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Delegations will find attached the declassified version of the above document.

The text of this document is identical to the previous version.

¹ Document declassified by the European Commission on 19 May 2016.

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COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 8 December 2006

to: Mr Javier SOLANA, Secretary-General/High Representative

Subject: Recommendation from the Commission to the Council authorising the
Commission to open negotiations for the conclusion of an Association
Agreement between the European Community and its Member States and the
Central American Republics of Costa Rica, El Salvador, Guatemala, Honduras,
Nicaragua and Panama

Delegations will find attached Commission document SEC(2006) 1598.

Encl.: SEC(2006) 1598



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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 6.12.2006
SEC(2006) 1598

RESTRICTED

COMMISSION STAFF WORKING DOCUMENT

Accompanying document to the

Recommendation from the Commission to the Council authorising the Commission to open negotiations for the conclusion of an Association Agreement between the European Community and its Member States and the Central American Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama

Summary of the Impact Assessment

{SEC(2006) 1596 final}
{SEC(2006) 1597}

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EXECUTIVE SUMMARY

The present impact assessment (IA) refers to the conclusions of the two latest summits between EU and Latin American countries (Guadalajara in 2004 and Vienna in 2006), in which both sides considered the negotiation of an Association Agreement between the EU and Central America as a joint strategic objective. The opening of negotiations towards a bi-regional Association Agreement (AA) was agreed upon during the last Vienna summit, particularly in view of the reaffirmed commitments taken by the Central American heads of state towards completing a customs union within an established timeframe.

The final content of the agreement is obviously contingent upon the negotiation process. A more complete and accurate assessment of its possible impact will only be possible once the negotiations have started, which will take the form of a Sustainability Impact Assessment (SIA).

1. ISSUES THAT THE PROPOSAL IS EXPECTED TO TACKLE

The relationship between the EU and Central America has gained momentum over the last two decades and is now both diversified and far-reaching. Overall political cooperation between the EU and the six republics of the Central American isthmus² has been shaped by the **San José Dialogue**, which was launched in 1984 and has remained the principal channel for political dialogue between the two regions ever since. The issue at stake consists in developing further the potential of the EU-CA relationship in order to transform it in a robust and comprehensive bi-regional partnership, helping the CA region weather the challenges of its integration into a globalised economy and play a more assertive role as a region on the world scene.

At the **Guadalajara summit** (2004), the EU and CA decided that a future Free Trade Area between them should notably be predicated upon the attainment of a sufficient level of regional economic integration. To this effect, a joint EU-CA stock-taking exercise (“Joint Assessment”) was launched in January 2005, with a view to assessing the state of play of the regional integration. Its conclusions were released in early 2006, pointing out the positive developments registered over the last years in this endeavour.

In terms of **trade**, the vast majority of Central American exports to the EU are governed by the new **GSP +** regulation, which grants significant trade preferences (duty and quota free access to the EU markets) to developing countries that have ratified and implemented a set of international conventions related to sustainable development and good governance. Since January 2006, a new tariff-only system has been introduced for the banana exports from Central America.

Broadly speaking, the most salient features characterising the developments of the EU-CA relationship are:

- 1) The **long-term vision** of the EU strategy towards the region, which has been pursuing the same set of policy objectives over the last two decades in a consistent, albeit gradual, manner;

² Guatemala, El Salvador, Honduras, Costa Rica, Nicaragua and Panama.

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- 2) The steadfast policy followed by the EU in support of **regional integration**, by regarding Central American countries as a full-fledged regional partner rather than the mere addition of individual countries;
- 3) The high degree of **solidarity** displayed by the EU vis-à-vis Central America and its responsiveness to the numerous challenges of this region through a variety of instruments.

The long-standing EU effort in support of the CA regional integration process should now be further enhanced by way of a full-fledged bi-regional Association Agreement, serving as the corner stone for the whole EU-CA partnership. The **European Parliament** has traditionally been very supportive of the regional integration process in CA and advocated a strengthening in the bi-regional relationship, particularly through the signature of an ambitious and comprehensive AA.

