Brussels, 20.6.2023
SWD(2023) 220 final

COMMISSION STAFF WORKING DOCUMENT

EVALUATION

Impact of the implementation of part IV (Trade Pillar) of the EU-Central America Association Agreement

{SWD(2023) 221 final}
ACRONYMS .......................................................................................................................... 3

1. INTRODUCTION ............................................................................................................... 5

Purpose and scope of the evaluation/fitness check ................................................................. 5

2. WHAT WAS THE EXPECTED OUTCOME OF THE INTERVENTION? ......................... 9

2.1 Description of the intervention and its objectives ......................................................... 9

2.2 Point(s) of comparison .................................................................................................. 9

2.2.1 The methodological approach: the tariff baseline and its evolution .................... 10

2.2.2 The Sustainability Impact Assessment (SIA) of 2009 ........................................... 11

3. HOW HAS THE SITUATION EVOLVED OVER THE EVALUATION PERIOD? ......... 13

4. EVALUATION FINDINGS (ANALYTICAL PART) .......................................................... 16

4.1 To what extent was the intervention successful and why? ........................................ 16

4.1.1 EFFECTIVENESS: Achievement of the Agreement’s objectives (EQ1) ............ 16

1. Implementation of Tariff Liberalisation (JC 1.1) ......................................................... 16

2. Facilitation of Trade in Goods (JC 1.2) ......................................................................... 20

3. Facilitation of Trade in Services and Investment (JC 1.3 and JC 1.5) ....................... 21

4. Implementation of Trade-Related Issues (JC 1.6, JC 1.7, 1.8) ................................. 22

5. Promotion of regional economic integration in CA (JC 1.4) ....................................... 23

6. Use of the Dispute Settlement Mechanism (JC 1.9) .................................................. 26

4.1.2 IMPACT of the Agreement (EQ 1B, EQ 2, EQ 3) ................................................ 26

1. Economic Impact (JC 4.1) ............................................................................................. 26

2. Social Impact (JC 4.2) .................................................................................................. 30

3. Environmental Impact (JC 4.3) .................................................................................... 39

4. Human Rights Impact (JC 4.4) .................................................................................... 44

5. Influencing Factors for the Achievement of the Agreement’s Objectives and Impact (EQ 2, JC 2.1 and 2.2) ................................................................. 46


4.1.3 EFFICIENCY of the Agreement regarding achievement of its economic objectives (EQ 4, EQ 5, EQ 6) ............................................................... 48

1- Preference utilisation rate and forgone duty savings of economic operators ...... 48

2- The use of Tariff Rate Quotas (TRQs) ....................................................................... 49

3- Trade diversion, notably from intra-regional CA trade to trade with the EU ....... 49

4.1.4 POLICY COHERENCE of the Agreement (EQ 8) .................................................. 50

1. Coherence with EU trade policy .................................................................................... 50

2. Coherence with EU policies aimed at attaining the SDGs and the EU’s commitment for the decent work agenda .................................................. 51

3. Coherence with EU environmental and climate change policies ............................. 52
4.2 How did the EU intervention make a difference?..............................................................52
4.3 Is the intervention still relevant? (EQ 9, JC 9.1, 9.2 and 9.3).........................................53
5. WHAT ARE THE CONCLUSIONS AND LESSONS LEARNED?.......................................55
5.1 Conclusions.......................................................................................................................55
5.2 Lessons learned.................................................................................................................56
   5.2.1 Effectiveness and Impact..............................................................................................56
      1 Economic aspect ..............................................................................................................56
      2 Social aspects ................................................................................................................59
      3 Environmental aspects ..................................................................................................63
      4 Human rights-related aspects ........................................................................................64
   5.2.2 Efficiency, including institutions ...............................................................................65
      1 Institutions established by the EU-CA FTA .................................................................65
      2- Strengthen the implementation of the TSD dialogue ..................................................65
         a) Improve the dialogue in the TSD Board ..................................................................66
         b) Strengthen work with Civil Society ........................................................................66
   5.2.3 Coherence with EU policies .......................................................................................67
      1- Essential clause on Human rights ..............................................................................67
      2- Ensure a better coherence with our cooperation programmes .................................67
ANNEX I: PROCEDURAL INFORMATION ............................................................................69
ANNEX II: METHODOLOGY AND ANALYTICAL MODELS USED .................................70
ANNEX III: EVALUATION MATRIX AND, WHERE RELEVANT, DETAILS ON ANSWERS TO THE EVALUATION QUESTIONS (BY CRITERION) .........................79
ANNEX IV: STAKEHOLDERS CONSULTATION – SYNOPSIS REPORT .........................92
### ACRONYMS

<table>
<thead>
<tr>
<th>Term or acronym</th>
<th>Meaning or definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>Central America</td>
</tr>
<tr>
<td>CFZ</td>
<td>Colon Free Zone</td>
</tr>
<tr>
<td>CGE</td>
<td>Computable general equilibrium</td>
</tr>
<tr>
<td>COMIECO</td>
<td>Committee of Central American Ministers of Trade</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate social responsibility</td>
</tr>
<tr>
<td>CS</td>
<td>Civil society</td>
</tr>
<tr>
<td>DAG</td>
<td>Domestic Advisory Group</td>
</tr>
<tr>
<td>EEAS</td>
<td>European External Action Service</td>
</tr>
<tr>
<td>EP</td>
<td>European Parliament</td>
</tr>
<tr>
<td>EU-CA FTA</td>
<td>Trade pillar of the EU-Central America Association Agreement</td>
</tr>
<tr>
<td>FTA</td>
<td>Free-trade area</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse-gas emissions</td>
</tr>
<tr>
<td>GSP</td>
<td>Generalised System of Preferences</td>
</tr>
<tr>
<td>GSP+</td>
<td>Special incentive arrangement for sustainable development and good governance under the European Union’s Generalised Scheme of Preferences</td>
</tr>
<tr>
<td>GVC</td>
<td>Global value chains</td>
</tr>
<tr>
<td>HS</td>
<td>Harmonised System</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse gas</td>
</tr>
<tr>
<td>GVC</td>
<td>Global value chain</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>LDCs</td>
<td>Least developed countries</td>
</tr>
<tr>
<td>LULUCF</td>
<td>Land use, land-use change and forestry</td>
</tr>
<tr>
<td>MRL</td>
<td>Maximum residue level</td>
</tr>
<tr>
<td>MEAs</td>
<td>Multilateral environmental agreements</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>MFN</td>
<td>Most favoured nation</td>
</tr>
<tr>
<td>MS</td>
<td>Member States</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, small and medium Enterprises</td>
</tr>
<tr>
<td>OPC</td>
<td>Open public consultation</td>
</tr>
<tr>
<td>ORs</td>
<td>Outermost regions</td>
</tr>
<tr>
<td>RBC</td>
<td>Responsible business conduct</td>
</tr>
<tr>
<td>RoO</td>
<td>Rules of origin</td>
</tr>
<tr>
<td>RTCA</td>
<td>Regional Technical Central American Regulations</td>
</tr>
<tr>
<td>SDG</td>
<td>Sustainable Development Goal</td>
</tr>
<tr>
<td>SIECA</td>
<td>Secretariat for Central American Economic Integration</td>
</tr>
<tr>
<td>SIA</td>
<td>Sustainability impact assessment</td>
</tr>
<tr>
<td>SPS</td>
<td>Sanitary and phytosanitary</td>
</tr>
<tr>
<td>TBT</td>
<td>Technical barriers to trade</td>
</tr>
<tr>
<td>TPR</td>
<td>Trade policy review</td>
</tr>
<tr>
<td>ToR</td>
<td>Terms of reference</td>
</tr>
<tr>
<td>TRQ</td>
<td>Tariff-rate quota</td>
</tr>
<tr>
<td>TSD</td>
<td>Trade and sustainable development</td>
</tr>
<tr>
<td>UNEP</td>
<td>United Nations Environment Programme</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
1. INTRODUCTION

Purpose and scope of the evaluation/fitness check

In 2020, the European Commission’s Directorate-General for Trade (DG Trade) awarded a contract to a consortium led by BKP Economic Advisors (BKP) to undertake an ex-post evaluation of the impact of the implementation of part IV (the trade pillar) of the European Union Central America Association Agreement (the ‘Agreement’ or the ‘EU-CA Free Trade Agreement’ - FTA). The evaluation was carried out from January 2021 to September 2022. The period reviewed by the evaluation examines the implementation period of the Agreement since its beginning in 2013 (with all central American (CA) countries covered since January 2014) up to 2019. The evaluation also includes pre-implementation data from 2009-2013 to compare the situation before and after the implementation of the Agreement. Geographically, the evaluation primarily covered the Parties to the Agreement, although some effects of the EU-CA free-trade agreement (FTA) on selected non-EU countries are also analysed (e.g. Turkey and least developed countries – LDCs). Some global effects (e.g. climate change) are also covered by the evaluation.

The ex-post evaluation is part of the EU’s policy to improve future policy-making cycles according to the EU’s ‘better regulation’ policy¹. It is not linked to a legal obligation or a future reopening of the Agreement.

The purpose of the evaluation was: (i) to analyse the economic, social, environmental, and human rights (including labour rights)² impacts of the Agreement; and (ii) to determine whether the Parties needed to increase their implementation efforts, to ensure that they were taking full advantage of the opportunities presented by the Agreement.

The scope of the evaluation study is largely focused on the extent to which the objectives of the Agreement were achieved, as measured against the four criteria listed in the EU’s ‘better regulation’ guidelines and toolbox. These four criteria are set out in the four bullet points below.

- **Effectiveness**: the extent to which the objectives of the Agreement have been achieved, as well as the factors influencing the achievement of those objectives, including the identification of any unintended consequences.
- **Efficiency**: the extent to which the Agreement has been efficient in achieving its objectives. What costs have been associated with the achievement of these objectives and have they been proportionate to the benefits obtained? What factors influenced these costs and benefits and their distribution across different stakeholder groups? Are there any remaining inefficiencies and regulatory costs related to the Agreement?
- **Coherence**: the extent to which the Agreement has been coherent with the EU’s current trade policy and with other EU policies related to sustainable development and the achievement of the UN’s Sustainable Development Goals (SDGs).
- **Relevance**: the extent to which the Agreement is relevant for addressing current trade issues faced by the EU and its partners.


