REPORT

on the implementation of the Trade Pillar of the Association Agreement with Central America (2018/2106(INI))

Committee on International Trade

Rapporteur: Reimer Böge
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EXPLANATORY STATEMENT – SUMMARY OF FACTS AND FINDINGS

On 19 February 2018, the rapporteur was entrusted with the task of preparing a report on the implementation of the trade pillar of the Association Agreement with Central America;

I. Sources of information

Since his appointment, the rapporteur has collected information and has relied on the following sources, among others:

- a Public Hearing entitled “Strengthening ties: EU-Latin America trade relations”, with experts from the academic world and international organisations organised by the Committee on International Trade (INTA) on 20 June 2018;

- a meeting of the INTA Monitoring Group on Central America, held on 19 June 2018, with the participation of the Ambassador of Costa Rica, pro tempore Chair of Secretaría de Integración Económica Centroamericana (SIECA), and the European Commission, DG Trade;

- EPRS In-Depth Analysis “EU trade with Latin America and the Caribbean: Overview and figures, 14 September 2018;

- the 2017 annual Report on Implementation of EU’s Free Trade Agreements (FTAs) from the European Commission of;

- the third 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;

- Latest trade statistics provided by EUROSTAT;

- ILO country reports.

II. Main findings

Based on the comparative sources of information above, it becomes clear that:

- the Agreement intends to strengthen the process of regional integration between the Central American countries by supporting intra-regional institutions, cooperation and dialogues;

- trade flows between the parties have overall proved resilient despite an unfavourable international economic context;

- neither Central America nor the EU make full use of their granted tariff rate quotas;
- the Agreement is only about to start to contribute to the modernisation and diversification of exports from Central America;

- progress as regards sanitary and phytosanitary standards (SPS), Rules of Origin (RoO) and Technical Barriers to Trade (TBTs) has been made;

- challenges related to Trade and Sustainable Development (TSD) provisions remain;

- the Parties are starting the administrative and institutional procedures to adopt the relevant Protocol for the integration of Croatia to the Agreement.

III. Key recommendations

- to fully implement all the provisions of the trade pillar;

- to deliver updated and comprehensive annual reports on the implementation of the Agreement as requested in the relevant implementing regulations and to include the relevant data and figures to evaluate investment flows;

- further progress needs to be made e.g. on the problem of Costa Rica’s discriminatory taxes on imports of alcoholic beverages and on the effective protection of geographical indications (GIs);

- to promote action to raise awareness of the Agreement among stakeholders in both regions;

- to put at the disposal of SMEs all the necessary tools to foster greater exchanges and participation to reap the benefits of the Agreement;

- to strengthen labour inspections and enhancing social dialogue; Central American states concerned should eradicate violence affecting trade unionists and indigenous peoples, take legislative measures to effectively implement ILO fundamental conventions on freedom of association, collective bargaining and non-discrimination, and child labour;

- to urge Austria, Belgium, and Greece to ratify the Agreement.
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the implementation of the Trade Pillar of the Association Agreement with Central America (2018/2106(INI))

The European Parliament,

– having regard to 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 other¹,

– having regard to its resolution of 11 December 2012 on the draft Council Decision on the conclusion of the Agreement establishing an Association between the European Union and its Member States, on the one hand, and Central America, on the other², and its accompanying Interim Report³,


– having regard to its resolution of 31 May 2018 on the situation in Nicaragua⁴ and to the Declaration on behalf of the EU by the Vice-President of the Commission / High Representative of the Union for Foreign Affairs and Security Policy on the situation in Nicaragua of 2 October 2018,

– having regard to the Euro-Latin American Parliamentary Assembly resolutions on the governance of globalisation and on corporate social responsibility in the EU and in Latin American and Caribbean countries (LAC), both adopted in Vienna on 20 September 2018,


– having regard to the European Economic and Social Committee opinion of 14 February 2018 on Trade and Sustainable Development Chapters in Free Trade Agreements (FTAs)⁵,

– having regard to its resolutions of 30 May 2018 on the ‘Annual report on the implementation of the Common Commercial Policy’⁶ and of 25 October 2018 on

³ Interim report of 8 November 2012 on the draft Council decision on the conclusion of the Agreement establishing an Association between the European Union and its Member States, on the one hand, and Central America, on the other.
⁵ OJ C 227, 28.6.2018, p. 27.
'Harnessing Globalisation: Trade Aspects',

