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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**Annual Report on the Implementation of Part IV of the Agreement establishing an
Association between the European Union and its Member States, on the one hand, and
Central America on the other**

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1. Introduction

In 2015, the Part IV of the EU-Central America Association Agreement establishing an Association between the European Union and its Member States, on the one hand, and Central America on the other (hereinafter, “the Agreement”) covering Trade entered into its second year of implementation¹. In accordance with Article 13 of the Regulation (EU) No 20/2013 of the European Parliament and of the Council of 15 January 2013 implementing the bilateral safeguard clause and the stabilisation mechanism for bananas of the Agreement establishing an Association between the European Union and its Member States, on the one hand, and Central America on the other² (hereinafter, “the Regulation”), the Commission should present an annual report to the European Parliament and the Council. This report responds to this requirement and structured as follows:

- A summary of the statistics and an overall assessment of trade flows (Section 2 of this report);
- Information on the activities of the various bodies responsible for monitoring the implementation of the Agreement (Section 3), including on fulfilment of obligations under the Title on Trade and Sustainable Development (Section 4);
- Information on the monitoring activities referred to in the Regulation (Section 5).

2. OVERALL ASSESSMENT: EVOLUTION OF TRADE

2.1. Methodology

As indicated in the previous report on the implementation of the Agreement³, EUROSTAT and Central American statistics show significant divergences. EU statistics usually significantly exceed Panamanian statistics as regards EU exports to Panama, but remains significantly below Costa Rican statistics as regards EU imports from Costa Rica, whereas in the other countries of the region the divergences remain reasonable. These patterns have been discussed in the context of the Market Access Sub-committee established by the Agreement. It appears that, given the importance of the Free Trade Zone of Panama, which is amongst the biggest in the world, a significant fraction of trade flows declared as being exported to Panama does not enter "in fine" the Panamanian market but is re-exported to other Latin American countries.

Seen this situation, it has been agreed with Central America to exchange trade data on an annual basis and to carry out a joint analysis based on the respective import statistics which tend to be considered more reliable than export statistics.

¹ OJ L 346, 15.12.2012, p. 3.

² OJ L 17, 19.1.2013, p. 13.

³ COM (2015) 131

In the following analysis, trade flows are described on the basis of the approach agreed with Central America: EU imports are estimated on the basis of EUROSTAT data extracted in May 2015 whereas EU exports to Central America are based on Central American statistics available on the same date. These latter data being expressed in US dollars, these statistics have been converted into Euros by applying the annual exchange rate used by EUROSTAT⁴.

It should be recalled that the observed changes in trade flows cannot be attributed solely to the implementation of the Agreement, as many other factors also influence these figures.

2.2. Evolution of overall trade flows with Central America (goods)

According to the statistics published by the Secretariat for Central American Economic Integration (SIECA), trade flows between Central American countries and the rest of the world increased by 1,4% between 2013 and 2014. Inversely, for the same period, according to EUROSTAT, global EU trade flows contracted by 2.3% between 2013 and 2014. Despite this overall decline in trade flows and, while it is not possible to draw any definitive conclusions from this, there has been an upward trend in trade flows for certain countries and specific goods.

The trade flow between EU and Central America has increased by 1.2% to EUR 10.5 billion. The EU's trade balance with Central America presents a deficit which decreased but still amounted to EUR 1.7 billion in 2014 (the year before the deficit was EUR 2.2 billion).