² Whenever the staff working document refers to human rights, this includes labour rights.
The evaluation study answers a number of evaluation questions (EQs) that were posed in the evaluation’s terms of reference. Because the EQs are broad, they were refined and broken down into more detailed questions in an evaluation framework, which provides for each EQ:

- the judgement criteria;
- the analysis needed to substantiate findings and conclusions;
- the sources through which data and information have been obtained.

The evaluation framework also links EQs and judgement criteria to the analytical tasks to be performed, as specified in the terms of reference for the external study.

The EQs fell under the four main criteria set out above, namely effectiveness/impact; efficiency; coherence; and relevance. There were several questions under each heading, as set out in the bullet points below.

**Effectiveness/Impact**
- EQ 1A: To what extent have the operational objectives as laid down in Article 2 of the Agreement been achieved?
- EQ 1B: What has been the impact of the Agreement?
- EQ 2: What are the factors influencing (either positively or negatively) the achievement of the Agreement’s objectives?
- EQ 3: Has the Agreement had unintended (positive or negative) consequences, and if so, which ones?

**Efficiency**
- EQ 4: To what extent has the Agreement been efficient in achieving its objectives?
- EQ 5: To what extent are the costs associated with the Agreement proportionate to the benefits it has generated? Is the distribution of both costs and benefits proportionate among different stakeholder groups and interests?
- EQ 6: Are there unnecessary regulatory costs (including administrative burden)?

**Coherence**
- EQ 7: To what extent has the Agreement been coherent with the EU’s trade and development policies and with the EU’s commitment to sustainable development in trade policies in helping to achieve the SDGs?

**Relevance**
- EQ 8: To what extent do the provisions of the Agreement continue to be relevant to address the current trade needs/ issues of the EU and CA?

The evaluation study’s methodological approach was to determine the Agreement’s effects by comparing the present situation in which the Agreement between the Parties has been applied since 2013 with a hypothetical situation in which the Agreement is assumed not to have taken place. For the latter, the computable general equilibrium (CGE) model assumes a baseline in which Costa Rica and Panama would have graduated from two EU schemes: (i) the Generalised System of Preferences (GSP); and (ii) the special incentive arrangement for sustainable development and good governance under the European Union’s Generalised Scheme of Preferences. The model assumes that Costa Rica and Panama would have left these two schemes and would have moved to trading with the EU on most-favoured-nation (MFN) terms if there had been no trade agreement in place. Hence, for Costa Rica and Panama, the estimated impacts are large as they compare MFN tariffs with trade liberalisation under the EU-CA FTA. The remaining four countries (Guatemala, El Salvador, Honduras, and
Nicaragua) are modelled as continuing to be beneficiaries of the EU’s GSP+ arrangement\(^3\) in the counterfactual scenario, in line with the situation before 2014. Thus, the major difference for these four countries is with respect to trade tariffs in sugar and bananas (see Section 2.2.1 for a detailed analysis).

Economic model simulations\(^4\) have been a key source of evidence for assessing the quantitative trade and economic effects of the Agreement. These simulations were based on official trade and economic statistics. These statistics were complemented with official economic and trade data from the partner countries, and these economic and trade data also constituted the basis for the quantitative analysis of the Agreement’s social effects. The evidence for the qualitative analysis came from existing studies, official documents, and position papers from official sources, interested parties, and stakeholders\(^5\).

Another important source of information for the evaluation study was the many interviews with stakeholders from the EU and CA. These stakeholders enabled the evaluation team to receive additional information and data, close knowledge gaps, and further understand the Agreement’s impacts. The interviews also made it possible for the evaluation team to: (i) understand how the institutions set up under the EU-CA FTA worked; (ii) understand the situation in sectors involved in trade between the Parties; and (iii) collect recommendations on how to improve implementation of the Agreement. In total, representatives of 104 EU and CA institutions and organisations were interviewed for the evaluation study. Due to the circumstances created by the COVID-19 pandemic, most of the interviews and regional seminars were held virtually. However, to ensure sufficient coverage across stakeholder groups, in particular in CA, some interviews (e.g. with local SMEs) were conducted either: (i) by phone by local members of the evaluation team based in CA; or (ii) indirectly where the evaluation team relied upon intermediation by other CA stakeholders.

In many cases, the interviews were held individually, but some group discussions were also held (e.g. a regional meeting with representatives of the sugar sector, or meetings with representatives of ministries from CA countries implementing the part of the Agreement related to trade and sustainable development (TSD)). The study team ensured a balanced representation of stakeholders – covering all parts of the analysis – across governmental and non-governmental actors, different sectors, and different types of stakeholders (e.g. business associations, trade unions, NGOs, and others). The interviews provided valuable insights and were complemented by written comments and additional information shared by EU and CA stakeholders, governments, and civil society organisations through the EU’s public-consultation website. The consortium charged with carrying out the evaluation study also

\(^3\) The EU has granted trade preferences to developing countries under its scheme of generalised tariff preferences since 1971. It is compliant with World Trade Organization (WTO) requirements, in particular with the Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (the ‘enabling clause’), adopted under the General Agreement on Tariffs and Trade (GATT) in 1979, under which WTO members may accord differential and more favourable treatment to developing countries. The EU scheme is adapted to different categories of developing countries defined by the World Bank (least developed countries benefit from the EU’s ‘everything but arms’ scheme which involves tariff-free access to the EU market). Lower-middle-income countries can benefit from the standard General System of Preference (GSP) with partial reduction of tariffs or the GSP+. The GSP+ is a special incentive that reduces most tariff duties in exchange for committing to implement 27 international conventions related to labour and human rights, environmental and climate protection, and good governance. Graduation to a higher-country category is assessed by UNCTAD.

\(^4\) The economic model simulation was prepared by the European Commission (DG TRADE).

\(^5\) All sources used are provided in the main evaluation report and its annexes prepared by the consortium.
developed a project website, edited a newsletter, and used social networks to reach out to all interested stakeholders.\(^6\)

The final report\(^7\) of the consortium’s evaluation study is a source of useful information and economic analysis but does not represent the Commission’s views. Instead, the Commission services present their assessment of the consortium’s findings and conclusions in the subsequent sections of this staff working document.

---

\(^{6}\) Link to the consultant website: [Home (fta-evaluation.eu)](https://fta-evaluation.eu).

2. WHAT WAS THE EXPECTED OUTCOME OF THE INTERVENTION?

2.1 Description of the intervention and its objectives

The Agreement was signed in 2012, with the trade pillar of the Agreement entering into provisional application with: (i) Honduras, Panama, and Nicaragua on 31 July 2013; (ii) Costa Rica and El Salvador on 1 October 2013; and (iii) Guatemala on 1 December 2013. The Agreement gradually opens market access for both Parties (i.e. the EU on the one hand and CA partners on the other) and increases the stability and predictability of the trade and investment environment. The Agreement is one of the EU’s first ‘new generation’ trade agreements, characterised by its comprehensive scope that covers – in addition to liberalisation of trade in goods and services – investment, public procurement, competition, intellectual property rights (IPRs), and TSD. These ‘new generation’ trade agreements aim to go further than the commitments taken by the Parties under the WTO. The remaining political and cooperation pillars of the Agreement are still not in application pending the completion of the ratification process by all the EU Member States.

Moreover, further to Croatia’s EU accession, the EU and CA negotiated a protocol on Croatia’s accession to the Agreement, which was signed in November 2020 (Joint Communiqué, 2020). This protocol will allow Croatia to formally become part of the EU-CA FTA once it is ratified by all CA partners.

The objectives of the trade pillar are outlined in Article 78 of the Agreement and are as follows:

1) facilitating trade in goods and the expansion and diversification of trade by reducing tariffs and non-tariff barriers;
2) liberalising trade in services;
3) creating an environment favourable to investment;
4) promoting free and undistorted competition;
5) effectively protecting IPRs;
6) gradually and reciprocally opening public-procurement markets;
7) promoting trade in a way that contributes to sustainable development;
8) promoting economic regional integration in CA;
9) establishing a fair and predictable mechanism for dispute settlement.

The extent to which these nine objectives were attained is assessed in Section 4.1.

Further details on the objectives and their connections to multiple shared outcomes and impacts are described in Figure 1: Intervention hypothesis of the trade pillar of the EU-CA Association Agreement (see Annex II of this document on methodology). They will be discussed in greater detail in Section 4.2.

2.2 Points of comparison

Two points of comparison are highlighted below in the following two sections: 2.2.1 and 2.2.3. The first point of comparison is the methodological approach of comparing: (i) the bilateral trade relations between the EU and CA with an agreement in place for the first 6

---

8 The Agreement has still not been ratified by Belgium.
years of its application; with (ii) a counterfactual situation in which no Agreement was signed. The second point of comparison is a comparison of the expected results stemming from the ex-ante analysis of the impact of the Agreement (carried out by a sustainable impact assessment in 2009) with the observed results of the current ex-post evaluation (2022).

2.2.1 The methodological approach: the tariff baseline and its evolution

The evaluation’s methodological approach was to determine the Agreement’s effects by comparing the present situation (where the Agreement between the Parties has been applied since 2013 in CA) with a counterfactual situation (where the Agreement is assumed not to have taken place). Therefore, the counterfactual scenario (no agreement with the EU) in the CGE model assumes the following.

Firstly it assumes that Costa Rica and Panama would have graduated from the EU GSP/GSP+ schemes and moved to trading with the EU on MFN terms if there had been no trade agreement in place. Indeed, Costa Rica and Panama would have graduated from the GSP preferential tariff scheme after having reached the status of upper-middle-income country, further to the reform of the scheme introduced by the new GSP Regulation in 2014.

Secondly, it assumes that Guatemala, El Salvador, Honduras, and Nicaragua would have continued to be beneficiaries of the GSP+ arrangement in line with the situation before 2013.

Key comparative points

Overall, the economic effects related to the tariff liberalisation brought about by the Agreement remained moderate. Before the Agreement, five of the CA countries were part of the GSP+ scheme and Panama was a member of the GSP scheme, meaning that the EU already applied zero tariffs on the overwhelming majority of imports from 5 of the 6 countries. In contrast, tariffs imposed by the CA on EU exports were higher on several commodities before the Agreement, and these were progressively reduced – mostly to zero – during the evaluation period. For most traded goods, the tariff-liberalisation effects were larger for the EU than for CA.