– having regard to the report of 14 June 2018 on the fourth meeting of the Association Committee;

– having regard to the report of 13 June 2018 to the Civil Society Forum of the Fourth Meeting of the Board of Trade and Sustainable Development on the Association Agreement between Central America and the European Union;

– having regard to the summary of the discussion held during the joint meeting of the European and Central American Civil Society Advisory Groups of 16 June 2016;

– having regard to the public hearings organised in the Committee on International Trade (INTA) on 20 June 2018, 15 March 2016 and 27 March 2012,

– having regard to its recommendation of 13 December 2017 to the Council and the Commission following the inquiry into money laundering, tax avoidance and tax evasion;

– having regard to the Joint Declaration on Trade and Women’s Economic Empowerment on the Occasion of the WTO Ministerial Conference in Buenos Aires in December 2017,

– having regard to Rule 52 of its Rules of Procedure, as well as Article 1(1)(e) of, and Annex 3 to, the decision of the Conference of Presidents of 12 December 2002 on the procedure for granting authorisation to draw up own-initiative reports,

– having regard to the report of the Committee on International Trade (A8-0459/2018),

A. whereas the Association Agreement (hereinafter ‘the Agreement’) between the EU and Central America was the first region-to-region association agreement concluded by the EU; whereas it is based on three complementary pillars, namely political dialogue, cooperation, and trade; whereas the trade pillar of the Agreement (Part IV) was quite broad and ambitious when it was negotiated, but retrospectively lacks updated provisions on, inter alia, gender and trade, digital trade and e-commerce, procurement, investment, anti-corruption or SMEs;

B. whereas the trade pillar of the Agreement has been provisionally applied for five years: since 1 August 2013 with Honduras, Nicaragua and Panama, since 1 October 2013 with Costa Rica and El Salvador, and since 1 December 2013 with Guatemala;

C. whereas the political dialogue and cooperation pillars have still not been applied as not all Member States have ratified the Agreement; whereas the non-application of these

two pillars creates an imbalance between trade-related issues and political issues, namely the EU’s core values, such as promotion of democracy and human rights;

D. whereas Central America is a relatively small market with almost 43 million inhabitants and accounts for 0.25% of global GDP;

E. whereas in the past 15 years Central American countries have been more open to trade than other countries with the same level of income; whereas, however, imports continue to be the main source of trade with other countries;

F. whereas the most important market for Central America is the region itself, the Central American Common Market being the second largest trade partner for most countries in the region, accounting for 26% of all exports;

G. whereas the implementation of the EU’s trade agreements is a key priority for Parliament, the Council and the Commission in order to monitor, assess and calibrate the EU’s common commercial policy (CCP); whereas reporting on the implementation of the Agreement with Central America is a timely and useful contribution to the reflection on its possible modernisation;

H. whereas there is now sufficient experience, data and statistical information to assess the implementation of the trade pillar of the Agreement; whereas Parliament’s resolution adopted on 11 December 2012 in parallel with its consent to the Agreement outlined the aims for the trade pillar and included suggestions on follow-up during its implementation¹, which are relevant for the ongoing analysis;

I. whereas Opinion 2/15 of the Court of Justice of the European Union of 16 May 2017² affirmed that the CCP is a values-based policy and that promoting sustainable development constitutes an integral part of the CCP;

J. whereas the human rights situation in several Central American countries is worrying;

Main conclusions and recommendations

1. Is of the opinion that the Agreement tries to meet one of its key initial aims as it intends to strengthen the process of regional integration among the Central American countries by supporting intra-regional institutions, cooperation and dialogues, contributing to the achievement of Article 21 of the TEU, the universal UN 2030 Agenda for Sustainable Development and, under the framework of the principle of Policy Coherence for Development as set out in Article 208 of the TFEU, to the complementarity of their productive sectors, facilitating fair cross-border exchanges and fostering regional sustainable economic growth; reiterates that the Agreement contributes to consolidating the broader strategic dimension of the partnership between the EU and Latin America and the Caribbean (LAC); considers it essential to ensure the full entry into force of the

¹ Opinion of the Committee on International Trade of 19 September 2012 on the draft Council decision on the conclusion of the Agreement establishing an Association between the European Union and its Member States, on the one hand, and Central America on the other.