Country	Export		Import		Total flow	
Costa Rica	1,065	6.7%	3,771	-5.8%	4,836	-3.3%
Guatemala	976	6.8%	674	10.5%	1,650	8.3%
Honduras	470	35.0%	834	14.8%	1,305	21.3%
Nicaragua	246	3.5%	284	1.6%	530	2.5%
Panama	1,180	8.3%	380	-15.5%	1,561	1.3%
El Salvador	465	-10.3%	167	-20.9%	632	-13.4%
TOTAL	4,402	7.2%	6,110	-2.7%	10,513	1.2%

*Trade flow between EU and Central America and its yearly evolution
(in m Euros – year 2014)*

EU exports to Central America increased by 7.2% whereas the EU imports from Central America decreased by 2.7%. This adverse evolution is linked to two major challenges faced by Central America:

- (1) The strong decrease in coffee imports is due to the severe drought and to the coffee rust epidemic (so-called “roya” in Spanish). This decrease already impacted Central American countries in 2014. EU imports of Central American Coffee (HS 0901) dropped from EUR 1.1 billion in 2012 to EUR 0.7 billion in 2014. This impact already materialized in 2014 throughout the region.

⁴ The EUR/USD average exchange rates were 1.2848 in 2012, 1.3281 in 2013 and 1.3285 in 2014.

In 2014, El Salvador is the Central American country where coffee exports to the EU dropped the most compared to 2013. The import of coffee from this country, which is the second most imported product, has fallen further by -61% down to EUR 27 million.

On 27 May 2015, the Commission has adopted a EUR 15 million cooperation programme to help Central America fight coffee rust (a leaf disease caused by a fungus). The objective of the programme is to increase the region's ability to design and implement policies, programmes and measures to help the most vulnerable sections of the population living in the coffee production areas of Central America and Dominican Republic.

(2) The relocation to South East Asia of the major Costa Rican exporter of IT components. This heading (HS 8473) represented 61% of Costa Rican exports to the EU in 2012. The effect started to be noticed in 2014, but given the progressive relocation of this activity, it has impacted further Costa Rican exports in 2014. Between 2012 and 2013, this heading decreased from EUR 2.6 billion to EUR 1.8 billion, equivalent to a reduction of -19% of EU import from Costa Rica or -12% of EU import from Central America as a region.

Although considerable in absolute terms, these challenges are concentrated on two products as the remaining EU imports from Central America are extremely dynamic: they increased by 11.1% in 2014.

	2012	2013	2014	%
HS 0901 and 8473	3,792,829	3,019,885	2,471,355	-18.2%
Rest	2,999,379	3,262,174	3,638,965	11.1%
Total	6,792,208	6,282,059	6,110,320	-2.7%

Breakdown of EU imports from Central America and their yearly evolution (in Euros)

This situation reveals the high dependence of Central American exports to the EU on a few products despite the fact that the number of products exported to the EU increased in 2014 by +3% compared to the year before, covering up to 2,657 tariff lines. However, the 5 most imported products still represent 61% of total EU imports from Central America. Those products are, by order of importance: electronic assemblies of data processing machines, coffee, bananas, pineapple and crude palm oil.

The main destination of **EU exports to Central America** remains Panama (26%) followed by Guatemala and Costa Rica (24% and 22% respectively). The main exports in 2014 were Machinery and mechanical appliance (27% of EU exports) followed by Electrical appliance and Pharmaceuticals (12.5% each), motor vehicle and articles of steels (10% each).

Notable positive variations have been recorded in products such as:

- **Fish and Crustacean** (HS3) imports from Central America have increased by 28% up to EUR 250 million and in particular, **Frozen shrimp** imports rose by 36% (from EUR 124 million up to EUR 169 million),
- **Fruits and nuts** (HS 8) imports have increased by 16% up to EUR 1,4 billion and, in particular, **pineapples** imports rose by 18% (from EUR 456 million up to EUR 537 million),
- **Rum in bottle** imports rose by 110% (from EUR 8.5 million to 18 million)

One should note the specific positive trends of the trade flow between the EU and Honduras, which increased by 21 % in 2014, the highest increase in the region. This dynamism is marked by a strong increase of key EU exports (+35%) as well as EU imports (+14.5%). Increase of EU exports to Honduras were particularly intense in the following headings: +34% in Machinery and Mechanical appliance (HS84) up to EUR 207 million, +65% in Electrical machinery (HS85) up to EUR 93 million, + 54% in Articles of Iron (HS 73) and +42% in Pharmaceutical products (HS 30). Similarly, increases of imports from Honduras were significant, in particular in these headings: +64% in Vegetable oil (HS 15) up to EUR 113 million, +26% in Fish and Crustaceans (HS 03) up to EUR 50 million, +168% in Sugars (HS 17) up to EUR 15 million, +22% in Clothing accessories (HS 61) up to EUR 49 million and +71% in Ores and Ash (HS 26) up to EUR 22 million.