More specifically, the trade-liberalisation effects and impacts for Costa Rica and Panama were higher across all dimensions of the analysis (i.e. economic, social, environmental, and human rights). Without the Agreement, Costa Rica and Panama would have run the risk of losing preferential access to EU markets and would instead have relied on trading under MFN tariffs, which would have reduced their trade flows with the EU. Thus for these two countries, the estimated impacts are larger as they involve comparing MFN tariffs with trade liberalisation under the FTA.

For Guatemala, El Salvador, Honduras and Nicaragua, the tariff-liberalisation effects were mostly concentrated in key exports under tariff-rate quotas, such as bananas, rum, and sugar.

---

9 See footnote 3 for more information on the GSP.
10 465 Central American tariff lines will remain dutiable at the end of the liberalisation period in 2027. This represents on average 5% of the tariff lines and 2.5% of the trade flow between the EU and CA (source: Factual presentation of the Association Agreement by the WTO secretariat WT/REG332/1 10 March 2022).
2.2.2 The 2009 sustainability impact assessment (SIA)

The negotiations for the Agreement were accompanied by an SIA, which was conducted and published in 2009. This was an ex-ante assessment based on economic modelling, causal chain analysis, and deep engagement with key stakeholders. It set out to investigate the likely economic, social, and environmental impacts of a potential multi-party trade agreement between the EU, its Member States, and the CA countries.

A direct comparison between the 2009 SIA and the present evaluation is difficult due to differences in both the applied methodologies and the extent to which the outcome of the negotiations (or its approximation) was known at the time of conducting the SIA. The SIA is a useful reference point, but it was written before the conclusion of the negotiations, and thus differs in its expectations from the level of liberalisation that was finally agreed. Conversely, the ex-post evaluation looks at how the Agreement has worked since it provisionally entered into force.

The SIA examined two modelled scenarios in order to investigate the likely expected impacts of a possible agreement. These two scenarios were labelled as a ‘comprehensive FTA’ and a ‘very comprehensive FTA’. The two scenarios were analysed from both a short-term and long-term perspective (the latter included a dynamic investment effect).

Key comparative points

The SIA of the EU-CA FTA was completed in 2009 and, overall, the ex-ante predictions were generally correct. The direction of the effects was estimated correctly, with minor exceptions. For some variables, the size of the effect was overestimated (CO2 emissions, exports) or underestimated. Furthermore, some of the causal chain effects were also correct, for example on: (i) land use for vegetables and fruits; (ii) wastewater for agriculture; and (iii) reductions in poverty levels.

The SIA correctly identified the main quantitative impacts of the Agreement on trade. These identified impacts include the increase in national income and wages. However, for the increase in national income, the ex-post evaluation analysis shows slightly less significant impacts. This is due to the modelling, which only captures tariff effects but not the changes in non-tariff measures, which are significant effects that the 2009 study included.

The main qualitative impacts identified in the SIA included economic, social and environmental impacts. The paragraphs below deal with each of these impacts in turn.

Economic impacts

The SIA correctly predicted that the fruit-and-vegetables sector would benefit the most from the Agreement. The ex-post analysis draws the same conclusion, demonstrating growth in this sector, particularly for Costa Rica and Panama.

Social impacts

On social impacts, the SIA predicted an increase in employment in all CA partner countries except for Panama (wage increases in Panama curtailed the expected growth in employment). The ex-post analysis confirms this prediction and points to job creation in three main areas: (i) in the sugar sector across the region; (ii) in the fruit-and-vegetables sector (mostly in Costa
Rica and Panama); and (iii) in the textiles sector in Panama. The SIA also correctly predicted an increase in wages in all CA partner countries except for Panama, as well as a reduction in poverty levels across the region.

Environmental impacts

On the environmental impacts, and as mentioned before, the SIA overestimated the negative greenhouse-gas (GHG) and CO$_2$ effects produced by the Agreement. However, it made several other correct predictions including: (i) increased land-use pressure, especially because of growth in the fruit-and-vegetables sector; and (ii) impacts on water consumption and pollution, particularly due to the increased use of pesticides and fertilisers. The CA partner countries have indeed experienced increases in deforestation and pressure on biodiversity and the environment in recent years. However, the effect of the Agreement on these trends is not entirely clear, but it is expected to be limited.
3. HOW HAS THE SITUATION EVOLVED OVER THE EVALUATION PERIOD?

Trade in goods

The ex-post evaluation shows that the Agreement led to an increase in bilateral trade in both directions during the evaluation period. Aggregate EU exports rose by 40% from EUR 5.3 billion in 2010 to EUR 7.4 billion in 2019, mainly due to increases in exports of machinery, cars, medicines, and medical equipment. EU imports from CA rose by 31% from EUR 5.1 billion in 2010 to EUR 6.7 billion in 2019, with EU imports of fruit, vegetables and sugar being the main contributors to this increase. The Agreement facilitated an increase in EU-CA total trade of 35% from EUR 10.4 billion to EUR 14.1 billion.

On bilateral trade balances, the EU had a trade surplus with CA for most years after the implementation of the Agreement (although the size of this surplus fluctuated from year to year). In fact, except for Costa Rica and Honduras, the EU ran trade surpluses with all CA partner countries in the six-year period from 2013-2019 covered by the evaluation. Overall, the EU trade balance was negative (i.e. in deficit) in 2012 by EUR 330 million but improved to a EUR 787 million surplus in 2019. Over time, the EU’s negative trade balance with Costa Rica has reduced in size. Of the six CA countries, Panama has the largest trade deficit in goods with the EU (but note that Panama has a trade surplus in services with the EU).

Trade flows by country

Costa Rica: EU exports show an increase of 50% between the period before the Agreement and the period in which the Agreement was in application. On average, EU exports to Costa Rica were worth EUR 1.0 billion a year before 2013 and have grown to EUR 1.5 billion a year on average since the Agreement was signed. The roughly 50% increase in EU exports was mainly due to increased exports of medicines, medical equipment, and cars. EU imports from Costa Rica have remained roughly unchanged by the Agreement at around EUR 3.0 billion, while fluctuating slightly throughout the years.

El Salvador: EU exports increased from roughly EUR 0.6 billion a year before the start of application of the Agreement to a peak of EUR 1.0 billion in 2018. EU imports from El Salvador remained unchanged by the Agreement at EUR 0.2 billion a year.

Guatemala: Annual EU exports to Guatemala rose by 50% due to the Agreement, increasing from EUR 0.9 billion in 2010, with yearly consecutive increases (except for 2016) to EUR 1.3 billion in 2019. EU imports originating from Guatemala almost doubled thanks to the Agreement, rising from roughly EUR 0.5 billion a year before 2013 to about EUR 1.0 billion a year after the Agreement came into application. This increase came from increased imports of vegetable oils (such as palm oil, imports of which are worth EUR 150 million a year), edible fruits (e.g. bananas and other fresh fruits, worth a combined EUR 47 million in annual imports) and rums and spirits (worth EUR 16 million in annual imports).

Honduras: EU exports to Honduras declined in 2013 to EUR 0.4 billion, and then increased to EUR 0.6 billion a year in the following years. EU imports from Honduras fell to EUR 0.6 billion in 2013 but subsequently increased by over 50%, with EU imports reaching EUR 1.1 billion annually after the Agreement.
Nicaragua: EU exports to Nicaragua have remained mostly unchanged by the Agreement but saw a slight increase of 20% between 2015 and 2017, similar to the annual increase seen in imports. EU exports and imports with Nicaragua both remained largely unchanged during the period and were worth between EUR 0.2 billion and EUR 0.3 billion a year.

Panama: EU exports to Panama peaked in 2013 at EUR 2.9 billion, and then declined in subsequent years, reaching EUR 2.1 billion in 2016. This was followed by a strong increase to EUR 2.8 billion in 2017-2019. EU imports from Panama spiked in 2013 to EUR 0.7 billion, with a fall in the following year to EUR 0.5 billion, followed by gradual increases to reach EUR 0.8 billion in 2019. The volatility in EU trade with Panama was due to a combination of increases in EU imports of bananas (up EUR 63 million between 2014 and 2019) and a decrease in Panama imports of vessels (down EUR 89 million between 2014 and 2019). The decrease in imports of vessels can significantly affect trade in a single year.

The EU’s trade position compared with other international trading partners
The relative share of the EU in CA exports has grown from 21.7% in 2010-2013 to 24.4% in 2014-2019. This is a significant increase, solidifying the EU’s second place as an export market for the CA countries after the US. The growing importance of the EU as an export destination for the CA countries comes at the expense of the US (whose share of the region’s exports has fallen from 71.4% to 70.5%) and China (whose share has fallen from 4.6% to 3.8%).

Trade in services
Trade in services is important for the CA partner countries and constituted 40% of their total trade with the EU in 2019. The EU is the second largest services trading partner of the CA partner countries after the US. It accounts for a fifth of CA commercial-services exports and 17% of commercial-services imports. CA partner countries’ commercial-services exports to the EU registered a 73.4% increase from EUR 3.3 billion a year on average over 2010-2013 to EUR 5.7 billion a year on average over 2014-2019. On the imports side, CA partner countries’ imports from the EU registered a 61.5% increase from EUR 1.5 billion a year on average over 2010-2013 to EUR 2.5 billion a year on average over 2014-2019. However, CA-EU bilateral trade in commercial services accounted for only 0.6% of total extra-EU exports and 0.3% of total extra-EU imports in 2019. CA partner countries’ commercial-services exports to the EU are concentrated in travel; transport; other business; manufacturing; ICT; and financial services. Meanwhile, CA partner countries’ commercial-services imports from the EU are dominated by transport and travel services.