2. MAIN OBJECTIVE THAT THE PROPOSAL IS EXPECTED TO REACH

The main medium-term development challenges that currently confront the Central American region can be summarised into four broad categories, which are closely inter-mingled:

- Strengthening democracy
- Reducing economic vulnerability
- Stepping up social cohesion
- Addressing environmental vulnerability

In such conditions, furthering the regional integration agenda is increasingly regarded as a new dimension that would help address these challenges.

The Association Agreement is expected to serve a wide spectrum of general objectives:

- Consolidate existing relations and develop their potential and mutual benefits
- Firmly root in the democratic achievements in CA
- Develop both intra- and bi-regional trade exchanges in goods, services as well as investments
- Provide a further impetus to the regional economic integration process
- Bolster the good-neighbourly relations and the principles of peaceful resolution of disputes between the CA states
- Develop a privileged political partnership with the region, in order to defend joint positions based on common values on the world stage
- In a wider perspective, pave the way towards an EU-Latin American bi-regional partnership, as the ultimate objective of EU and Latin American countries.

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The Association Agreement with Central America is envisaged as a comprehensive agreement, embracing the whole array of the multifaceted EU-CA relations (political dialogue, cooperation, trade...) in one single contractual agreement, thus reflecting more visibly the depth and variety of the bi-regional links and developing them further. Building upon the Political Dialogue and Cooperation agreement, the AA with CA should notably provide for:

- A firm commitment to upholding common values;
- Enhanced cooperation in foreign and security policy;
- The promotion of sustainable development;
- Provisions on public security, law enforcement, justice and home affairs;
- Enhanced cooperation in the field of environment and sustainable management of natural resources, Justice, Freedom and Security, as well as all other areas of mutual interest, such as public health, science and technology, education, culture, information society, employment and social affairs, ...

An ambitious and comprehensive Free Trade Area FTA should be sought, going beyond the WTO basic rules ("WTO+" Free Trade Area) so as to maximise the mutual and long-term benefits of bi-regional trade liberalisation. Commitments by both sides in terms of the social and environmental aspects of trade and sustainable development should be included in the AA. Taking into account the different level of development in the EU and in Central America, region-to-region asymmetries may be considered, where necessary, in all trade and trade-related areas.

3. MAIN POLICY OPTIONS AVAILABLE TO REACH THE OBJECTIVE

Bearing in mind the policy line set at the Vienna summit, three basic policy choices can be identified to achieve the goal of an AA:

Content of the Association Agreement: Just complementing the existing contractual relations with an FTA or trying to upgrade the whole, three-pronged relationship altogether (i.e. political, trade, cooperation instruments).

Scope of the trade component: Settling for a mere WTO-compliant Free Trade Area or seeking a "WTO+" FTA.

Negotiation process and format: Engage in separate negotiations in parallel with individual countries on some issues or insisting on the principle of a single, region-to-region agreement, implying a bi-regional negotiation process across the board.

The proposal considers that the negotiation of a far reaching, balanced AA on a region-to-region basis and including a "WTO +" FTA would best match the historical nature of the relations between the two partners and correspond to their stated ambitions, by adding real value to the existing state of play. It is therefore this scenario that will be presented in most detail and upon which the negotiation directives should rest.

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4. POSSIBLE IMPACT OF THE ASSOCIATION AGREEMENT

Economic impact

By traditional “FTA-eligibility standards”, the CA region remains a relatively small economic area (0.4% of total EU imports and 0.34% of its exports). The **trade impact of the elimination of CA tariffs** would be limited for the EU but generally larger for CA, and even quite significant in some specific sectors, largely due to increased liberalisation in the trade of primary products towards Europe. The impact related to enhanced competition, the improvement of the business environment and the consolidation of regulatory framework would be more substantial for either side. Significant market access improvements and economic gains for both sides may potentially be obtained if the EU-CA FTA goes beyond the mere elimination of barriers at the border and makes substantial progress in removing non-tariff barriers (in particular regulatory ones), while pushing forward effective CA regional integration through the consolidation of a customs union. Another benefit derived from the FTA would be the **increase of FDI in CA**, especially if the FTA brings about significant improvements in the domestic policy environment. The **incidence of tariff elimination on CA budget revenues** is likely to be modest. No major constraint on either side seems likely to counterbalance the expected benefits of the FTA. For the EU, the one possible exception could be the need to tackle adjustment in some traditional agricultural sectors such as bananas and sugar.

