European Commission

# EU – Central America:

## Trade Relations under the Association Agreement

Trade

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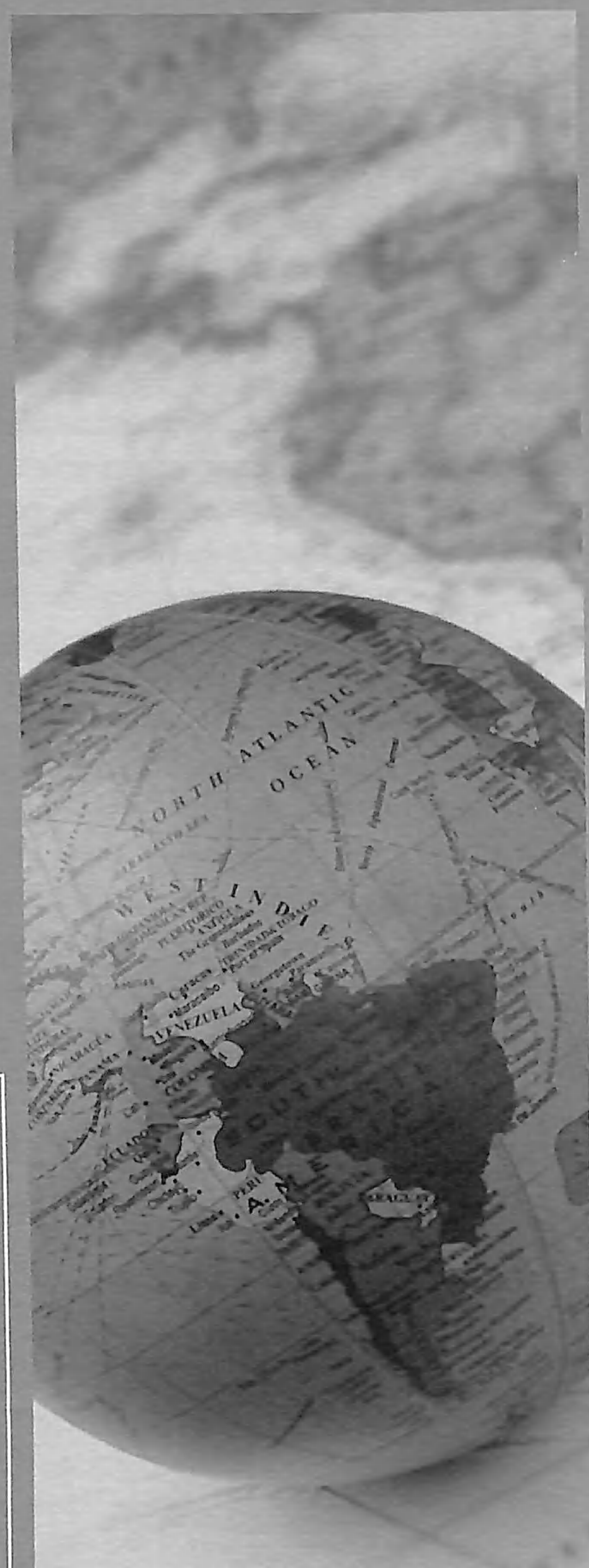
# Introduction



The Association Agreement between the EU and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) fundamentally changes and upgrades the relationship between the two regions.

The Association Agreement consists of three pillars: political dialogue, cooperation and trade. The comprehensive trade part of this Agreement will open up markets for goods, procurement, services and investment on both sides. It will increase benefits for consumers and help create a stable business and investment environment by establishing a set of predictable and enforceable trade rules which, in many instances, go further than the commitments made in the framework of the WTO.

The Agreement's benefits will reach far beyond the scope of the Parties' €12 billion inter-regional trade relationship. It will also reinforce regional economic integration in Central America, and the EU hopes for it to have a positive spill-over effect on the overall political integration process and contribute to the stability of the region. Furthermore, the trade part of the Agreement includes far-reaching provisions guaranteeing the protection of human rights as well as commitments on labour rights and environmental protection that will foster the promotion of sustainable development.




### Trade flows

In 2010, the EU was Central America's second largest trade partner after the US (and intra-regional trade), representing almost 9.4% of the trade flows.