EU investment in CA
EU foreign investment in the CA partner countries has been very volatile. After the Agreement came into application in 2014-2019, EU flows of foreign direct investment (FDI) increased for all CA partner countries, notably for Panama and Costa Rica. Panama continued to receive the greatest amount of EU FDI, reaching EUR 10.331 million (20% of total FDI received by CA) in 2019, whereas Costa Rica received EUR 9.594 million (25% of total FDI received by CA) in 2019. Because investments are related to long-term stability and legal predictability, and because in 2013 investment flows changed, this can in part be attributed to the EU-CA FTA. Also, for Guatemala, the flow of EU FDI increased to EUR 3.395 million (22% of total received) in 2019. For El Salvador, FDI increased from EUR 671 million (11% of total received) in 2013 to EUR 1.050 million (12% of total received) in 2019. In contrast,
while the average annual flow of EU FDI in the 2014-2019 period was 39% higher than in the 2008-2013 period, Honduras’ EU FDI flow dropped from EUR 3 558 million (47% of total received) pre-FTA in 2013 to EUR 1 739 million (11% of total received) in 2019. Similarly, but to a lesser extent, inflows of EU FDI into Nicaragua dropped to EUR 602 million (20% of total received) in 2019, although they rebounded from an even sharper drop of as low as EUR 232 million (10% of total received) in 2016.
4. EVALUATION FINDINGS (ANALYTICAL PART)

4.1 To what extent was the intervention successful and why?

As mentioned in Section 1, the ex-post evaluation replies to the eight evaluation questions (EQs) related to the four evaluation criteria of effectiveness, efficiency, coherence, and relevance\(^{11}\). The extent to which the following EQs have been achieved is summarised in the following section.

- **EQ 1A**: To what extent have the objectives as laid down in Article 2 of the Agreement been achieved?
- **EQ 2**: What are the factors influencing (either positively or negatively) the achievement of those objectives?
- **EQ 3**: Has the Agreement had unintended (positive or negative) consequences, and if so, which ones?

4.1.1 EFFECTIVENESS: Achievement of the Agreement’s objectives (EQ1)

1- Implementation of tariff liberalisation (JC 1.1)

This paragraph intends to respond to judgement criterion 1.1: *To what extent has implementation of the Agreement’s trade pillar led to the expansion and diversification of trade in goods between the Parties, through the reduction or the elimination of tariff and non-tariff barriers to trade?*

a) Effects on the EU-CA bilateral trade in goods

Evidence shows that there has been an increase in EU bilateral trade with CA, which has been beneficial for both regions. The trade volumes have been balanced (i.e. roughly equal values of imports and exports) over the years. It is also a complementary trade, with the main benefits accruing to sectors where the respective Party has a comparative advantage (CA exporting mostly agricultural products and the EU exporting mostly manufactured products). The EU remains the second largest destination for CA exports, after the US and is the third largest supplier of CA (behind the US and China).

Evidence also shows that EU exports have been driven by two factors. Firstly, the EU-CA FTA effectively liberalised tariffs previously imposed on EU exports (although the CA partner countries already enjoyed GSP+ and GSP preferential access). Secondly, the reduction in non-tariff measures (e.g. customs, technical barriers to trade (TBT) regulations) facilitated trade.

---

\(^{11}\) Section 4 on the findings of the evaluation should be read in conjunction with: (i) Section 1, p. 6 (as well as Annex II) which explain the relationship between the overall evaluation criteria and the specific evaluation questions to be investigated and answered; and (ii) Annex III, which relates the specific evaluation questions to three things: the applied judgement criteria; the analytical tasks expected to be performed in order to investigate the specific evaluation criteria; and the sources of evidence for the investigative work.
i) Regional bilateral trade effects

- EU imports from CA rose by 31% from EUR 5.1 billion in 2010 to EUR 6.7 billion in 2019, in part because of the increase in EU imports of fruits, vegetables and sugar.

- Aggregate EU exports to CA rose by 40% from EUR 5.3 billion in 2010 to EUR 7.4 billion in 2019 (except for Panama), mainly due to increases in exports of machinery, cars, medicines, and medical equipment.

- The relative share of the EU in total CA imports remained fairly stable over the 2010-2019 period. There was a small increase in imports from the EU – but mostly for 2013 and 2014, after which the EU share marginally declined again. The impact of the EU-CA FTA on the share of CA imports taken by the EU and others is small and came mainly at the expense of the share taken by China.

The share of CA imports accounted for by the US increased from 52.6% to 53.4% between 2010-2013 and 2014-2019. This could be the result of the CAFTA-DR that entered into effect in January 2006 for all of CA except Costa Rica. Meanwhile, the share of CA imports accounted for by China declined from 28.1% on average to 26.7% between 2010-2013 and 2014-2019. This is perhaps not surprising given that Costa Rica is the only CA country to have an FTA with China.

- Some of the main EU exports to CA countries that benefit from the Agreement (depending on the CA partner country) include other manufactured goods, chemicals, machinery, motor vehicles, textiles, and electrical equipment.

- Some of the main EU imports from CA countries that benefit from the EU-CA FTA are bananas, coffee, palm oil, and crustaceans. The CA imports to the EU which declined the most between 2010-2013 and 2014-2019 are electrical switches, medicines, jerseys, petroleum oils, and ships.

ii) Sectoral bilateral trade effects

The economic modelling assumes (as a counterfactual scenario) that 4 out of the 6 CA countries (all except Costa Rica and Panama) would have benefited from GSP+ preferences in the absence of an FTA. Changes in trade flows attributable to the Agreement may therefore be relatively limited and are likely to be concentrated in sectors (such as sugar or fruits (especially bananas) and vegetables) where the terms of trade under the EU-CA FTA were better than those available under the GSP+. In this context, the model suggests the following conclusions for each of the 6 CA countries.

- In Costa Rica, the Agreement has led to the highest increases in exports to the EU for fruits and vegetables (a EUR 263 million increase, up 21% between 2010 and 2019), processed food (EUR 50 million increase, up 68%), sugar products (EUR 31.5 million increase, up 705%).

- In Guatemala, the largest increases in exports to the EU are estimated for the sugar sector (up EUR 32 million or 190% between 2010 and 2019), with a slight increase in exports of other agricultural products (7.8%).
• For El Salvador, the main increase in exports is estimated for the sugar sector (up EUR 18.6 million, or 224% between 2010 and 2019).

• Similarly, the largest increase in exports estimated for Honduras is estimated as being in the sugar sector (an increase of EUR 17.3 million, up 257% between 2010 and 2019). Exports of processed foods also increased moderately (an increase of EUR 4.1 million, up 7%).

• For Nicaragua, the increase in exports was concentrated in two sectors: sugar (an increase of EUR 43.3 million, up 582%) and processed food (an increase of EUR 6 million, up 5.3% between 2010 and 2019).

• In Panama, the largest increases in sectoral exports are estimated to have been in manufactured goods (an increase of EUR 89.2 million, up 99% between 2010 and 2019), followed by fruits and vegetables (an increase of EUR 45 million, up 745%), other agricultural goods (an increase of EUR 24.4 million, up 51%) and processed food (an increase of EUR 18.2 million, up 41%).

b) Impact of the Agreement on the diversification of trade

The available evidence shows that trade diversification occurred thanks to the Agreement. Although diversification can be identified at microeconomic level (i.e. at the level of products and individual firms), it is not noticeable at a macroeconomic level, with the exception of Costa Rican exports of medical equipment, which became the largest exporting sector in the country.

- Currently, EU-CA trade is concentrated in terms of both the products exported and the companies involved in exporting. Greater product diversification among a broader range of companies would make the participating economies more resilient. When counting the total number of products exported and imported, evidence shows that both import numbers and export numbers have increased between the 2010-2013 and 2014-2019 periods, suggesting greater trade diversification in the composition of bilateral trade since the implementation of the Agreement.

- Using the Herfindahl-Hirschman Index (HHI) as a measure of the concentration of exports and imports, evidence shows that:
  • EU exports to the CA region are more diversified than CA exports to the EU;
  • the HHI of CA exports to the EU declined between 2010 and 2019 from 0.11 in 2010-2013 to 0.08 in 2014-2019, but the HHI of CA imports from the EU (already very low) has not declined further (this implies that the concentration of CA exports to the EU has decreased since the start of the application of the Agreement, which is in turn an indication that CA exports to the EU have diversified);
  
at the level of individual countries, the HHI was lower in the post-FTA period than in the period before the Agreement came into application.
c) Impact of the EU-CA FTA on trade facilitation in CA countries and engagement in global supply and value chains (GVCs).

Evidence shows an overall trade increase for the CA region and that the Agreement has facilitated trade. The CA countries did not report any increase in their exports of GVC-based products in the aftermath of the Agreement, and this suggests that they need to become more integrated in regional value-chains in the Americas.

d) Contribution of the Agreement to the diversification of sources of supply of goods for EU and CA. Comparison of goods imports from CA countries to the EU with imports to the EU from other non-EU countries.

Overall, the analysis found that the Agreement has had no noticeable impact on the sources of supply of imports to the EU. However, there has been a marginal effect on diversification of sources of supply when considering specific products where the Agreement has had a relatively large impact, such as coffee from Honduras or palm oil from Guatemala.

- Evidence shows that the Agreement has had no overall impact on the sources of supply of CA imports to the EU. There has been a marginal effect on diversification of sources of supply looking at specific products where the Agreement has had a relatively large impact. Firstly, it has had an effect on supplies of coffee: an increasing share of Honduran coffee in EU coffee imports has led to some supply diversification for EU imports. Secondly, the Agreement has had an impact on the share of EU imports of palm oil from Guatemala, which increased significantly in the period after the Agreement, even though overall EU palm-oil consumption has remained constant. Although Guatemala gained market share in palm oil, this has come mainly at the expense of Indonesia and Malaysia which reduced their overall levels of production.

- For sugar, the marginal increase in the share of sugar from CA in EU sugar imports represents a modest increase in supply diversification, but it is not large enough to have created trade diversion from other regions.

e) Investigation of the Agreement’s impact in encouraging companies to start to export or to increase the range of their exported products

Partial data show that the number of Costa Rican companies exporting to the EU remained stable as a result of the Agreement, while the number of EU companies exporting to CA increased greatly (48,000 companies in 2019 compared to 27,000 companies in 2014 up 76%, figures for 16 Member States).

For Costa Rica, the limited data suggest a relatively stable (20%-25%) number of companies exporting to the EU for the first time in a given year as a share of the total number of companies exporting to the EU. Also, the total number of companies exporting to the EU remained relatively stable between 2010 and 2019 at roughly 550-570 for most of this period. The number of enterprises exporting to the EU as a share of the total number of exporters is 14%-15% higher in Costa Rica since the Agreement’s entry into force, 10.5% higher in El Salvador, and 8.1% higher in Honduras. Evidence shows that the number of Costa Rican micro, small and medium-sized enterprises (MSMEs) exporting to the rest of the world increased in number by 57% from 2008 to 2017 (up from 1,268 to 1,997). This increase was
helped by three things: (i) the trade agreement Costa Rica concluded with the US (a third of Costa Rican exports on average go to the US); (ii) the regional integration process (28% of Costa Rican exports go to other CA countries); and (iii) the EU-CA Association Agreement (10%-13% of Costa Rican exports on average went to the EU during the period under review).