2.3. Use of tariff preferences under the Agreement

The use of the tariff preferences granted by the Agreement can be estimated by assessing the fraction of the trade flow which is carried out within the framework of the Agreement. Such ratio requires detailed custom clearance data. Central America informed the EU that the databases managed by their respective Customs authorities in Central America is not adapted for a regular exchange of detailed statistics to analyse the tariff preference, except Costa Rica which provided the EU with such data.

On the basis of the Costa Rican statistics, it appears that 8.8% of the total EU export to Costa Rica (in value) is done within the framework of the Agreement. This low utilisation rate is due to the long dismantling schedule of Costa Rica and in this early stage of the implementation, therefore only a limited fraction of EU exports could have an interest in using the preference offered by the Agreement. However, it should be noted that the utilisation rate for EU exports classified under the tariff lines which have been fully liberalised by Costa Rica amounts to 48.4%, and this rate reaches even 71% for the EU exports classified under tariff lines for which Costa Rica granted a quota to the EU.

As regards EU imports originating from Central America, 41% of this flow (in value) is done within the framework of the Agreement. The rate of utilisation reaches 78% for the imports classified under tariff lines for which the EU granted quotas to Central America. These higher levels compared to the one for EU exports are due to the asymmetry of the schedules: Given the difference of development between the EU and Central America, the Agreement offers comparatively higher benefits for EU imports than EU exports until the completion of the liberalisation schedules (up to 10 years in general, but up to 15 years for a small part of products).

2.5. Use of tariff rate quotas (TRQs)

The Agreement provides for several TRQs which consist of granting to the other party a preferential tariff treatment up to the quota's quantitative threshold. Above this threshold, imports are subject to the Most-Favoured Nation (MFN) tariff applied.

The EU has agreed to provide **eight TRQs in favour of Central America** on products that did not have any preferential access to the EU market before the implementation of the Agreement. In 2014, TRQs were only used for two categories (cane sugar and rum).

Origin	Products	Unit	TRQ volume	EU Import	Utilisation rate
Central America	Garlic	ton	550	0	0%
	Rice		21,000	0	0%
	Manioc		5,000	0	0%
	Bovine meat		9,975	0	0%
	Mushroom		275	0	0%
	Sweetcorn		1,560	0	0%
Central America except Panama	Sugar		154,500	141,047	91%
	Rum in container > 2 l	Litre Pure Alcohol	730,000	243,819	33%
Panama	Rum in container > 2 l		105,000	0	0%
	Sugar	ton	12,360	8,548	69%
Nicaragua	Bovine meat		525	0	0%

TRQs granted by the EU to Central America – Utilisation in 2014

In addition to TRQs, the EU also granted to Central America derogation to the rules of origin under specific quotas for 118 tariff lines. In 2014, the first full year of application, the use of these derogations is almost negligible and the amounts imported under these quotas remain very limited and only concern a small fraction of the trade flow that could be eligible for the preferential treatment.

Central America granted **TRQs to the EU on five specific products**. In 2014, the EU exporters have made use of the opportunities offered by these TRQs, except the one for whey, although there is still some margin of growth since the utilisation rate can increase further, as indicated in the following table:

Products	Quota (tn)	Annual increase	Volume (tn)	Utilisation rate
cured hams	945	45	210	22%
powdered milk	1,995	95	545	27%
Whey	110	10	0	0%
Cheese	3,150	150	874	28%
Prepared swine meat	945	45	47	5%

TRQs granted by the Central America to the EU – Utilisation in 2014

2.6. Services

Services trade data lag behind and are not available for 2014. It is therefore not yet possible to make an analysis comparable to the one for trade in goods to assess the impact of the Agreement.