The main exporters from Central America to the EU, in 2010, were Costa Rica (53.9%) and Honduras (21.6%) followed by Guatemala (12%). Exports consisted mainly of coffee, bananas, pineapples and microchips. The EU's exports to Central America went first to Costa Rica (36.3%) then Guatemala (28.1%) and El Salvador (15.2%) and were mainly medicines, petroleum oil and vehicles.

Trade in goods between Central America and the EU was worth €12 billion in 2010.

Chapter 1

# Unlocking **market opportunities** for exporters

## Substantially improved market access for EU goods

The Agreement will largely eliminate tariffs for manufactured goods and fisheries with complete liberalisation at the end of the tariff phase-out period, generally within 10 years and with only a small amount (4%) of products after 15 years. Upon entry into force of the Agreement, Central America will liberalise 68% of its existing trade with the EU. Once the trade pillar of the Agreement is in force, EU exporters of non-agricultural goods will save €110 million annually in customs duties.

In agriculture, tariffs on key agricultural products will be largely eliminated whilst sensitive areas for local markets will be respected. Panama, for example, is the main importer of European whiskeys to the region. 70% of its whiskey imports come from the EU and those will be liberalised as of day one. Wine, another key product for the EU, will also be fully liberalised at entry into force of the Agreement. EU exporters of wine and spirits can expect savings of €6 million annually in customs duties. Overall, annual tariff savings for EU exporters of agricultural and food products can be estimated at €18 million.

The EU will eliminate tariffs on most dairy products with some exceptions (milk-powder, condensed milk and natural yogurt will be excluded). Central America will eliminate tariffs on some dairy products, such as evaporated and condensed milk and will grant limited duty-free quotas on milk powder and cured cheese. These quotas cover the currently traded quantities and will be increased on an annual basis.

### Estimates of tariffs saved by EU exporters at the end of the transition period:

- Exporters in the motor vehicles and parts sector will save up to €21 million in annual tariffs after full implementation of the Agreement.
- Chemical, rubber and plastic producers are expected to save around €24 million annually.
- The pharmaceutical industry will see significant savings of more than €8 million in duties each year.
- The machinery and equipment industry will save alone over €14 million annually.
- Paper products and publishing will be relieved of the current €4.5 million in duties that are paid annually.

## Further economic development through trade in Central America

Owing to this Agreement, the Central American countries will benefit from the predictability and legal stability entailed in their choice to move from an autonomously conceded system of preferences to a reciprocal set of trade benefits. This, coupled with better access to the European markets in numerous sectors, will bring important economic and social benefits for Central America. In addition, the Agreement is expected to have an overall poverty-reducing effect across the Central American region.

By granting Central American countries immediate and full access to European markets in industrial goods and fisheries, the Agreement will help exporters from these countries move up the value-added chain and benefit from a totally open EU market of some 500 million consumers. These reduced costs to trade will have a direct beneficial impact on growth, jobs and well-being in all Central American countries.

**Commission estimates of tariffs saved by Central American exporters at the end of the transition period:**

- In agriculture and food products, Central American exporters will save over €200 million from tariff elimination.
- In industry and fisheries exports, Central American exporters are expected to save €15 million annually.

According to an independent Economic Impact Assessment commissioned by the EU, the Agreement is expected to contribute to large sectoral gains in the Central American countries in the fruits, vegetables and nuts sector, with particular gains for Panama and Costa Rica. Guatemala and Nicaragua are expected to become more competitive in the textiles and clothing sector, for example. El Salvador and Honduras will see an increase in their export of transport equipment.



### More flexible Rules of Origin to boost trade

Rules of Origin are criteria that define a product's country of origin, i.e. where the goods have been produced. They play an important role in determining to what extent a product can benefit from tariff concessions or quotas. The Agreement establishes a flexible and straightforward Rules of Origin regime that will help improve trading conditions and facilitate market access for economic operators on both sides.

Central American countries will benefit from a process called 'cumulation'. This will allow their exporters to continue using materials and production parts originating from the Andean Community countries and Venezuela. At the same time, the door will be left open to discuss the future extension of this 'cumulation' to other Latin American countries with which the EU has or will conclude trade agreements. Furthermore, the EU has granted some relaxation, within limited quotas, to the standard agreed Rules of Origin for certain textile products, such as stockings or socks.

## Enhanced cooperation in the area of standards and technical regulations

Tariff elimination is only of real benefit if technical or procedural obstacles are also being tackled to ensure that they don't become unnecessary obstacles to trade.