Only partial data are available on EU companies exporting to CA. The figures available for 16 Member States show that there was a systematic increase for most EU Member States in the number of companies exporting to CA in each year over the period following entry into force of the EU-CA FTA. However, for a few Member States, there was a fall in the number of exporters.

2. Facilitation of trade in goods (JC 1.2)

This section intends to respond to judgement criterion 1.2: *To what extent has implementation of the trade-pillar led to the facilitation of trade in goods through, in particular, the agreed provisions on: (a) customs and trade facilitation, standards, technical regulations, and conformity-assessment procedures; and (b) sanitary measures, and phytosanitary measures?*

a) Customs, rules of origins, and trade-facilitation provisions

| Overall, customs provisions have been implemented without any major issues, and the administration of customs rules has mostly been in line with the Agreement. However, the evaluation identified two areas for improvement: (i) raising awareness of businesses of the measures in the Agreement related to customs and trade-facilitation; and (ii) clarifying the application of the direct-transport rule. |

| Customs issues seem to have posed few problems in the implementation of the Agreement. The administration of customs rules by the customs authorities has mostly been in line with the Agreement’s provisions. Moreover, progress has generally been made on issues raised at the Subcommittee on Customs, Trade Facilitation and Rules of Origin, set up under the Agreement to resolve issues between the Parties. |

| Areas identified for improvement include: (i) a stronger focus on raising the awareness of businesses of the measures in the Agreement related to customs and trade-facilitation; and (ii) clarifying the application of the direct-transport rule. Additional measures will be of use for all traders. These additional measures include: (i) making the Agreement more transparent for businesses; and (ii) more detailed guidance about the application of certain EU-CA FTA provisions. These additional measures would be of particular benefit for small businesses, for which the administrative burden is usually higher than for other businesses. |

b) Implementation of the sanitary and phytosanitary (SPS) measures

| There have been some SPS issues, such as ‘trade irritants’ identified by the EU, and the concern among CA countries about the EU revision of maximum residue levels (MRLs) |
for pesticides. However, continuous dialogue and technical assistance are starting to pave a way forward for these issues.

The SPS provisions of the EU-CA FTA are continuously updated and set out in the same way as in other standard trade treaties, like those found in most EU and other regional trade agreements. There are nevertheless some limitations in these provisions. These limitations are set out in the three bullet points below.

- The SPS Subcommittee has no mandate to change substantive standards and regulations.
- The market shares for many CA agri-food products on the EU market concerned are relatively small. Provisions of the Agreement on practical measures have been used to facilitate trade between the EU and CA (e.g. the approval of trade in products of animal origin through pre-listing (approval of lists of establishments)).
- There are dissenting views about the interpretation of multilateral standards among members of the SPS Subcommittee. This includes, for example, concerns raised by CA countries about the EU revision of MRLs for pesticides. On several ‘trade irritants’ identified by the EU, including measures linked to animal and plant health (recognition of regionalisation for animal diseases) and the implementation of pre-listing, the CA Parties continue to fail to find a solution. Nonetheless, technical assistance and continuous dialogue on SPS have started to show a way forward for some of these problems.

3. Facilitation of trade in services and investment (JC 1.3 and JC 1.5)

This paragraph intends to respond to two judgement criteria. The first is judgement criterion 1.3: To what extent has implementation of the Agreement’s trade pillar led to the liberalisation of trade in services in conformity with Article V of the WTO’s General Agreement on Trade in Services? The second is judgement criterion 1.5: To what extent has the implementation of the Agreement’s trade pillar led to the development of: (i) a climate conducive to increased investment flows; (ii) the improvement of the conditions of establishment between the Parties on the basis of the principle of non-discrimination; and (iii) the facilitation of trade and investment among the Parties through current payments and capital movements related to direct investment?

a) Evolution of the bilateral trade in services

- The FTA does not provide for further preferential liberalisation of services sectors. Instead, it seeks to make existing trade openness/commitments more ‘binding’. Nevertheless, there was an increase in the value of EU-CA bilateral services trade after the Agreement began to be implemented.
- There is no dedicated subcommittee on trade in services under the Agreement. Discussions on services take place in the Association Committee and only on an ad hoc basis.

The economic modelling analysis does not capture services liberalisation directly, but only indirectly through the Agreement’s impact on the agricultural and manufacturing sectors. The FTA does not provide for preferentially opening up services sectors. Instead it provides for an

---

12 The maximum residue limit (also maximum residue level, MRL) is the maximum amount of pesticide residue that is expected to remain on food products when a pesticide is used according to label directions that will not be a concern to human health.
increase in legal certainty by ‘binding’ the level of existing trade openness to ensure that trade does not become less open. Nevertheless, there was an increase in the value of EU-CA bilateral services trade after the Agreement began to be implemented.

Unlike in other areas covered by the Agreement, the Parties have not maintained regular dialogue on facilitating trade in services. There is no dedicated subcommittee on trade in services under the Agreement, and discussions on trade in services take place in the Association Committee and only on an ad hoc basis.

b) Evolution of FDI

- Evidence shows that, because investments are related to long-term stability and legal predictability, and because investment flows increased in CA in 2013, a link can be made between increases in FDI and the Agreement. The Agreement has indeed led to greater FDI.
- The EU remains the second largest investor (after the US) in most CA partner countries, and it is the largest investor in both Panama and Nicaragua.
- The study shows that the decline in FDI, in particular in Honduras and Nicaragua, is not related to the Agreement but rather to these two countries’ investment climate and their political instability.

- The available data on FDI flows indicates that Panama and Costa Rica saw a steady and gradual increase of EU FDI flows since the Agreement began to be implemented. This increase was particularly strong in the services and manufacturing sectors. FDI flows for Guatemala also increased, while the development of EU FDI in the other CA partner countries remained generally unchanged by the Agreement. Compared to the period before the start of the application of the Agreement, it seems that the Agreement has had a small positive impact on flows of EU FDI. The EU remains the second largest investor (after the US) in most CA partner countries, while it is the largest investor in Panama and Nicaragua. China’s FDI flows in the region remain negligible so far.

- In general, EU FDI flows into the CA partner countries as a percentage of the EU’s total FDI flows is about 0.3%, while outward flows of FDI from the CA partner countries into the EU have remained negligible. When comparing the investment climate internationally by using international rankings, it appears that most CA partner countries have experienced deteriorations in their levels of competitiveness in recent years, except for Costa Rica and El Salvador. When analysing the drivers for the decline in EU investment in Honduras between 2017 and 2018, this can be explained by the political instability that prevailed following the 2017 disputed elections, which also resulted in widespread protests. Similarly, but to a lesser extent, the recent decline in EU investment in Nicaragua may also be linked to political factors.

4. Implementation of trade-related issues (JC 1.6, JC 1.7, 1.8)

This paragraph intends to respond to three judgement criteria. The first is judgement criterion 1.6: To what extent has implementation of the Agreement’s trade pillar led to the effective, reciprocal, and gradual opening of the public procurement markets of the Parties? The second is judgement criterion 1.7: To what extent has implementation of the Agreement’s trade pillar led to the adequate and effective protection of IPRs, in accordance with international obligations in force between the Parties, so as to ensure the balance between the rights of the right-holders and public interest, taking into consideration the differences
between the Parties and the promotion of technology transfer between the regions? The third
is judgement criterion 1.8: To what extent has implementation of the Agreement’s trade pillar
led to the promotion of free and undistorted competition in the economic and trade relations
between the Parties?

a) Implementation of the Agreement’s public-procurement chapter

- In accordance with Article 212 of the Agreement, a single point of access for public
procurement for CA was created at regional level in September 2022. This is an
important step towards further transparency in public procurement. Substantial efforts
remain to be made in the area of transparency (for example by improving the portal for
public procurement by adding transactional functions) and in facilitating the access of
suppliers to the government procurement markets of all Parties.

- The lack of data means that it is not possible for strong conclusions to be drawn on the
impact of the Agreement’s public-procurement chapter. There have so far been very few
CA firms bidding in the EU public-procurement market, while clear conclusions cannot
yet be reached on EU participation in CA public tenders. The Ad hoc Committee on
Public Procurement has extensively discussed the issue of the lack of government
procurement data. Some CA countries face difficulties in obtaining data on public
procurement.

b) Implementation of other areas of the trade pillar

Overall, the level of protection and enforcement of IPRs has improved in the region
thanks to the Agreement. For instance, Panama acceded to the Patent Cooperation
Treaty to implement the IP chapter of the EU-CA Agreement. Acceding to the Patent
Cooperation Treaty was a requirement of the EU-CA Agreement.

Article 274 of the Agreement provides that the Subcommittee on Intellectual Property
will follow up on the implementation of the provisions on geographical indications. In
this area, the Subcommittee has played an important role in promoting and defending
geographical indications in CA and in the EU.

Where necessary, the Subcommittee has also discussed other provisions of the IP
chapter not mentioned in Article 274, considering that there are no identified IP-related
market-access barriers in the region.

On TBT issues, the EU could support the further development of domestic and regional
regulations in areas relevant for EU-CA trade.

Competition and e-commerce tended to be less discussed in the absence of a dedicated
subcommittee.

5. Promotion of regional economic integration in CA (JC 1.4)

This paragraph intends to respond to judgement criterion 1.4: To what extent has
implementation of the Agreement’s trade pillar led to the promotion of economic regional
integration in the area of customs procedures, technical regulations, and SPS measures to
facilitate the circulation of goods between and within the Parties?
a) Contribution made by the trade pillar to regional economic integration in CA

The Agreement helped to strengthen CA economic integration. Evidence shows that:
- intra-regional trade grew significantly between 2010 and 2019;
- significant progress was made in regional integration in areas such as customs, TBT, and standards;
- some other regional processes have been less successful (full harmonisation of the Regional Technical Central American Regulations (RTCAs), competition, or SPS regulatory measures).