Social impact

Social impact for the **EU** can be expected to be minimal. Regarding the banana and sugar sectors, the possible incidence of the FTA would largely depend on the outcome of their on-going reform process and on the ultimate results of the negotiations. In general terms, a positive social impact can be expected from the AA within the **CA** region. The privileged bi-regional partnership created by the AA would allow the EU to convey more forcefully its political message on **social cohesion** across the region, notably by enshrining important commitments on **core labour standards** into the new contractual relationship hereby created. Existing **regional discrepancies in terms of development** may, however, be exacerbated as a result of increased competition and trade liberalisation, unless flanking measures are set up in terms of regional cohesion policy to mitigate the social adjustments and ensure a fair redistribution of the benefits derived from trade openness. The risk of “**social dumping**” in the region seems, however, limited. Globally, higher intra-regional and extra-regional trade and better development prospects are likely to translate in higher **employment** levels within the region. Due to the relatively limited trade between the two regions -and to the composition thereof - the AA is unlikely to have any significant disruptive effect on the CA labour market. The issue of **state monopolies** in the sector public services can be expected to remain sensitive in Costa Rica, as their existence is generally seen as part and parcels of the domestic “social model”. The social impact of **enhanced cooperation in sector policies** such as education, water & sanitation, drugs, consumer protection and health can be expected to be positive for the population at large and help the region attain the MDGs.

By instilling rule-based practices and higher transparency in the economy, diversifying the spectrum of international social models available to CA, fostering intra-regional comparisons or experience-sharing and promoting the role of civil society the AA can, up to a certain extent, favour the emergence of a “new social deal” in the region.

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Environmental impact

The AA can be expected to have an overall positive impact on the protection of environment, albeit limited compared to the magnitude of the challenges, notably through an enhanced political dialogue. Likewise, the association agreement should offer the opportunity to enshrine important environmental commitments into the new contractual relationship. At a time when environmental issues, the sustainable management of natural resources and the prevention of natural disasters pose regional challenges which ignore borders, the further impetus given to regional integration through the AA can usefully promote the vision of a collective, region-wide approach to common problems. The overall impact of the AA on economic activities is expected to be limited and so should also be its effect on pollution levels or environmental degradation. Unlike CAFTA, the paucity of EU agriculture exports to CA makes them unlikely to affect rural employment, land occupation patterns or the existence of traditional farming systems. Likewise, the development of intra-regional trade and related transports infrastructures as a result of enhanced economic integration is expected to be very gradual, as most CA countries exhibit analogous economic patterns which limit the scope for intra-regional trade integration. The possible increase of EU investments in the fisheries sector may also have consequences in terms of sustainable development. Stronger policy dialogue and cooperation could entail a positive impact in terms of sustainable development, notably as regards forestry. In a wider perspective, both the consolidation of the customs union and the conclusion of an FTA with the EU should lead to the harmonisation of technical and SPS norms within the CA region, a better enforcement record and the substitution of domestic norms with international standards.

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CONCLUSION

The main positive aspects of the AA with CA may be summarized as follows:

- A strong impetus in favour of regional integration, helping CA face the challenges of development and trade integration in a context of globalisation, and mature into a self-standing regional actor able to match regional challenges with regional responses;
- A step forward in developing the – largely untapped – CA potential in terms of regional economic cooperation/ rationalisation, with positive economic and social consequences in the long run in terms of regional development policy at the CA level;
- A response to some of the shortcomings of the business climate in CA, which is likely to boost the current upward trend of European FDI in the region;
- A diversification in the spectrum of CA international partners, enabling the EU and CA to develop and pursue common agenda in multilateral fora in support of joint positions and common values;
- A – gradual – transformational effect on the socio-political fabric of the CA societies, through the development of a rule-based economic culture, the further empowerment of the civil society and a stronger exposure to European social and environmental values and experiences;
- A corner-stone upon which building the wider EU vision of its future bi-regional partnership with the whole Latin American continent;
- A positive precedent sand an incentive for other potential candidates interested in forging a bi-regional partnership with the EU.