The agreed provisions go beyond the WTO Agreement on Technical Barriers to Trade (TBT). The Agreement will ensure more transparency and better cooperation in the areas of standards and market surveillance. The requirements for marking and permanent labelling have been simplified. The Parties have agreed to cooperate and exchange information when drafting technical regulations, setting standards and establishing conformity assessments. Most importantly, the Parties will promote the development of harmonised regulations and standards. This will help to facilitate the free movement of goods within each region.

## Simplifying labels

The Agreement provides for innovative disciplines in labelling and marking that will limit the amount of information that can be required on a permanent label. This will prevent overly burdensome and unnecessary labels that are not of relevance to consumers.

The prior approval of registration of labels will no longer be required, unless they are necessary to protect human, animal or plant health. Furthermore, producers will be allowed to use international pictograms and nomenclature for product labels. In textiles and footwear, there is a commitment to limit the information which producers have to provide on permanent labels. Non-permanent labels will be used to display any additional information, if need be.

The Agreement will promote efforts to adopt international standards in customs legislation and to simplify customs procedures. This will improve trading conditions and, at the same time, maintain an effective customs control. Central America has not yet harmonised standards, but has agreed to promote the development of regional customs regulations. This will facilitate operations for traders and businesses both within and outside the region.

The Agreement also goes beyond WTO rules on Sanitary and Phytosanitary (SPS) requirements in key areas such as the regionalisation of animal diseases and pests as well as the transparency of SPS import requirements and procedures. It includes other useful trade facilitation tools such as the listing of establishments exports can come from. Parties have agreed to cooperate on matters relating to animal welfare in order to promote market access on both sides, whilst minimising the risk to human, plant and animal welfare. Potential areas for cooperation include institution-building and technical assistance. All these measures will help strengthen Central America's administrative and technical capacities at the regional and national levels.

### Online tools: Helping companies do business in Central America and the EU

The Market Access Database is a free, web-based service that provides European companies with information on export conditions to more than 100 countries, including those in Central America. European exporters have access to up-to-date information, for instance, on applied tariffs, internal taxes, customs procedures, labelling requirements, technical regulations and standards. More information can be found online: madb.europa.eu.

The European Commission's Export Helpdesk (EH) informs business in developing countries on how to export to the EU. This online service is free and available in many languages, including Spanish and Portuguese. In addition to a detailed explanation of the Agreement, Central American exporters will have access to up-to-date information on applied tariffs, SPS requirements, labelling provisions, Rules of Origin, technical regulations and standards. More information can be found on the EH website: exporthelp.europa.eu.

## Improved market access to government procurement, services and investment

As regards services and establishment commitments, the Agreement will open markets for EU firms establishing themselves in Central America in a broad range of areas including in telecommunication, environmental, financial and maritime services. Further commitments cover cross-border services, investment and non-service sectors as well as key personnel, graduate trainees and business service sellers. The Agreement also liberalises current payments and capital movements between the Parties. These sectors will benefit from the possibility to expand onto all markets of the Central American countries. The Agreement does not relate to public services supplied by governments. The deal reached between the EU and Central American countries relating to the temporary presence of natural persons is a reasonable one. Commitments made by the EU will open EU markets to a limited number of Central American contractual services suppliers and independent professionals, such as midwives services and architects.

The benefits of reducing barriers to trade in services go beyond the services sector itself. In the long run, enhanced access to services on both sides – coupled with improved investment conditions – will entail a series of economy-wide welfare and efficiency gains for the Central American countries. For instance, businesses that rely heavily on using services as inputs to their production process are likely to see a reduction in their production costs. This – together with facilitated access to credit and investment – will enhance their ability to compete in the global economy. Furthermore, consumers will benefit from improvements to infrastructure and access to a wider choice of high-quality services at lower prices.

The opening of Central America's public procurement market varies in terms of its levels of liberalisation, with Costa Rica and Panama opening their markets more significantly than the other countries. Central American countries will benefit from increased procurement opportunities in EU markets. The coverage granted by the EU for the opening of its procurement market reflects the different levels of coverage offered to the EU by each individual Central American country.

