the agreement, the EU increased from 26% to 34% its share of FDI in Mexico. The FDI are concentrated in the industrial and manufacturing sector as well as in the financial sector (they represent more than 80% of the total FDI in Mexico). EU enterprises have been particularly active in the manufacturing sector: in most of the case they use Mexico as a platform to export the final products into the US.

## **Conclusions**

All the statistics prove that the EU-Mexico FTAs promoted a huge development of bilateral trade relations. Exports and imports increased substantially. The composition of Mexican imports from the EU, based mainly on inputs, later transformed in Mexico to be exported or distributed in the local market, promoted employment and transfer of technology. On the other side, trade balance with the EU degraded, showing a structural problem of the Mexican economy, i.e. a very low value of the products is added in the Mexican territory.

## **2. EU-SOUTH AFRICA FREE TRADE AGREEMENT**

### **Introduction**

South Africa negotiated a comprehensive Trade, Development and Cooperation Agreement (TDCA) with the European Union (EU) in October 1999. The agreement came into provisional effect on 1 January 2000: both parties have committed to tariff reductions based on the applied rates in existence on the day of entry into the agreement on trade in almost all sectors.

Under the TDCA, traded goods are divided into agricultural and industrial products. South Africa's tariff elimination for industrial products is heavily 'back loaded' with tariff reductions predominantly in the second half of a 12-year implementation plan. The observed asymmetry in liberalization schedules for industrial products between South Africa and the EU is to allow for different respective levels of development.

The TDCA allows South Africa a longer transition period (12 years) than the EU (10 years) and it requires the EU to eliminate tariffs on a higher percentage of currently traded goods (95%) than is the case for SA (8%).

South Africa has committed to eliminating tariffs on 81% of EU agricultural exports to South Africa within 12 years, with an agreed 46% reduction within 5 years. The majority of EU agricultural products are 'back-loaded', with tariffs due to be eliminated towards the end of the 10-year transition period, and on only 62% of South African agricultural exports to the EU.

It is important to note that this was the first time the EU has included the agricultural sector in an FTA. Nevertheless, a number of regionally sensitive South African agricultural products were excluded but subject to review, including meat and preserved meat products, sugar and high sugar content processed products like chewing gum, cereal products, and dairy products. For the most part, the issue surrounding exclusion of liberalization within these sectors had less to do with tariff elimination, than the extent and pattern of export subsidies that the EU provides as part of the Common Agricultural Policy (CAP).

Table 2.1 illustrates that according to the agreement, by the end of the transitional period in 2012, nearly 81 percent of European Union's agricultural products and 86 percent of its industrial products may enter South Africa's market duty-free. As table 2.1 further illustrates, both agricultural and industrial products will gradually become duty-free over this time period. For instance, additional five percent of the European Union's agricultural products may enter South Africa's market duty-free between 2000 and 2003. Different products within each sector (the agricultural– and the industrial sector) have different time frames for when to be added as duty-free products.

Table 1: South Africa's liberalization of agricultural and Industrial products

<b>Agricultural products</b>			<b>Industrial products</b>		
<i>Timeframe</i>	<i>Coverage</i>	<i>Cumulative</i>	<i>Timeframe</i>	<i>Coverage</i>	<i>Cumulative</i>
2000	34 %	34 %	2000	62 %	62 %
2000-2003	5 %	39 %	2000-2003	1 %	63 %
2003-2005	7 %	46 %	2003-2005	8 %	71 %
2005-2012	35 %	81 %	2003-2012	2 %	73 %
			2005-2012	13 %	86 %
<b>2012</b>		<b>81 %</b>	<b>2012</b>		<b>86 %</b>

Source: Lee (2002) p. 89-90

Table 2 illustrates that 62 percent of South Africa's agricultural products and 100 percent of their industrial products may enter the European Union's market duty-free at the end of the transitional period in 2010. The European Union's large liberalization on the industrial products suggests that South Africa is not seen as a big competitor within this sector. On the contrary, South Africa is perceived as a bigger competitor in the agricultural sector as the liberalization is relatively low for this sector. Through the different time frame it is possible to argue that the European Union opens its market faster than South Africa.