- The Agreement should be placed in the context of efforts to strengthen regional integration through regional initiatives such as: (i) the Central American Common Market (1960); (ii); the Central American Free Trade Zone (1993); (iii) the single customs territory of the Northern Triangle; and (iv) the Customs Union Roadmap 2015-2014. Except for Panama, intra-regional trade grew significantly between 2010 and 2019. Panama’s absence from the overall picture of regional growth in trade can be explained both by it being relatively less integrated with the other CA economies and by the relative decline of Panama as a throughput hub. The INTEC project (between EU and CA partner countries) is considered important by stakeholders in driving regulatory and customs-procedure convergence.

- On the adoption of simplified customs procedures: (i) CA partners agreed to reimburse the double charging of tariffs on products sent from the EU to the region; and (ii) the single administrative document for customs declarations entered into force. Progress on TBT has supported regional integration via both harmonised regional import requirements and the approval of 21 out of 23 RTCAs (except for Panama). Nevertheless, the alignment of SPS regulatory measures has been limited (outstanding issues include different import authorisation requirements, a lack of regional certificates for approving establishments, and a lack of alignment on international standards).

- Meanwhile, CA partner-country alignment with the authorised economic operators secure-trade scheme is also supporting regional integration by acting as a common standard. CA partner countries have also agreed to adopt common provisions to prevent monopolistic activities and promote competition. In the future, greater progress on simplification of CA SPS measures and regulatory harmonisation of services trade across CA countries could facilitate more rapid economic integration within the region.

b) Effect of the Agreement on the geographical redistribution of wealth and income in CA countries

- The analysis shows that the Agreement has been associated with positive effects in the distribution of wealth – except for two capitals (San José, and San Salvador).

- The Agreement has led to both a reduction in inequality between capitals and the rest of the country and a reduction in the urban-rural wealth divide.

- Rural areas involved in producing and exporting agricultural commodities enjoyed an increase in employment and economic activity and a reduction in poverty.
Evidence shows that the Agreement has had positive effects on the regional distribution of wealth, income, and economic development. In all CA countries, regions that produce sugar, fruit (especially bananas), and vegetables saw an increase in employment and economic activity thanks to the Agreement. This has led to regionally concentrated effects in terms of output and employment. Except for San José, the capital of Costa Rica, and to a lesser extent San Salvador, the Agreement has also led to a reduction in inequality in CA countries between capital cities and the rest of the country.

- The Agreement has increased the comparative advantage of competitive sectors and, because of the changes in the geographical distribution of wealth and income, this has decreased spatial inequality. For Guatemala and Panama, an additional point to note is that increased trade with the EU (in both imports and exports) has also given a boost to ports (in Panama the Port of Colón, and in Guatemala the ports of Puerto Barrios and Puerto Sant Tomas) trading directly with Europe. Service activities have also increased in those ports. In Nicaragua, this comparative-advantage effect has led to the Pacific provinces benefiting most from the Agreement.

c) Effect of the Agreement on the Colón Free Trade Zone (CFZ)

Evidence shows a relative decline of EU trade via the CFZ, demonstrating that the EU-CA FTA has boosted trade between the EU and CA partner countries, which are using other ports in the region.

- Due to the Panama Canal, free-trade zones are very important for economic development in Panama: they account for 8.5% of Panama’s GDP and employ 18,000 people. Trade in goods through the CFZ, including trade in goods with the EU, has declined from 120,000 tonnes in 2010 to 110,000 tonnes in 2019. In volume terms, the EU’s share of imports to the CFZ has dropped, but in value terms it has increased. This suggests that the quantity of EU imports has declined in volume/weight, but that the value of these imports has gone up. When comparing the EU’s performance between 2012 and 2019, the share of imports to the CFZ from the EU increased from 7% to 10% in that period, while the shares for China and the US fell.

- One of the reasons for this decline in import volumes to the CFZ is that the Agreement has boosted trade between the EU and all CA partner countries. This means that the slowdown in trade between the CFZ and the EU is less severe than the slowdowns typically seen in free-trade zones when the EU concludes a trade agreement with countries neighbouring the free-trade zone. Although the CFZ is the main re-export hub in CA, other CA partner countries to the Agreement have increased their relative share of EU-CA trade since the Agreement was concluded. The main products traded via the CFZ are electrical machinery, pharmaceuticals, machinery, mechanical equipment, chemicals, footwear, and textiles. The CFZ has seen increased competition from other regional ports (e.g. Santo Tomás, Barrios) since the Agreement came into application.
6. Use of the dispute-settlement mechanism (JC 1.9)

This paragraph intends to respond to judgement criterion 1.9: To what extent has implementation of the Agreement’s trade pillar led to the establishment of an effective, fair, and predictable dispute-settlement mechanism?

The dispute-settlement system has not been used yet. Instead, the Parties have been able to resolve a number of issues by pursuing dialogue or other possible solutions, mostly: (i) within the bodies set up by the Agreement; (ii) bilaterally; or (iii) for SPS or TBT measures, under the WTO notification mechanisms and the related WTO committees.

- Title X of the Agreement covers the general dispute-settlement mechanism and outlines its related procedures, including panel’s establishment, panel’s rulings and panel’s rulings compliance. Title XI sets up a mediation mechanism for non-tariff measures, and this mediation mechanism covers the selection of a mediator, the applicable procedure, and the implementation of the agreed solution. In addition, the TSD title (in Articles 296-301) covers the dedicated dispute-settlement mechanism for the Title.

- Moreover, the institutional provisions related to the Association Committee include the ability to prevent and resolve conflicts (these provisions do not affect the provisions related to the dispute-settlement and mediation mechanisms). The Association Committee has been used in some cases as a forum to address and solve problems and has also provided: (i) an escalation route for matters not resolved at the Subcommittee meetings; and (ii) an alternative means of dispute settlement under the FTA or WTO proceedings, both of which would be resource-intensive and time-consuming. Issues of concern have been discussed so far by the relevant EU-CA FTA bodies and – as mentioned in the preceding sections – some of these issues of concern have been resolved fully or partially.

- Likewise, the Parties have not activated either the general or the TSD dispute-settlement mechanisms.

4.1.2 IMPACT of the Agreement (EQ 1B, EQ 2, EQ 3)

Going beyond the effectiveness of the Agreement in achieving its operational objectives, EQ 1B (‘What has been the impact of the Agreement?’) addresses the wider impact of the Agreement across the four main impact dimensions: economic, social, environmental, and the human-rights situation. The following sections do three things: (i) they summarise the main evaluation findings for each of these impact dimensions; (ii) they present the findings on the external factors that have influenced the effectiveness and impact of the Agreement (EQ 2); and (iii) they present the findings on any unintended effects of the Agreement (EQ 3).

1. Economic impact (JC 4.1)

This paragraph intends to respond to judgement criterion 4.1: What has been the economic impact of implementing the Agreement’s trade pillar?

a) Key macroeconomic impacts
Evidence shows the Agreement has had a limited positive impact for all Parties on their GDP and exports (both bilateral exports and overall exports). At the sector-level, the impacts are varied. Generally, sectors where a Party has a comparative advantage (such as manufactures, machinery, and chemicals for the EU; and fruit, vegetables, sugar, and textiles in the CA countries) benefit from the Agreement through increased bilateral exports, and vice versa.

b) Impact on the budgets of the EU and the partner countries

Evidence shows that, despite tariff revenue losses, total welfare changes as a result of the Agreement have been positive for all FTA partners. This is because the increase in economic activity for producers and lower prices for consumers outweigh any negative effect from the loss of revenues from the tariffs that were abolished by the FTA.

- The loss of revenues from tariffs that were previously in place for trade between the EU and CA were the largest for Guatemala. In relative terms, Guatemala previously received 14.0% of total tariff revenues for EU imports to CA. Guatemala is followed by Costa Rica, which lost 12.2% of the region’s tariff revenues. The loss of revenues from tariffs was the largest in absolute terms for the EU (which lost EUR 196 million in tariff revenues) and Panama (which lost EUR 114 million).
- Despite the loss of revenues from tariffs, total welfare changes have been positive for all FTA partners, because the increase in economic activity for producers and lower prices for consumers outweigh any negative effects from the loss of tariff revenue. More efficient collection of taxes like VAT and more equitable distribution of the proceeds of these taxes among a wider section of the population (through public spending on health, education, infrastructure, and employment generation) is likely to accentuate the positive welfare effects of the FTA.

Source: Ex post evaluation of the EU-Central America Association Agreement (p. 101).
c) Impact of the Agreement on the EU’s outermost regions (ORs)

- The overall impact of the Association Agreement on the ORs cannot be fully assessed with the available data from the ex-post evaluation.

- However, evidence shows that the EU ORs’ trade in bananas and specialty sugar\(^{13}\) is particularly sensitive to a combination of economic factors including CA exports to the EU of similar products. Further assessment would be needed to ascertain the possible impact of the Association Agreement on OR trade in bananas and speciality sugar.

- Comparing OR ‘exports’ to the EU with CA exports to the EU, the ex-post study could not fully establish that the EU-CA FTA had any direct impact on OR ‘exports’ to the EU with the available data.

- This assessment that the Agreement had no negative effect on OR ‘exports’ to the EU holds at the product-level (i.e. recreational boats, aircraft and spacecraft, fish and fishing activities, and crustaceans), with two exceptions: bananas (see section on bananas) and sugar. The small size of the ORs’ economies, their geographical situation, and their compliance with EU labour, environment and SPS standards keep their production costs high. These high production costs in turn increase the sensitivity of OR ‘exports’ to international competition on similar products including from CA.

- Although overall sugar exports from Guadeloupe and La Réunion do not seem to have been significantly impacted by the Agreement, competing exports from CA countries may have partially affected the subsector of high-value specialty sugar exports. The ex-post evaluation study estimates that CA exports of specialty sugars represent only 1.5% of the total EU sugar market.

d) Impact of implementing the Agreement’s trade pillar on developing countries, in particular on least developed countries (LDCs) and countries that have an economic partnership agreement (EPA) with the EU

The Agreement has had a negligible impact on LDCs and countries with EPAs with the EU at an economy-wide level. The sector-level effects have also been negligible, except for: (i) a marginally negative impact on the production of fruits and vegetables and on exports for both LDCs and countries with EPAs with the EU; and (ii) a marginally negative impact on sugar production for LDCs.

e) Impact on the tariff concession granted by the EU for imports of bananas

The FTA has improved CA market access for bananas into the EU, without creating noticeable price variations in the EU markets as reported by the banana stabilisation mechanism (2013-2019)

- Bananas are one of the most significant export products of CA countries, especially Costa Rica and Panama, but increasingly also Guatemala and Nicaragua. As part of the Agreement,

\(^{13}\) ‘Specialty’ sugars are white or brown sugars that have undergone transformation: brown sugar, candy sugar, liquid sugar, cubed sugar, sugar loaf, sugar for jams, sugar vanilla and wrapped sugar.
tariffs on CA banana imports dropped from EUR 145 per metric tonne in 2010 to EUR 75 per metric tonne in 2020. During the 2019 EU-CA Association Committee, the EU informed Central America that the tariff of EUR 75 per metric tonne applied to bananas would remain as it is and would not be reduced further. In parallel, a transitory banana stabilisation mechanism and a bilateral safeguard clause were agreed upon until 1 January 2020.