Chapter 2

# Common rules to level the **playing field**

## Protecting intellectual property rights, including Geographical Indications

The protection of intellectual property (IP) rights is an important part of the Agreement. It includes a chapter on the effective protection of intellectual, industrial and commercial property rights and other rights covered by the WTO Agreement on trade-related aspects of intellectual property rights (TRIPS). As a result, rights holders will have the necessary tools to defend their rights more effectively in case of infringements.

The Central American countries have adopted new or amended their existing legislation to incorporate regional specialities, so-called 'Geographical Indications' (GIs), in a manner similar to the EU. Over 200 EU GIs could be protected on the Central American markets to the benefit of European producers of GI

### Examples of European GIs

- Champagne, Cognac, Polish Vodka, Scotch whisky, Cava
- Münchener beer
- Roquefort, Parmiggiano Reggiano, Feta, Mozzarella di Bufala Campana
- Wines from the Bordeaux, Porto, Ribera del Duero and many other regions

### Examples of Central American GIs

- Café de Marcala from El Salvador
- Café Antigua from Guatemala
- Ron de Guatemala
- Cafés del Occidente Hondureño
- Café de Costa Rica

products. Similarly, various Central American GIs will be protected on the EU market.

The Agreement also foresees provisions on enforcement of intellectual property rights (IPRs) to ensure an effective implementation of these rights to the benefit of right holders from all sides. Right holders will have the necessary tools to defend these rights for example via civil and administrative procedures as well as border enforcement measures.

Effective IP protection is of crucial importance to the competiveness of Research & Development intensive industries. The Agreement aims to ensure that its provisions strike a balance between guaranteeing adequate incentives for investment in research and innovation, and respecting wider social objectives and public welfare concerns. It therefore makes reference to the importance of promoting access to affordable medicines and protecting Central America's rich biological diversity.

## More competition and enhanced transparency on subsidies

Once the Agreement enters into force, EU and Central American economic operators will benefit from an open, fair and reliable competition environment. National governments will be required to ban all types of anticompetitive practices including restrictive agreements, cartels and abuse of dominance. This will help guarantee a level playing field amongst European and Central American operators. It will also contribute to enhancing good governance and transparency in the Central American countries.

In an effort to increase transparency, particularly on subsidies, the EU and the Central American countries will report regularly on the subsidies given to companies that trade in goods. Central governments will be required to issue periodical reports on: the legal basis, form, amount or budget and where possible, the recipient of the subsidy granted by a Party's government or any of its public bodies. At the same time, the right of each Party to grant subsidies to its operators under certain circumstances is preserved. The EU and Central American countries will also exchange information on matters related to subsidies in the services sector. In setting up such a platform to discuss subsidies in services, the Agreement goes beyond existing WTO rules.

## A transparent way to settle trade disputes

The trade pillar of the Association Agreement includes an efficient and streamlined dispute settlement system; in accordance with important principles such as transparency (open hearings and amicus curiae briefs) and sequencing (no right to impose retaliation until such time as non-compliance is verified). The system, which may ultimately allow for the suspension of trade benefits, is intended as a last resort if Parties fail to resolve disagreements by other means. Once a case has been filed, it proceeds along a fixed set of procedures and time-frames. Should Parties fail to reach an agreement through formal consultations, they can request the establishment of an arbitration panel, made up of independent legal experts. This panel will issue binding recommendations, which are to be made public, no later than 120 days – or in urgent cases 60 days – after its establishment.

A mediation mechanism for non-tariff barriers to trade in goods is also foreseen. Impartial mediators with expertise in the issues at hand will assist Parties in their efforts to resolve their differences in order to allow for more conciliatory and expeditious solutions to emerge.

## Creating a structure for dialogue and cooperation

The Association Agreement establishes an Association Committee and the trade part of the Agreement foresees the creation of a number of sectoral subcommittees as well as a Board on Trade and Sustainable Development. Through regular meetings, this institutional framework will allow each Party to address trade barriers, coordinate positions on technical matters, adapt the mechanisms of the Agreement to changing realities, and solve any dispute at an early stage before it escalates.