² ECLI:EU:C:2017:376.
Agreement, which is pending internal ratification by some EU Member States\(^1\), and the effective and adequate implementation of all the provisions of the trade pillar by both parties;

2. Recalls the importance of strengthening bi-regional cooperation to preserve and reinforce the multilateral trade system, as an essential pillar to achieve the SDGs and to guarantee rules-based economic governance, ensuring fairer, more inclusive and more sustainable trade; recalls, in particular, its support for the WTO, stressing its role in creating economic stability and supporting growth and development, and calls on the parties to make use of the dialogue fostered by the Agreement to identify and develop joint strategies towards the necessary modernisation of the WTO;

3. Underlines that Central America is one of the regions most affected by climate change and natural disasters, and therefore urges a most careful investigation into the relationship between change of land use due to liberalisation of investment and access to ownership, and the expansion of monocultures, into protection and access to water resources and fresh water and the need to maintain and/or develop respective public utilities, and into cooperation in the development of non-polluting public transport and energy systems;

4. Highlights that the Agreement relies on a rules-based fair and predictable relationship which promotes a more secure economic environment between the trading partners built on the principles of sustainable development and respect for human rights and labour and environmental standards while upholding the rule of law and good governance, and underlines the need to come up with effective anti-corruption measures; considers that such predictability fosters economic growth, the exchange of goods, the provision of services, participation in public procurement, the attractiveness of investment, quality employment, and improved working conditions and living standards, even if the flows do not always evolve in a linear fashion;

5. Calls on the Commission to deliver up-to-date comprehensive annual reports on the implementation of the Agreement as requested in the relevant implementing regulations; is of the opinion that the information included in the Report on Implementation of FTAs is not sufficient (SWD(2017)0364); notes that data on imports from Central America fluctuate a great deal, as exports concentrate on commodities, whose prices are based on the world market, or product parts in global value chains; strongly encourages the parties, with a view to adequately assessing the implementation of the Agreement, to take appropriate measures to improve the collection and provision of regular, up-to-date, comparable and reliable statistical data on the relevant sectors, including on trade in goods and services, investment and climate change, as well as on the degree of consolidation of SMEs’ activities, and to carry out evaluations on the basis of gender-disaggregated data; encourages both parties furthermore to monitor the implementation of internationally agreed standards for the fight against money laundering, as well as tax evasion and avoidance; reiterates its call on the Commission to update and create a common methodology for evaluating the implementation of its

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6. Welcomes the fact that trade flows between the parties have generally proven to be resilient despite an unfavourable international economic context; takes note that: EU exports have grown by 22%, while imports from five Central American countries have increased by 18.3%, that the main destination of EU exports to Central America is Costa Rica, followed by Panama and Guatemala, and that the main exporter of goods to the EU is Costa Rica, followed by Honduras and Guatemala; notes with concern the significant drop in 2015 of 40.4% in exports from Costa Rica to the EU due to the relocation to South-East Asia of a major IT equipment producer, leading to an overall fall in imports from Central America of 16.8%;

7. Regrets that neither Central America nor the EU make full use of their granted tariff rate quotas (TRQs) and therefore calls for potential sectors to be identified where further exchanges should be encouraged; regrets that figures on preference utilisation rates are only available in Costa Rica; is concerned that only 16.6% of eligible EU exports to Costa Rica benefited from the FTA, while the rate was 92% for Costa Rican exports to the EU\(^1\); recalls the key importance of making trade more inclusive and facilitating an appropriate integration of SMEs, and in particular small-scale farmers, into value chains; calls on the Commission in this regard to take active measures to increase knowledge and facilitate the use of opportunities created by the Agreement among European producers, particularly SMEs, with a view to increasing preference utilisation rates and the use of existing TRQs;

8. Notes that the main products exported by Central America to the EU are still heavily concentrated in the primary sector and in relatively low value-added products such as textiles, coffee, sugar, car parts or shrimp, while the main products exported by the EU to Central America are machinery and appliances, products of the chemical or allied industries and transportation equipment; notes, however, that the Agreement is starting to contribute to the modernisation and diversification of exports from Central America with more value-added, such as needles, prosthetic devices and medical devices, and to an increase in exports of fair trade and organic certified products;

9. Regrets that neither the Third Annual Report nor the Report on Implementation of the EU’s FTAs covering 2016 includes relevant data for evaluating investment flows; calls on the Commission to include such data in future reports;

