EU/Colombia and Peru Trade Agreement

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The Commission presents its second annual report on the implementation of the EU-Colombia/Peru Trade Agreement. To recall, on 26 June 2012, the EU signed a trade agreement with Columbia and Peru. The Agreement was applied provisionally from 1 March 2013 for Peru and 1 August 2013 for Columbia. On 12 December 2014, the EU and Ecuador initialled the Protocol of Accession of Ecuador to the Agreement.

The Commission undertook to submit an annual report to the European Parliament and the Council on the agreement and also on Regulation (EU) No 19/20133 with regard to the implementation of the bilateral safeguard mechanism and the stabilisation mechanism for bananas.

The main points in the report are as follows:

1) General evaluation of trade flows: the Commission notes that, two years after its entry into force, **the implementation process continues and the Agreement is functioning well overall** to the satisfaction of all Parties. It is still difficult to make assessments in some areas, mainly because data for trade in services and investment flows are not available yet or only partially so. **The economic slowdown in Latin America** and the fall in commodity prices on the global market also affected EU trade flows between the EU and Colombia and Peru.

Evolution of trade flows with Peru: overall, **since 2012 both EU imports from and exports to Peru show a reduction in value**, in line with the general trend in Peruvian trade.

- **Imports by Peru from the EU** have registered a 4% reduction in 2014 (EUR 3 716 million) as compared to 2012 (EUR 3 891 million). This is broadly in line with the reduction of Peru's imports from the world (3%). This being said, the reduction essentially occurred in the products that enter MFN duty free (10% reduction). As for product category, the biggest fall in Peru's imports from the EU can be observed in mineral products (25%) and in base metals (25%), although in absolute terms the most notable fall is observed for machinery and mechanical appliances (EUR 159 million or 9%). On the other hand, the biggest increases can be observed for works of art (184%), animals and animal products (47%) and prepared foodstuffs (46%).
- **Imports by the EU from Peru** have seen a reduction of 21%, from EUR 6 072 million in 2012 to EUR 4 789 million in 2014. The category that observed a noteworthy fall are mineral products (a decrease of 38%), which can be attributed to the worldwide fall in mineral prices, as well as the category of pearls, (semi-) precious stones and metals with a decrease of 75%. On the other hand, there is a notable increase in animals and animal products, most notably for fish and crustaceans, molluscs and other aquatic invertebrates. A significant increase can also be observed for chapter 08 (edible fruit and nuts, peel of citrus fruits or melons) with an increase of 38%.

Evolution of trade flows with Colombia: the EU's share of Colombia's imports increased from 2012 to 2014, while exports from Colombia to the EU increased in value in 2014, following a decrease in 2012 and 2013.

- **Imports by Colombia from the EU** have registered a significant increase between 2012 and 2014, from EUR 4 870 million to EUR 6 602 million (36%). the biggest increase occurred for products that already enter at MFN duty free (increase by EUR 1 133 million or 42%). The most important increases were registered in transport equipment (EUR 951 million or 146%, chemical products (EUR 294 million or 22%), and measuring and musical instruments (EUR 116 million or 42%).

- **EU imports from Colombia** registered a slight decrease of 2% between 2012 (EUR 8 040 million) and 2014 (EUR 7 867 million), particularly due to the fall of imports of products that enter MFN duty free (EUR 197 million decrease). Looking at the product categories the sole biggest noteworthy decrease occurred for base metals and articles thereof (EUR 265 million or 78%). Almost the entire decrease within this category takes place in chapter 72 (iron and steel), a decrease of 88%. As for increases, noteworthy changes can be observed for vegetable products (increase of 5%) and for animal or vegetable fats (66%). The biggest increase can be observed in chapter 09 (coffee, tea, maté and spices) with an increase of 28%.

The fact that 526 Colombian companies and 1133 Peruvian companies exported for the first time to the EU since the entry into force of the Agreement is a welcome development, even more so since a significant number of them are SMEs. EU development programmes to support implementation of the agreement aim to further strengthen this trend.

2) Trade in services and foreign direct investment (FDI): only a limited analysis can be done considering that the Agreement is being applied with Peru since March 2013 and with Colombia since August 2013.

- In 2013 (i) the EU's FDI stock in Peru was EUR 7.678 billion, whereas Peru's FDI stock in the EU amounted to EUR 218 million; (ii) the EU's FDI stock in Colombia was EUR 15.622 billion, whereas Colombia's FDI stock in the EU amounted to EUR 3.839 billion.

3) Obligations on trade and sustainable development: the report notes that the mechanisms for implementation of the Trade and Sustainable Development Chapter of the Agreement, which reflect a priority for the EU **are now in place and with tangible civil society involvement**.

- Colombia noted progress in the area of social dialogue and Peru highlighted its strategy for the prevention and eradication of child labour as well as on formalisation of labour.
- Colombia referred to its National Development Plan, which incorporates a crosscutting strategy for green growth, its National Plan for Green Business and its policy on sustainable public procurement. For its part, Peru gave a presentation on its 2015-2016 environmental action agenda.

4) Follow-up activities with regard to Regulation No 19/2013: in accordance with the Regulation, the Commission has been monitoring the evolution of imports of bananas from Colombia and Peru. At the time of writing the report, the Commission **neither initiated nor received any requests for initiating a safeguard investigation** or introducing prior surveillance measures.

Regarding the stabilisation mechanism for bananas, the average wholesale price of fresh bananas on the EU market did not register any notable change and there were no indications that the stability of the EU market or that the situation of the EU producers have been affected by the increase of Peruvian exports. Consequently, the Commission has concluded that any suspension of the preferential customs duty on imports of bananas originating in Peru was not warranted. **The close monitoring of the banana imports and the evaluation of the market situation is therefore proving effective.**

In conclusion, the Commission considers that, while the implementation process is going well in most of the areas, some areas need to be addressed rapidly, e.g. **the implementation by Peru of the obligations in the area of sanitary and phytosanitary measures and the taxation of spirits most notably in Colombia but also in Peru.** The implementation of the **market access commitments for procurement** at sub central level in Colombia also raises concern.

The Commission will continue focusing on measures aimed at ensuring the full implementation of the Agreement in all its aspects for the benefit of mutual trade and investment and in close cooperation with the partner countries.