Nonetheless, in 2013, trade in services flows increased up to EUR 5.9 billion (+4.5% compared to the previous year). In 2013, Panama remains the major trading partner in services (50%) followed by Costa Rica and Guatemala (18% each).

Country	Credit	Debit
Costa Rica	560.7	494.6
El Salvador	202.2	94.0
Guatemala	817.2	204.8
Honduras	151.7	186.4
Nicaragua	174.7	50.1
Panama	1,480.0	1,574.7
Total	3,386.5	2,604.6

Trade in services between Central America and the EU in 2013

3. ACTIVITIES OF THE IMPLEMENTATION BODIES

3.1. Sub-Committee on Technical Barriers to Trade

On 26 May 2015, during the meeting of this sub-committee, Central America and the EU reviewed:

- The EU legislation on pesticides, food supplements and conformity assessment.
- The Central American regulation on textiles labelling,
- The Central American regulation on alcoholic beverage labelling,
- The Costa Rican technical regulations on fire safety and electrical installations,
- The commitments taken by the Central American region to further their economic integration by adopting regional technical regulations.

As a follow up to this meeting, different ad hoc videoconferences were organised to move forward on these issues.

As regards commitments taken in TBT areas related to regional economic integration, Central America informed that it is moving forwards as a new legislation is about to enter into force although further administrative procedures need to be developed.

3.2. Board on Trade and Sustainable Development

On 27, 28 and 29 May 2015, the EU and Central America held the meetings of the institutions in charge of monitoring the implementation of the Trade and Sustainable Development provisions of the Agreement (see part 4 below).

3.3. Sub-Committee on Intellectual Property

On 26 May 2015, the second meeting of the Intellectual Property Rights (IPR) sub-committee took place to review, in particular:

- The protection and enforcement of IPR in Central America and specially Geographical Indications (GIs) for which most of the certificates of protection were provided before the end of 2014. A few oppositions and appeals were still ongoing at the beginning of 2015,
- Possible actions to foster an enabling environment for possible (essentially privately owned) technology transfer

As regards GIs, the Parties showed willingness to discuss how to smooth procedures in the future. It was agreed to draw lessons from the complexity of the GI registration process in Central America and launch a stocktaking exercise, in due respect of respective legislations.

This meeting was also the opportunity for the EU to encourage Central America to consider IPR protection in their evaluation of priorities for cooperation, as technology transfer from the private sectors will also depend on good IPR protection in Central America.

3.4. Sub-Committee on Sanitary and Phytosanitary Matters

On 27 May 2015, the second meeting of this sub-committee covered technical issues related to import requirements, verifications, measures linked to animal and plant health. In particular, Central America and the EU discussed on:

- A timeline and working arrangements to ensure that the respective authorities deal swiftly and in a coordinated manner with import authorisation requests;
- The importance of complying with standards, guidelines and recommendations of the international standard setting organisations;
- The recent EU measures to fight *Xylella Fastidiosa* bacteria;
- The level of integration of Central America in SPS matters.

As regards the provisions on regional economic integration in SPS matters, the EU underlined the need to finish the works to allow free circulation in the region of EU goods listed in Annex XIX, by 1 December 2015.

Overall, this sub-committee was positive and showed an encouraging outcome, which confirms that the parties are on track for achieving positive results in the SPS field thanks to a continued work on the agreed actions

3.5. Sub-Committee on Customs Procedures, Trade Facilitation, and Rules of Origin

On 1 and 2 June 2015, Central America and the EU discussed in this sub-committee:

- The fulfilment by Central America of its regional integration commitments;
- To agree on two explanatory notes in the area of rules of origin and on how to solve practical problems encountered by the EU and Central America in the implementation of the chapter on rules of origin.