10. Takes note of the fact that the total EU trade in services with Central America decreased marginally and seems to be concentrated in Panama and Costa Rica, and calls on the Commission to provide further country-specific analysis by sectors;

11. Acknowledges progress as regards sanitary and phytosanitary standards (SPS), rules of origin (RoO) and technical barriers to trade (TBTs), and calls on the parties to enhance early warning and transparency and the exchange of information on internal legislation and procedures; notes that Central America is concerned about the EU’s new legal

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framework which could potentially hamper exports of palm oil; reiterates the need for timely information and more ex ante exchanges to allow the parties to anticipate and adapt to changing patterns and comply with internal legal requirements;

12. Stresses that further progress needs to be made, for example on the problem of Costa Rica’s discriminatory taxes on imports of alcoholic beverages; is also concerned about pending issues related to effective protection of geographical indications (GIs), for example in Costa Rica (Manchego), Guatemala (Parmigiano) or Honduras (list of generics), and recommends that further efforts be made as regards compliance;

13. Regrets the lack of a specific chapter on SMEs in the existing Agreement, and encourages the Commission, the European External Action Service (EEAS), the Member States and Central America to include such a chapter in a future review of the Agreement; calls on the parties to place at the disposal of SMEs all the legal and administrative support and tools required for SMEs to engage in trade and investment under this agreement, to foster greater exchanges and to enhance participation in order to reap the benefits of the Agreement, including through active measures to foster the internationalisation of SMEs and the setting up of contact points and a specialised website for SMEs; reiterates its call for action to raise awareness of the Agreement, and the support available, among stakeholders, in particular SMEs in both regions; reiterates its call for the promotion of cooperation with appropriate technical and financial resources in strategic sectors for both regions;

14. Emphasises that fair and transparent opening of public procurement markets in Central America is essential to ensure a level playing field for businesses; is concerned that procurement markets in Central America could be opened further at the central government and regional government level;

15. Views intra-regional non-tariff measures to be a significant hindrance to investment in Central America; urges the Commission to ensure that Central American countries facilitate improved investment conditions and an improved local business environment for European investors that improves employment and infrastructure and addresses the significant development needs of the region;

16. Insists on the effective implementation of the specific commitments related to trade and sustainable development (TSD) provisions, which are an integral part of the Agreement and are essential to the accomplishment of the objectives set; takes note that the Commission will, in 2019, and should in future, conduct an ex post evaluation of the Agreement, including its TSD chapter, involving independent experts; recalls that the TSD chapter provides for the establishment of domestic advisory groups (DAGs) or committees relevant for matters related to labour, the environment and sustainable development; welcomes, in particular, the fact that civil society advisory mechanisms are now established in all Central American countries; notes that serious concerns have been raised with regard to the independence of these advisory groups and their capacity to participate in some Central American countries; regrets, in this context, that the meetings of the Association Committee and Subcommittees and the Civil Society Dialogue Forum did not take place in 2017, and insists that meetings take place at least on an annual basis; calls on the parties to the Agreement to swiftly establish the mechanisms and the necessary financial means to strengthen the DAGs, ensuring
independent representative civil society organisations, with balanced representation of stakeholders in order to participate appropriately; calls on the parties to the Agreement furthermore to put in place effective mechanisms for dialogue with the advisory groups as well as members of the different subcommittees, and to include them in the ex post evaluation processes planned for 2019; welcomes the recommendations made during the 3rd Joint Meeting of the EU and Central America’s DAGs of 16 June 2016 and calls on the parties to implement them; recalls that the TSD chapter includes legally binding provisions to effectively implement labour, social and environmental protection standards; welcomes the fact that the Agreement has laid the path for a regular dialogue on the implementation of the shared commitments; notes that Parliament has encouraged the Commission to strengthen the monitoring, implementation and enforcement mechanisms of TSD chapters; therefore welcomes the Commission’s 15-point plan to make EU trade and sustainable development chapters more effective and recalls the need to continue its dialogue with the different actors involved, including Parliament, concerning an effective enforcement mechanism for the labour and environmental protection commitments included in trade agreements;

17. Calls on the parties to review the Agreement to introduce a suitable and effective dispute settlement mechanism, including the consideration of, among various enforcement methods, sanctions as a deterrent to be used, as last resort, in the case of serious breaches, and enabling social partners and civil society to participate appropriately;