- As a result of the Agreement, the share of CA banana exports destined for the EU increased, as did the share of EU imports from CA (from 18.8% of all bananas sold on the EU market before the Agreement to 26.3% of all bananas sold on the EU market after the Agreement), even as the overall volume of the EU’s banana market grew over time. The increase in CA’s share of the EU banana market has not come at the expense of the African, Caribbean and Pacific countries, but instead was achieved by gaining market share from the Andean countries and the EU (including the EU’s ORs) in an expanding EU Banana market.

- The Agreement has led to an increase of 544 600 tonnes in CA banana exports to the EU, with Costa Rica and Guatemala benefiting most from the increased market access. Despite Nicaragua and Guatemala exceeding the intervention triggers for several years, the EU did not invoke the bilateral safeguard clause because the exceeded amounts were small in absolute terms (i.e. if Banana imports volumes from CA overcame certain threshold levels set out in the Banana stabilisation mechanism and destabilised EU banana market prices, the EU could suspend temporary tariff preferences). The Commission carried out an assessment of the situation of the EU banana market and EU banana producers after the expiry of the stabilisation mechanism for bananas. The report found that both POSEI (the scheme of specific measures for agriculture to benefit the EU’s ORs) and rural development programmes continued to support EU banana producers in the ORs and helped to preserve banana production in the EU in a context of increasing import volumes and competition from non-EU countries, including from CA. The Commission continues to monitor the EU banana market, including trade flows from the ORs to the rest of the EU.

f) Impact on the implementation of the trade pillar on MSMEs

- The lack of detailed data on SMEs made it difficult to link the EU-CA FTA with the increasing number of SMEs from the EU engaged in trade with CA. Partial evidence suggests the presence of CA MSMEs in trade with the EU in sectors including agriculture, food processing, textiles, and garments.

- Although the successful CA SMEs acknowledge the benefits of access to the EU market, they also face considerable challenges related to the business environment, traditional exporting processes, and finding information about the Agreement and the EU market in general.

- The available data suggest that an increasing number of MSMEs from the EU are engaged in trade with CA. However, the lack of detailed data from the period preceding the EU-CA FTA’s entry into force means it is not possible to draw a precise conclusion on the extent to which the Agreement has contributed to that growth.

- Although comparable data are not available for CA countries, partial evidence suggests CA SMEs trade with the EU in agriculture, food processing, and other sectors such as textiles, garments, cosmetics, and more. CA SMEs are also present in services sectors, e.g. tourism, healthcare, and beauty. However, CA SMEs face many challenges when exporting to the EU, including: (i) the high costs of transport and insurance; (ii) the high costs of shipping samples to potential buyers; (iii) difficulties in identifying potential buyers; and (iv) difficulties in
finding suitable distribution channels. CA SMEs find EU customers demanding and the diversity of culture and languages difficult to navigate. These latter issues do not fall under the remit of the FTA. Moreover, CA SMEs find the regulatory requirements and paperwork to be another challenge. Finally, there are sector-specific challenges, such as rules of origin in textiles and garments, or certifications for agricultural products.

- The successful CA SMEs acknowledge the benefits of access to the EU market, the wider customer audience it brings, and the opportunities for expansion that it brings. On the other hand, they admit that CA SMEs exporting to the EU face a double challenge: not only do they face the usual challenges related to exporting, but they must also overcome the difficulties created by the domestic business environment in CA (including difficulty accessing funding, cumbersome procedures related to setting up and managing a formal enterprise, and cumbersome procedures for getting all permits and licences).

- Finally, despite ongoing efforts by the EU, governments, export-promoting agencies, and business associations, the Agreement remains relatively little known to companies in both CA and the EU. There is still a need for capability-building activities and advisory services for CA SMEs willing to export to the EU, adapted to the requirements of the EU market.

- Evidence shows the positive role played by the CA SMEs that access the EU market in helping to formalise the CA economy (i.e. creating jobs where employees are taxed, paid through banks, and receive social-security credits for their work), increase revenues, and reduce poverty in CA (see more in the section on social impact below).

2. Social impact (JC 4.2)

This paragraph intends to respond to judgement criterion 4.2: What has been the social impact of implementation of the trade pillar?

a) Employment impacts of the Agreement

| Overall, the analysis suffered from an incomplete set of data. However, the available evidence suggests that lower levels of informal employment were achieved in CA provinces exposed to international trade and export activity. The available evidence also suggests that the Agreement has contributed to achieving SDG No. 1 (no poverty) and SDG No. 8 (full and productive employment and decent work for all). |

- The available evidence suggests that exports to the EU are likely to have contributed to the creation or maintenance of formal jobs mainly in rural areas in sectors such as: (i) bananas, pineapples, coffee and medical equipment in Costa Rica; (ii) tuna and (at least partly) sugar in El Salvador; (iii) coffee and (at least partly) sugar, palm oil and bananas in Guatemala; and (iv) coffee and (at least partly) sugar in Honduras and Nicaragua. However, in sectors such as coffee in El Salvador and Honduras, sugar across the region, or palm oil in Guatemala, there are many different job categories. These categories include permanent workers, workers directly employed by companies, sub-contracted workers, and temporary workers hired for the harvest season.

- This means that jobs in CA economies affected by the Agreement are likely to be both formal and informal, depending on the category. Exports to the EU may have contributed to maintaining or creating both formal and informal jobs, and this has a direct impact on the welfare of workers and their households. Moreover, evidence suggests that there are lower
levels of informal employment in the CA provinces exposed to international trade and export activity.

- Evidence provided by stakeholder engagement also suggests that sector associations (e.g. in the pineapple sector in Costa Rica, and in the coffee and sugar sectors in Guatemala) have adopted labour policies applicable to the whole sector or to certain parts of the sector. These labour policies often improve labour conditions and must be seen in the context of poor enforcement of domestic labour legislation and allegedly poor job quality in other parts of CA economies. Moreover, monitoring mechanisms already exist in some sectors that complement the work of inspection services to check compliance with the domestic legislation in exporting sectors or in parts of these exporting sectors.

b) Analysis of the Agreement’s impact on gender equality

Overall, the EU-CA FTA, supported by financial and technical assistance, has provided opportunities for job creation, business development, and exports. These opportunities may facilitate progress towards gender equality and the attainment of SDG No. 5 on gender equality. However, further efforts are needed to support women in their roles as workers, entrepreneurs, and traders.

- All CA countries have ratified the main international legal instruments related to women’s rights. They have also included the principles of these legal instruments in their national legislation. The CA countries have also adopted many different policy frameworks, either focusing on gender equality or including it (and women’s empowerment) as one of the aspects of employment policies.

- As a result of these and other factors, women’s participation in the labour market in the analysed period increased in four CA countries, while it fell in El Salvador and Guatemala. Challenges faced by women in accessing paid employment (these challenges may vary between countries and groups of women) include: (i) the level of education completed by women job seekers; (ii) the often-insufficient childcare facilities on offer; and (iii) the enduring traditional division of responsibilities between men and women. CA agriculture (benefiting from EU tariff reductions) provides jobs for between 3.2% and 12.0% of economically active women (depending on the country), and women represent a minority (from 10% to 30%) of workers in individual agricultural sub-sectors. Thus, although the EU-CA FTA may have contributed to job creation or job maintenance for both women and men, women represent a minority of the workers benefiting from the Agreement’s tariff reductions. The Agreement has also brought some gains for women in a limited number of industrial sectors, such as medical equipment (women represent 54% of workers in this sector in Costa Rica), processed food, including fisheries (women represent 86% of workers in one industrial group in the tuna sector in El Salvador) and textiles (in Panama).

- Although data on women exporters are limited, there is some evidence (e.g. in Costa Rica and older data from Nicaragua) of women-led businesses from CA exporting products to the EU that benefit from trade preferences, such as fruits and vegetables or processed food. Women producers have also participated in EU-funded projects to help develop: entrepreneurial skills, finance management, health and safety practices at work, compliance with labour and environmental standards, product certification, and preparation for export.
c) Analysis of impacts on consumers, welfare, and poverty levels

Overall, the analysis suggests that the Agreement has helped to achieve SDG 1 (no poverty) and parts of SDG 12 (sustainable consumption and production), such as consumer safety in the EU and CA countries.

- The EU-CA FTA has created positive effects for consumers thanks to the greater availability and accessibility of products and services traded between the EU and CA, while risks related to potentially unsafe products (food and non-food) have been potentially decreased. The Agreement has also contributed to a limited increase in welfare.

  - The most pronounced effect of the wage and welfare increase brought about by the Agreement was estimated for Costa Rica at +0.4%. More limited increases in welfare were estimated for Nicaragua (+0.3%), Panama (+0.1%) and other countries. Likewise, the wage increase resulting from the EU-CA FTA has been the most pronounced for Costa Rica (+1.3% for unskilled workers and +0.5% for skilled ones) with more limited effects in other countries, such as Honduras (with a +0.2% wage increase for unskilled workers and no change for skilled workers), Nicaragua (+0.1% and +0.2%) and Panama (0.0% and +0.3%). In rural areas of CA, where wages are usually lower than in the rest of the country and poverty levels are usually higher, even small increases in wages and employment might have contributed to poverty reduction.