Table 2: EU liberalization of agricultural and industrial products

<b>Agricultural products</b>			<b>Industrial products</b>		
<i>Timeframe</i>	<i>Coverage</i>	<i>Cumulative</i>	<i>Timeframe</i>	<i>Coverage</i>	<i>Cumulative</i>
2000	21 %	21 %	2000	86 %	86 %
2000-2003	6 %	27 %	2000-2003	5 %	91 %
2000-2010	14 %	41 %	2000-2006	1 %	92 %
2003-2010	4 %	45 %	2003-2006	7 %	99 %
2005-2010	17 %	62 %	2010	1 %	100 %
<b>2010</b>		<b>62%</b>	<b>2010</b>		<b>100%</b>

Source: Lee (2002) p. 88-89

## Trade performances

The impact of the EU-SA FTA, according to the trade data, has been huge. Imports, in the period 2001-2008, increased from 10.5 bn USD to 27.4 bn. (+160%) with an annual growth rate of 14.7%. Exports grew from

9.7 bn. in 2001 to 23.6 in 2008 (+143%). Trade balance deficit grew from 0.8 bn. in 2001 to 5.8 bn. in 2007 and 3.8 bn. in 2008. The FTAs, however, did not increase the market share of EU products in South African imports (on the contrary, there has been a decrease from 41.1% in 2001 to 31.3% in 2008), neither the market share of South African products in EU imports (from 0.58% in 2001 to 0.56% in 2008). Indeed, the trade between South Africa and the rest of the world increased more than the trade with the EU (see table 5).

Table 3: Trade relationships EU-SA (US bn.)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Import</b>	10.5	11.1	15.0	19.4	21.0	23.8	26.9	27.4	20.5
<b>Export</b>	9.7	9.1	11.4	14.6	16.9	18.6	21.1	23.6	14.3
<b>Trade balance</b>	-0.8	-2.1	-3.6	-4.8	-4.1	-5.2	-5.8	-3.8	-6.2
<b>% of import from EU</b>	41.1	42.4	43.4	40.7	38.1	34.7	33.7	31.3	32.2
<b>% of export to EU</b>	37.2	39.4	36.0	36.3	36.0	35.4	33.0	31.9	26.5
<b>EU import SA/world</b>	0.58	0.54	0.51	0.53	0.53	0.50	0.54	0.56	0.46

Table 4: EU-South Africa trade

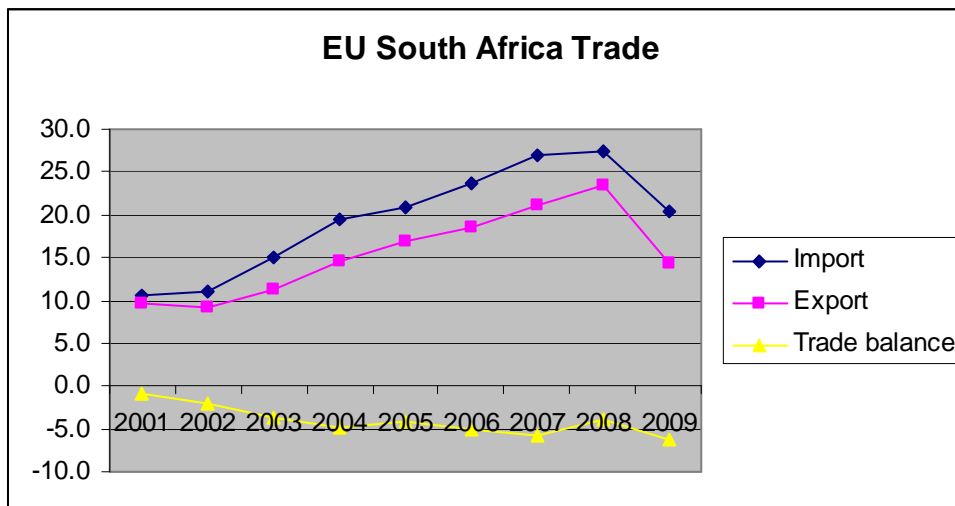


Table 5: growth rate of South Africa-EU and South Africa-world trade

	growth 2001-2008: EU	growth 2001-2008: world
Import	14.7	19.2
Export	13.6	16.1

Table 6 illustrates the 10 most imported products from the EU; it is interesting to note that the first six most imported products grew with a lower rate than the average import growth rate of EU products. Electronics, vehicles and other commodities are the three most important products, accounting for more than 1/3 of total imports.

**Table 6. SA: ten most imported products from the EU**

Product code	Product label	2001	2005	2008	2009	growth 2001-2008
'85	electronics	1606293	2562878	3149463	2319071	10.1
'87	Vehicles	1070701	3123805	3164917	2286155	16.7
'99	Other commodities	1238034	2457321	2883753	1902342	12.8
'30	Pharmaceuticals	455213	808097	985950	973154	11.7
'90	Optical, photo, medical, etc	417834	780601	991651	822129	13.1
'27	Mineral fuels, oils, etc	111346	274306	583145	699611	26.7
'39	Plastics	360878	671557	766944	621821	11.4
'38	chemical products	220969	447694	607376	512555	15.5
'48	Paper & paperboard	225417	394580	599356	498518	15.0

Raw materials and machinery are the most important exported products to the EU. It is quite interesting that the annual growth rate of machinery (17.8%), testifying the improved industrialization process of the country.