18. Urges the EU and all Central American countries to ratify and fully implement the multilateral environmental agreements on fighting climate change, especially the United Nations Framework Convention on Climate Change and the Paris Agreement; highlights the need to for the EU and Central America to step up cooperation in this regard;

19. Takes note of the different country reports carried out by the ILO and of the challenges that still remain; calls on the Central American countries concerned to eradicate violence against trade unionists and indigenous peoples, and to take legislative measures to effectively implement ILO fundamental conventions on freedom of association, collective bargaining, non-discrimination, and child labour; stresses the importance of strengthening labour inspections and enhancing social dialogue;

20. Asks the Commission for assurances that goods or parts of goods produced in export processing zones (EPZs) do not fall under the preferential tariffs of the Agreement, as EPZs are freed from having to comply with international labour law standards and national environmental laws; asks the Commission for concrete information on customs or other provisions applied to distinguish products coming from EPZs and hence not falling under tariff elimination;

21. Recalls that the thresholds established under the Stabilisation Mechanism for Bananas, annexed to the Agreement and applicable until 2020, should not be exceeded, and that once this mechanism expires parties should continue to provide statistics, including on fair trade and organic produce; notes that in September 2018 Nicaragua and Guatemala exceeded their thresholds (349 % and 102 % respectively) and is concerned that this has consequences for European banana producers; recalls the Commission’s commitment to
assess the situation of EU banana producers by 1 January 2019 at the latest and that, in the event of a serious deterioration of the market or the situation of EU banana producers, an extension of the validity of the mechanism may be envisaged; recalls that in the light of the Stabilisation Mechanism and safeguard clause introduced in the Agreement, more thorough and regular information on these market developments should be made available by the Commission, both to the European Parliament and the industrial sectors concerned;

22. Stresses that recent political and economic developments involving violence, impunity, corruption, fragile justice systems and deficient rule of law in a number of Central America countries can also have economic implications that negatively affect the region as a whole and might lead to the destabilisation of the region; is particularly alarmed at and strongly condemns the current situation in Nicaragua; calls on the Commission and the EEAS to continue carefully monitoring the situation in Nicaragua and, if necessary, assess the potential measures to be taken in light of the Association Agreement; recalls that the democracy clause is an essential element of all of the Union’s agreements with third countries;

23. Recalls the obligation of the EU, as enshrined in Article 8 of the TFEU, as well as the commitment by the EU and other signatories of the Buenos Aires Declaration on Gender and Trade, to mainstream gender equality into trade policy; calls on the parties to reinforce the gender focus of the Agreement and to promote and support the inclusion, in a future review, of a specific gender chapter;

24. Urges Austria, Belgium and Greece to ratify the Agreement, and reiterates the importance of full application of the other parts of the Agreement, including cooperation as regards economic and trade development (Article 52 and others);

25. Welcomes the fact that the parties are at last starting the administrative and institutional procedures to adopt the relevant protocol for the inclusion of Croatia in the Agreement;

26. Instructs its President to forward this resolution to the Council, the Commission, the European External Action Service, the Member States, the governments of the Central American countries and the EuroLat Assembly.
### INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE

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<td><strong>Result of final vote</strong></td>
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<td><strong>Members present for the final vote</strong></td>
<td>David Borrelli, David Campbell Bannerman, Santiago Fisas Ayxelà, Eleonora Forenza, Karoline Graswander-Hainz, Christophe Hansen, Heidi Hautala, Nadja Hirsch, France Jamet, Jude Kirton-Darling, Bernd Lange, David Martin, Emmanuel Maurel, Anne-Marie Mineur, Godelieve Quisthoudt-Rowohl, Inmaculada Rodríguez-Piñero Fernández, Tokia Saïfi, Joachim Schuster, Adam Szejnfeld, Iuliu Winkler</td>
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<td><strong>Substitutes present for the final vote</strong></td>
<td>Reimer Böge, Klaus Buchner, Sajjad Karim, Gabriel Mato, Ralph Packet, Frédérique Ries, Pedro Silva Pereira, Jarosław Wałęsa</td>
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<td><strong>Substitutes under Rule 200(2) present for the final vote</strong></td>
<td>Birgit Collin-Langen, Jonás Fernández, Alojz Peterle, Kosma Złotowski</td>
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### FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE

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<td>VERTS/ALE</td>
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**Key to symbols:**
- + : in favour
- - : against
- 0 : abstention