Central America and the EU reached an agreement on Explanatory Notes for completing the EUR.1 movement certificates which will ensure consistency and clarity in the practical application. These Explanatory Notes are aimed also at providing a tolerance level over the exact wording and format required for the EUR.1 certificates.

The Parties also made progress as regards the adaptation of the Agreement to the classification amendments introduced as result of the Harmonized System 2012.

3.6. Sub-Committee on Market Access for Goods

On 29 May 2015, during the second meeting of this sub-committee, Central America and the EU reviewed the commitments taken during the previous meeting and discussed new market access issues, notably:

- The Costa Rican legislation on a minimum export price for bananas;
- The Costa Rican commitment to review its excise duty system for beers;
- The fee to be charged by Nicaragua for scanning goods at each checkpoint borders;
- To review safeguards measures and management of quotas.

The EU and Central America also agreed that access to reliable, updated and detailed statistics is essential to trade policy and therefore committed to exchange statistics to monitor the evolution of trade in goods and services.

3.7. Association Committee

On 3 June 2015, the Association Committee held its second meeting to review the work carried out in the different subcommittees but also discussed other trade related issues. Particular emphasis was given to the regional economic integration issues.

During this meeting, the EU welcomed the recent amendments introduced to Panama's law on auxiliary maritime services (Law 41/2013), which removed the requirements which had caused concerns, notably among EU economic operators.

As regards regional economic integration, Central America explained that the fulfilment of the commitments taken towards the EU was followed very closely by Central American Trade ministers in COMIECO. The EU insisted on the importance for Central America to keep alive the positive momentum generated by the application of the Agreement and stressed that Central America should pay particular attention in progressing further on these issues.

As regards the necessary amendment of the Agreement as a result of the adhesion of Croatia to the EU, the Parties recognised that, despite some progress, there is still a gap between the approaches as regards the methodology to assess compensations. It was agreed to continue the dialogue on this point with a view to finding an agreement as soon as possible.

3.8. Association Council

The Association Council held on its first meeting on 27 June 2014. This year, the Parties have not considered it necessary to hold a meeting of the Association Council.

4. FULFILLMENT OF OBLIGATIONS ON TRADE AND SUSTAINABLE DEVELOPMENT

4.1 Institutional Aspects

The second meeting of the Board on Trade and Sustainable Development was held in Brussels, Belgium on 27-28 May 2015. The meeting was hosted by the European Commission with participation of representatives of the governments of the six Central American parties.

A meeting of the Civil Society Dialogue Forum – comprising representatives of EU and Central American civil society - and a joint session of the Board and Forum were held on 29 May 2015, chaired by a representative of the EU Domestic Advisory Group (DAG).

The EU DAG agreed its rules of procedure and met three times during the year. The EU DAG comprises representatives from a broad range of EU civil society organisations and the European Economic and Social Committee (EESC). The Secretariat is provided by the EESC. Domestic advisory groups were also established by the Central American parties and information was exchanged on their composition and contacts facilitated between them and the EU DAG.

4.2 Implementation of International Labour Organization (ILO) Conventions

During the Board meeting, the Parties reported on their implementation of ILO conventions. Several Central American countries emphasised actions undertaken to tackle child labour. Honduras and Panama reported on recently adopted labour legislation and policies. The EU reported on progress in ratification by EU Member States of the new ILO Protocol supplementing the Forced Labour Convention, as did several Central American countries. The EU also presented its policies on health and safety at work and related structures for dialogue

with social partners. A number of clarifications were provided by Central American parties on questions related to implementation of ILO conventions.

A capacity-building programme was agreed with the ILO in 2015 that will provide support to Guatemala and El Salvador to help them meet their commitments under ILO Conventions.

