

EU/Central America Association Agreement: implementation of the bilateral safeguard clause and the stabilisation mechanism for bananas

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This document is the third annual report from the Commission to the European Parliament and the Council on the application of Part IV of the Agreement establishing an association between the European Union and its Member States, of the one part, and Central America, on the other (2016).

It complies with the obligation laid down in Article 13 of Regulation (EU) No 20/2013 of the European Parliament and of the Council on the implementation of the bilateral safeguard clause and the stabilisation mechanism for bananas provided for in the Agreement.

Overall trade development: on the basis of statistics presented by the Secretariat for Economic Integration of Central America (SIECA), trade flows between the countries of Central America and the rest of the world decreased by 6% between 2014 and 2015. On the other hand, trade between the EU and the rest of the world increased by 3.6% over the same period (Eurostat data).

In this broader context, **bilateral trade between the EU and Central America has held up relatively well:** total trade flows between the two regions declined only slightly (by 0.7%) to EUR 10.5 billion. The EU's trade balance with Central America showed a positive balance of **EUR 162 million in 2015 (after a deficit of EUR 853 million the previous year)**.

The year 2015 saw an overall increase of 22% in EU exports to Central America, while EU imports from Central America decreased by 16.8% in value terms. **On the whole, however, there are positive trends in trade flows between the EU and each Central American country**, with the exception of Costa Rica, with which trade has decreased because of the virtual disappearance of exports of office and telecommunications equipment carried out by a large computer multinational established in the country.

Overall, during this third year of implementation of the Agreement, **EU exports and imports to and from each of the 6 countries in the region increased by more than 20%** for 8 of the 12 possible combinations of imports / exports. This is also reflected in total trade flows, which increased by more than 20% in four of the six countries (and by more than 10% in the fifth). Costa Rica remains the exception in 2016 for specific internal reasons which are unlikely to persist in the years to come.

The main sectors accounting for imports from Central America in 2015 were as follows:

- vegetable products (51%),
- food, beverages and tobacco (11.1%),
- optical and photography instruments (8.1%).

The main export sectors from the EU to the region were:

- machinery and equipment (23.8%),

- products of the chemical or allied industries (22.6%),
- transport equipment (14.3%).

The main destinations for **EU exports to Central America** in 2015 were Costa Rica (25%), followed by Panama and Guatemala (24% and 22% respectively). The most exported products in 2015 were pharmaceuticals (11% of EU exports), followed by motor vehicles (7%) and steel structures (5%).

The increase in coffee exports, of 33% (from EUR 702 million to EUR 935 million), is also noteworthy. The region was able to overcome the losses caused by the coffee rust epidemic, which had a significant impact on coffee production and exports in 2014.

Key findings: some 3 years after the entry into force, the implementation process is proceeding at a steady pace and the institutional framework provided for in the agreement is working well.

Despite overall negative trends in the trade environment of Central America, trade between the EU and this region has been **relatively dynamic**.

The relocation of a Central American exporter, which was a significant player at the regional level (in the **computer components sector**), continued, as in 2014, to be felt. On the other hand, **the rest of Central America's exports to the EU increased by an average of 13.8% in 2015**, in particular thanks to the recovery in coffee exports, which rose by 34% last year.

Exports from the EU to Central America experienced similar growth, rising by 22% in 2015.

Despite this strong growth, the use of **existing preferences remains relatively weak in the case of EU exports to Central America**. However, it is significantly higher for EU imports from this region. **Additional communication efforts in the EU** may be needed to raise awareness of the benefits that the agreement provides to EU exporters. The Commission continues to take steps to raise economic operators' awareness of the possibilities offered by the agreement. Initiatives by Member States would also be relevant.

Given that **tariff quotas remain largely underutilised**, economic operators have every opportunity to further develop trade relations.

With regard to the **stabilisation mechanism for bananas**, total imports from Central America remained broadly stable, well below the cumulative trigger level. Although imports of bananas from Guatemala have exceeded the trigger threshold, it was not considered necessary to consider suspending the preferential customs duties as these imports were not considered to threaten the destabilisation of the EU market.

As regards **trade in services**, flows between the two regions fell slightly in 2014 to EUR 5.9 billion. Panama, Costa Rica and Guatemala remain the most important trading partners in the region.

The EU will have as a priority to continue to maintain and strengthen positive cooperation with Central America in order to achieve the common objective of ensuring the proper implementation of the agreement by all the actors concerned.

Governance and the next steps: the proper functioning of the bodies provided for in the agreement is essential for its proper implementation. They are the forums in which discussions can be initiated and solutions acceptable to all parties can be found on issues ranging from compliance with commitments under the different titles of the agreement (such as trade and sustainable development or public

procurement) to market access problems and, in general, address implementation issues in a structured and mutually agreed manner.

More recently, efforts have focused on **cooperation on labour law and environmental standards** and, more broadly, on civil society participation, social dialogue, circular economy and value chains, themes which are part of the EU's current trade policy (in particular, all aspects of Corporate Social Responsibility).

The Commission will continue to participate in the implementation process with Central America and to address any concerns related to the implementation of the agreement raised by companies, citizens or other stakeholders.