### Specialised Sub-Committees

- ☐ Market Access for Goods
- ☐ Customs, Trade Facilitation, Rules of Origin
- ☐ Technical Barriers to Trade
- ☐ Sanitary and Phytosanitary Measures
- ☐ Intellectual Property
- ☐ Board on Trade and Sustainable Development

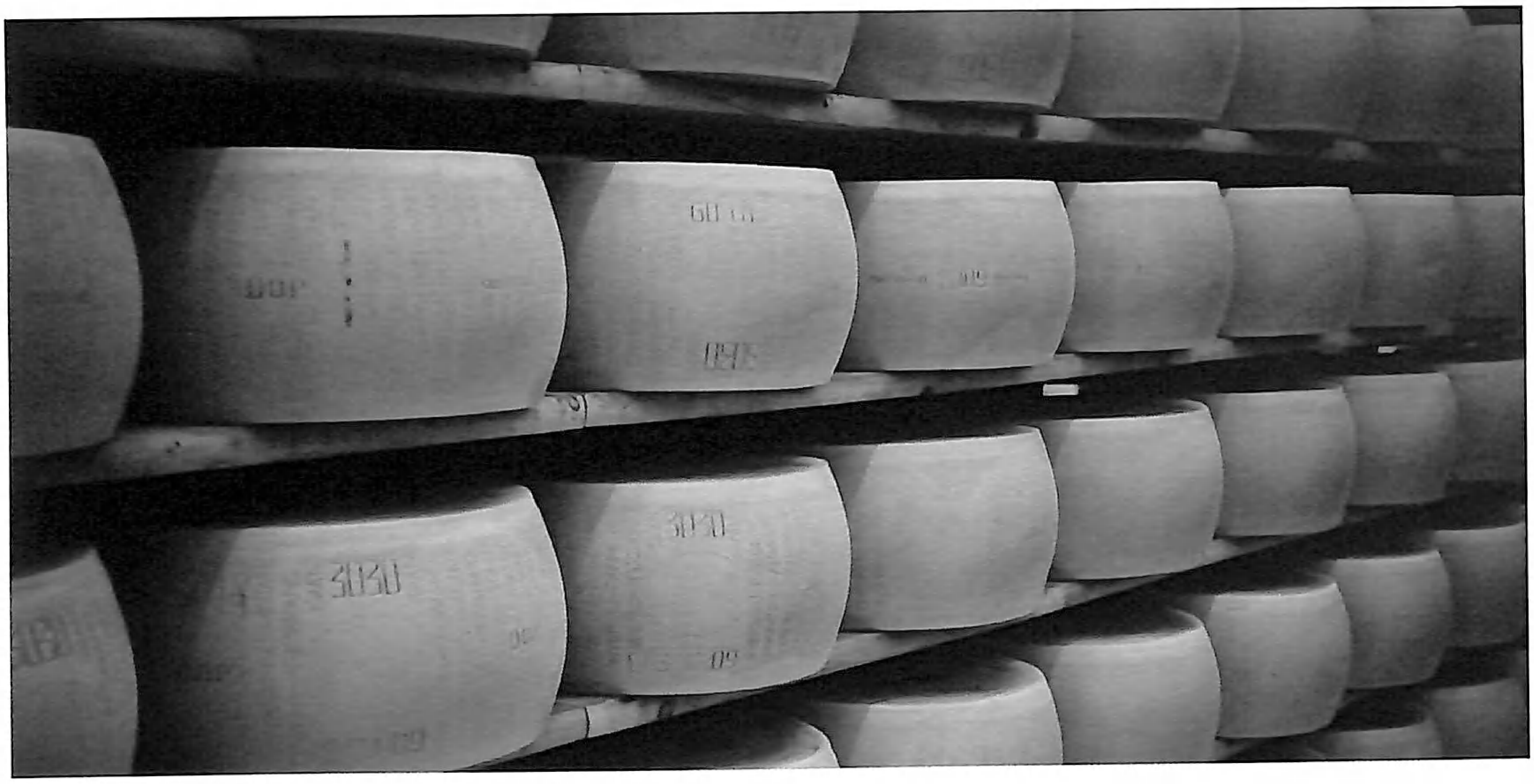
Chapter 3

# Regional Integration

The Agreement responds to Central America's and the EU's common objective to strengthen regional economic integration. The Central American countries have made a number of commitments that will facilitate the movement of EU goods within the region. This will considerably ease the administrative burden on both EU and Central American economic operators.