**Table 7: SA: ten most exported products to EU**

Product code	Product label	2001	2005	2008	2009	growth 2001-2008
'27	Mineral oils, etc	1279213	2602301	2823216	1912109	12.0
'84	Machinery	1129491	2061641	3555347	1736057	17.8
'72	Iron and steel	670477	1744707	2947010	1286314	23.6
'26	Ores	398775	912553	2135841	1150306	27.1
'87	Vehicles	867644	1131225	1681650	1149136	9.9
'08	Edible fruit	359708	805316	947399	920331	14.8
'22	Beverages	212552	486467	578874	561121	15.4
'85	electronics	252863	366027	444972	313941	8.4

'94	Furniture	327439	420143	395417	298471	2.7
'29	Organic chemicals	65053	189753	379643	264688	28.7

Table 8 shows the reduction of weighted average duties following to the implementation of the FTA agreement. It should be noted that the reductions on the import to South Africa from the EU took place after 2005. Even in this case, it seems that tariffs reduction had not been a decisive factor in promoting the import into South Africa: indeed, the increase of trade between 2001 and 2005 (+100%) has been much higher than in the next four years (and this even excluding from the calculation the data of 2009, affected by the economic and financial crisis).

**Table 8: SA: Reduction of tariff**

	2000	2005	2008
<b>Total Trade</b>	6.35	8.79	3.97
<b>Raw materials</b>	3.79	3.15	0.53
<b>Intermediate goods</b>	4.63	6.36	2.36
<b>Consumer goods</b>	11.13	15.35	7.48
<b>Agricultural</b>	9.72	9.21	3.31
<b>Industrial</b>	6.12	8.76	4

The following tables illustrate the increase of export of South Africa into the EU. Table 9 shows a very low correlation between reduction of tariffs (weighted) and increase of trade. In general, with the exception of raw materials, the reduction of weighted tariffs applied by the EU is not particularly relevant, as the tariffs were already low before the entering into force of the FTA agreement. This suggests that the increase of South African exports is due to other important factors.

**Table 9: EU Reduction of tariffs and trade**

Product Name	Trade Year	Simple Average	Weighted Average	Imports Value 1000	x Growth
Total Trade	1999	4.97	2.34	10021802.75	
Total Trade	2000	4.69	1.83	12200319.65	21.7
Total Trade	2005	4.03	1.88	19529487.17	60.1
Total Trade	2008	4.04	2.04	31069161.58	59.1

**Table 10: Reduction of EU tariffs and import of raw materials.**



Trade Year	Simple Average	Weighted Average	Raw material	Growth
1999	4.89	2.46	3701440	
2000	4.75	1.51	5197519	40.4
2005	3.47	1.6	8855606	70.4
2008	2.93	1.48	14099990	59.2

**Table 11: Reduction of EU tariffs and import of intermediate goods.**

Trade Year	Simple Average	Weighted Average	Intermediate goods	Growth
1999	5.11	1.53	4346976	
2000	4.95	1.38	4820923	10.9
2005	3.69	1.55	6301360	30.7
2008	3.63	1.74	9543017	51.4

**Table 12: Reduction of EU tariffs and import of consumer goods.**

Trade Year	Simple Average	Weighted Average	Consumer goods	Growth
1999	6.77	6.05	969005	
2000	6.21	5.67	1025100	5.8
2005	5.68	5.4	1730215	68.8
2008	5.8	6.96	2183878	26.2

**Table 13: Reduction of EU tariffs and import of agricultural products.**

Trade Year	Simple Average	Weighted Average	Agricultural products	Growth
1999	12.11	9.91	1295520	
2000	11.21	8.89	1197819	-7.5
2005	6.69	9.68	2204385	84.0
2008	6.85	10.35	2963190	34.4

**Table 14: Reduction of EU tariffs and import of Industrial products.**

Trade Year	Simple Average	Weighted Average	Industrial products	Growth
1999	4.22	1.37	8726282	
2000	4.04	1.15	11002500	26.1

2005	3.78	1.24	17325101	57.5
2008	3.76	1.44	28105970	62.2

## **Conclusions**

The huge improvement of trade relationships between South Africa and the EU are not directly connected with the reduction of customs duties; first, on the side of the EU, weighted average customs duties remained stable (as they were already low before the entry into force of the agreement); second, the reduction of tariffs applied by South Africa took place mainly after 2005 and in particular after 2007: therefore, taking into consideration the economic and financial crisis, it is not possible to provide a clear answer on the impact of tariffs reduction promoted by the FTA.