4.3. Implementation of multilateral environmental agreements

Special emphasis was placed in the Board meeting on climate change and the Parties reported on a number of actions taken in this regard. Central America emphasised the vulnerability of its agricultural and related agro-industrial sectors to climate change and extreme weather events. As such products constitute the bulk of its exports to the EU there is a clear economic and trade impact. Several countries have developed sectoral programmes and targets to reduce the carbon footprint of the targeted sectors. Many have ambitious programmes to increase the share of renewable energy and are interested in investments and technologies in this sector. The EU set out its general climate change objectives and policy and, together with Costa Rica, provided a briefing on the state of play of the Environmental Goods Agreement negotiations.

Updates were also provided on the implementation of the Convention on Trade in Endangered Species (CITES), the Convention on Biological Diversity (CBD) and the Minamata Convention on Mercury.

4.4. Development of a positive agenda for trade and sustainable development

Further discussions took place in the Board meeting on priorities for a positive trade and sustainable development agenda, building on the initial discussion that took place in the first meeting in November 2014. The discussions were enriched by interventions in the joint session of the Board and Civil Society Dialogue Forum, where inter alia the importance of taking into account the gender dimension was emphasised. In addition a workshop was held in Brussels on 29 May 2015 on fair trade and sustainability in agricultural value chains, bringing together representatives of fair and ethical trade schemes, trade associations and producers, both from the EU and Central America, to exchange best practices and experiences in this area – notably with regard to the sugar and coffee sectors. Discussions continued inter-sessionally to further define priority areas with both environmental and labour dimensions.

5. IMPLEMENTATION OF THE REGULATION

The Regulation establishes the appropriate procedures to avoid serious harm to the EU banana sector if, as a result of the reduction of customs duties, bananas are imported in such increased quantities as to cause or threaten to cause serious injury to the EU sector. In line with Articles 3 and 13 of the Regulation, the Commission has been monitoring the evolution of imports of bananas from Central American countries to assess if the conditions set out in the Regulation are met to initiate a safeguard investigation or introduce prior surveillance measures.

In 2014, the Commission neither initiated nor received any requests to initiate a safeguard investigation or to introduce prior surveillance measures, as the conditions set out in the

Regulation to initiate a safeguard investigation or introduce prior surveillance measures were never met.

Country	Used Volume	Trigger Level	%
Guatemala	28,972,780	60,000,000	48%
Honduras	4,502,645	60,000,000	8%
Nicaragua	0	12,000,000	0%
Panama	222,446,518	450,000,000	49%
Costa Rica	924,184,789	1,230,000,000	75%
El Salvador	0	2,400,000	0%
Total	1,180,106,732	1,814,400,000	65%

2014 import of bananas under the stabilisation mechanism (in kg)

6. CONCLUSION

Overall, the agreement appears to work well and the implementation process is continuing steadily.

Despite the stable global economic environment, EU trade flows with Central America proved to be fairly dynamic. Although the coffee rust and the relocation of a major exporter have had a strong impact, the rest of the exports from Central America to the EU grew by 11% in 2014. EU exports to Central America have also grown in the same order of magnitude.

The utilisation rate of the preferences remains quite low for EU exports to Central America, but is better for EU imports from Central America. Communication efforts on both sides of the Atlantic are necessary to increase the knowledge of the benefits that the Agreement can bring. The Commission is engaged in actions aimed at increasing the awareness of the economic operators as regards the opportunities presented by the Agreement.

The tariff-rate quotas not being exhausted, they still offer opportunities for economic operators to develop trade relations further. As regards bananas, imports from Central American countries remained overall stable and below the established trigger levels, so that it was unnecessary to consider initiating any suspension of preferential customs duties.

For the years to come, the main EU priority remains to continue the good cooperation with Central America to achieve the proper implementation of the Agreement. This will allow economic operators, consumers and civil society from both regions to take full advantage of the opportunities it offers. The good functioning of the institutions created by the Agreement is pivotal in this exercise as they allow discussing and seeking solutions to market access issues as well as other implementation challenges. The Commission will continue to engage in discussing with Central America any concerns related to the implementation of this Agreement raised by stakeholders. The Commission invites the EU Member States and the European Parliament to continue to stay involved and to voice their opinion on this matter.