### Advancing regional economic integration

- Technical Barriers to Trade: The Central American countries have agreed to strive to apply regional rather than national standards and to set up harmonised technical regulations. Regional integration will also help to reduce current regulatory divergences between the Central American countries in the services sectors, including maritime transport.
- Customs: Central American countries have committed to use a single administrative document for customs declarations at the end of a transition period of 3 years. They will also harmonise customs and customs procedures after 5 years at the latest. Moreover, after a period of 2 years, double duties will be eliminated as duties paid on EU goods exported into a Central American signatory other than the Central America country of import will be reimbursed.
- Sanitary and Phytosanitary (SPS) issues: SPS requirements for dairy and processed pig products, for example, will see a harmonisation within the region in the coming years. A transit facilitation mechanism aimed at reducing the inspection of EU products at internal Central American borders will complement Central American integration efforts in the SPS area.



Chapter 4

# An Agreement for Sustainable Development

## Promoting the pursuit of social and environmental protection policies

An overarching objective of the Association Agreement is to contribute to sustainable development in both Central America and the EU, taking due account of the differences and specificities of each region. This objective is embedded in all the sections of the Agreement. In the trade part, it manifests itself in a chapter on Trade and Sustainable Development that addresses the interrelation between trade, social and environmental policies.

The chapter contains the Parties' commitment to effectively implement internationally recognised core labour standards, as laid down in the Fundamental ILO Conventions, as well as a set of key multilateral environmental agreements. The Agreement recognises the right and the responsibility of the Parties to adopt social and environmental regulations in the pursuit of legitimate objectives – while respecting their international commitments in those areas and aiming at a high level of protection. It puts much emphasis on the effective enforcement of domestic labour and environmental laws. Furthermore, it includes commitments to refrain from waiving or derogating from protection standards to encourage trade or investment. The Parties also undertake to encourage and promote trade and marketing schemes based on sustainability criteria, and to work towards a sustainable management of sensitive natural resources, such as in the realm of forestry management and fishing.

In order to ensure the effective implementation of these provisions, the Agreement establishes two mechanisms consisting of an arbitration system and an engagement process with civil society. This affords an adequate degree of public accountability to initiatives of the Parties' authorities that could carry consequences for labour and the environment.

### Monitoring and Arbitration Mechanisms

- Participation of civil society: An important element in the overall structure of the Association Agreement is the active role of civil society in monitoring the implementation of the Agreement. A Joint Consultative Committee is foreseen and, specifically in the trade area, the obligatory consultation of civil society stakeholders at the domestic level goes hand in hand with a regular 'Bi-regional Civil Society Dialogue Forum'. This will ensure civil society is actively involved in monitoring the implementation of the Agreement's sustainable development provisions.

- Arbitration system: Should divergences between the Parties arise in the implementation of the Trade and Sustainable Development chapter's provisions, recourse to an independent panel of experts is possible under conditions of transparency.

## Cooperating to strengthen trade capacity

Both Parties have agreed to improve their cooperation in areas such as competition, customs, intellectual property or technical barriers to trade. The EU and Central America will also work together in other fields, such as promoting the competiveness of Micro, Small and Medium Enterprises. Enhanced cooperation as regards the production of organic products or the promotion of sustainable development through technical assistance and capacity-building actions is also foreseen.

### Regional trade-related technical assistance to Central America

The provisions of the Agreement are supplemented by various trade-related technical assistance (TRA) projects – conducted within the framework of the EU's traditional cooperation channels.

In 2005-11, the programme ADAPCCA (Proyecto Diseño y Aplicación de Políticas Comunes Centroamericanas) contributed to fostering Central American economic integration by supporting policies linked to the process of establishing the Central American customs union and strengthening regional institutions in areas such as customs duties, SPS requirements and dispute settlement. One of the project's achievements has been the setting up of a unified tariff nomenclature and harmonised common external tariff.

For 2011-13, PRAIAA (Programa de Apoyo a la Implementación del Acuerdo de Asociación UE – CA) will continue ADAPCCA's work. The project's objective is to facilitate intra-regional trade in Central America and provide technical assistance to support the implementation of the Agreement. It will promote the deepening of the customs union and the application of regional legal frameworks. This €10 million project is complemented by other EU-funded projects that aim to eliminate non-tariff trade barriers for the benefit of local and European businesses. For instance, PRACAMS – a €23.5 million project – supports the creation of a regional system for quality control and the application of SPS requirements.

AL-INVEST, a regional economic cooperation programme is currently in its fourth phase (2009-12). The programme is a European Commission initiative that aims to promote the internationalisation of SMEs in Latin America, including Central America.

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