  - Although poverty levels decreased only slightly over the analysed period in most of CA (except El Salvador and Panama), provinces hosting exporting sectors displayed overall lower poverty levels than the rest of the country after the Agreement than they did before the Agreement, although other factors also contributed to this trend, including trade with other partners. For example, after the Agreement came into application, poverty in Costa Rica decreased in the region of Huetar Atlántica (Caribe), which covers the province of Limón where 76.0% of the country’s bananas and 31% of its pineapples are grown. Likewise, poverty decreased in El Salvador (across all areas or ‘departments’) reaching the lowest level in San Salvador and La Libertad, two departments hosting almost all the exporting enterprises in the country. Poverty also decreased in Guatemala between 2011 and 2018 in the provinces cultivating sugar, coffee, fruits (including bananas), and palm oil, except for the provinces of Alta Verapaz and Izabal. The southern provinces of the country where these crops are grown displayed lower overall poverty levels in 2018 than the central or northern parts of the country (except Petén).

  - Prices for some products (e.g. bananas and coffee) have been set at a low level, thus benefiting EU consumers. However, this may have negative impacts on CA producers, their ability to cover production costs, and their ability to pay decent wages to workers.

  - Likewise, products exported by the EU to CA benefiting from tariff preferences, such as motor vehicles and machinery, may have become more accessible for individual CA consumers (e.g. passenger cars) and businesses as a result of the Agreement. This includes vehicles used by self-employed people and other enterprises as a means of transport for income generation. Moreover, when used in production processes, machinery and equipment from the EU may help to increase the production of high-quality goods that are safe for consumers and other users.
d) Impact of the Agreement on working conditions, and enforcement mechanism (labour inspection)

- Evidence shows that both increased trade with the EU and the competition for skilled workers have helped to create decent working conditions. Furthermore, the Agreement may have played a role jointly with other FTAs in encouraging compliance with national legislation and improving overall working conditions.

- The available evidence suggests that working conditions in CA vary greatly depending on the sector, employer (e.g. large sugar mills compared with small producers in the sugar sector), and sometimes also job category (e.g. permanent, directly hired workers versus temporary and sub-contracted workers).

- According to the literature, shortcomings in the quality of jobs (e.g. shortcomings related to wage levels, the lack of paid social-security contributions, and the lack of health and safety at work, including the lack of personal protective equipment) are reported more frequently by temporary or sub-contracted workers, and by workers hired by small producers (e.g. in the sugar sector outside large sugar mills, in the melon sector in Honduras, and in the palm-oil sector in Guatemala outside large palm-oil plantations). On the other end of the scale are permanent jobs that typically are of better quality, including in sectors such as medical equipment in Costa Rica.

- Evidence shows that both trade with the EU and competition for skilled workers have helped to create decent working conditions, including permanent contracts, higher wages, greater compliance with health and safety standards at work, and skills-development programmes. According to information provided by sector representatives, working conditions in CA sugar mills also meet requirements laid down in national legislation, as do working conditions in the banana sector (although there may be differences within some countries, like Guatemala) and in the pineapple sector in Costa Rica. It is also possible that other sectors or sub-sectors (e.g. the tuna sector in El Salvador, the coffee sector in Costa Rica, or parts of the palm-oil sector in Guatemala) comply with the existing legislation.

- The improvement in working conditions in the exporting sectors in CA can also be explained by the shortage of local workers due to: (i) workers emigrating to the neighbouring countries to work on harvests; (ii) plantations becoming part of a certification scheme (e.g. in palm oil); (iii) cooperation with trade unions; (iv) the overall trend of improvement in working conditions in the country (e.g. in El Salvador and in its tuna sector); and (v) labour inspections (e.g. in the pineapple and banana sector in Costa Rica, and in the sugar, palm-oil and coffee sectors in Guatemala). Moreover, although representatives of some sectors (such as the sugar sector) suggest that improved working conditions were not triggered by the EU-CA FTA as a decisive factor, they also admit that the ability to export to markets such as the EU or the US requires some efforts in the sustainability area. Therefore, the Agreement might have played a role jointly with other FTAs in encouraging both compliance with national legislation and improvement in working conditions.

- On the other hand, in some sectors (the ex-post evaluation mentions the melon sector in Honduras), there seems to have been more limited improvement over time. The conditions in the coffee sector in Honduras have also been reported as having experienced limited change over the last 10 years. However, other reports related to certified coffee plantations in Honduras provide evidence of improved working conditions in this period, notably in health and safety at work. This shows the positive influence of certification schemes and commercial
factors on employers’ practices. The impact of the Agreement as a policy framework on working conditions in CA seems to be limited, as does the capacity of the CA authorities to address the problems of poor working conditions. However, as mentioned in the case of the tuna sector in El Salvador and the medical equipment sector in Costa Rica, there are examples in which both trade with the EU and the Agreement itself have helped to improve working conditions.

Another issue is labour inspections and their role in enforcing domestic labour legislation. The ex-post evaluation shows that labour inspections have been frequently discussed at the TSD Board meetings, and that the CA countries (most recently Guatemala) have strengthened the capacities (human and technical) of their labour-inspection services over the period under review, undertaking regular audits in economic sectors exporting to the EU.

Working conditions and labour rights have been discussed regularly in the TSD Board meetings as well as in bilateral meetings. This has led to key exchanges of information and to the sharing of best practices. As a follow-up to the TSD commitments, the Commission also held an EU-CA conference on informality, freedom of association, and the fight against child labour in November 2022 in Guatemala City. The event was a tripartite conference bringing together around 60 representatives from national authorities, employers, and trade unions from the six CA countries, as well as key stakeholders and EU representatives. The aim of the event was to help strengthen compliance with labour rights and promote decent working conditions in the region. It had a particular focus on freedom of association, the fight against informality at work in rural areas, and the ending of child labour.

e) Impact of the Agreement on child labour

- Overall, progress made in ending child labour has brought the CA countries closer to both meeting SDG 8.7 on ending the worst forms of child labour and their commitments under the TSD title. However, the actions taken by both the CA governments and the private sector to end child labour predate the entry into force of the Agreement.

- The available evidence suggests that the CA countries have taken steps to end child labour, although these steps were taken before the Agreement was concluded. These steps include having in place legislative and policy frameworks. They also include other measures, such as financial support to poor families, initiatives encouraging school attendance, and cooperation with private-sector and international partners (including from sectors involved in exports to the EU and other partner countries). Indeed, the evidence suggests that – with the exception of Nicaragua – the number and share of children aged 5-17 involved in an economic activity and in child labour decreased. Costa Rica has the lowest level of child labour in the CA region and managed to further reduce the scale of child labour between 2010 and 2019. Also, a substantial reduction in child labour was recorded in El Salvador in the same period.

- Moreover, there are examples of measures applied by the private sector in CA such as: (i) clauses in contracts with suppliers prohibiting the use of child labour; (ii) the verification of the age of recruited workers based on ID; and (iii) the provision of education and leisure time facilities for children at plantations so that children can spend time safely while their parents work. The private sector in CA has also launched campaigns to raise awareness of child labour, and campaigns/cooperation with ministries and other institutions to reduce and end child labour in sectors involved in trade with the EU (e.g. the sugar and coffee sectors).
The evidence provided by different sectors suggests that progress has been made in the sugar sector. Information from audits (inspections) and reports by the UN’s International Labour Organization (ILO) and US Department of Labour suggest that child labour has been ended in the sector in El Salvador, Guatemala, Honduras, and Panama, while the sugar sector in Nicaragua has also taken similar steps. Likewise, sector representatives of the banana sector in Costa Rica reported that labour inspections had not identified any cases of child labour in the sector’s operations. Many actions have also been taken in the coffee sector, in particular in Guatemala and Honduras, and there is now evidence confirming the number of children participating in activities aiming to prevent and reduce child labour, such as pre-school and school education.

However, these activities and the resulting changes predate the entry into force of the Agreement (notably in the sugar sector in El Salvador and Guatemala). The study did not analyse whether these activities started during the negotiations for the FTA or whether they should be more linked to the work started by the CA countries to benefit from the EU GSP and GSP+ schemes.

Similarly, other policies played a role in reducing or ending child labour. These other policies include the policy of zero tolerance for child labour applied by both international buyers, and the well-known multinational brands sourcing in the coffee and sugar sectors in CA. That said, the evidence shows that exports to markets such as the US or the EU are considered by producers as being linked to certain sustainability requirements, and that the sector needs to meet these requirements to be competitive. The significance of the FTA may also be hidden partly behind the actions taken by international buyers. These international buyers may have a global sourcing policy for the whole brand, and this may also cover supplies to the EU, using the preferences offered by the EU-CA FTA. Also, as suggested by coffee-sector representatives from Honduras, and sugar-sector representatives from Nicaragua, exports (including those to the EU) have encouraged adherence to certification schemes, some of which prohibit the use of child labour. In addition, the periodic policy dialogue at the TSD Board meetings as well as in bilateral settings, which include reporting progress on ending child labour, might have signalled the matter as a priority.

**f) Impact of the Agreement on forced labour**

The lack of quantified, comprehensive data makes it difficult to estimate any trend over the analysed period in the number of cases of forced labour in some of the CA sectors engaged in trade with the EU. It is difficult to capture any trends over time and establish a link with the Agreement.

The available evidence suggests that the legal and policy frameworks related to the fight against forced labour and human trafficking are largely in place in CA. However, even though the situation in each country and its degree of progress in this area is different, there are still actions to be taken. These actions depend on the country and may include: (i) training for police and other enforcement agencies; (ii) reducing backlogs in courts; (iii) better support to victims of human trafficking and forced labour; and (iv) addressing other challenges (such as the security situation in certain countries, corruption, and weaknesses of state institutions, including weaknesses in labour-inspection agencies).

Research conducted until 2016 across different sectors in CA provides evidence of cases of forced labour. These cases include the retention of identity documents and wages, verbal threats, and false information related to employment and working conditions. However, the available evidence does not provide an estimation of the scale of this phenomenon, and in
most instances the evidence only shows that forced labour cases have been detected in certain sectors or regions of a country, without quantifying them. This makes it difficult to capture any trends over time and establish links between these trends and the Agreement.

g) Impact of the Agreement on freedom of association

- Evidence suggests that El Salvador, Guatemala, and Honduras should strengthen their efforts to promote freedom of association.

- The available evidence shows that the presence of trade unions plays an important role in ensuring compliance with workers’ rights and decent working conditions (e.g. through collective agreements). This in turn helps to reduce poverty and support sustainable development.

- Some recent positive developments in the area of freedom of association can be linked with the Agreement, two of which are listed below.
  - Firstly, stakeholders indicated that the EU-CA FTA’s entry into force created positive momentum for social dialogue and improved both working conditions and the climate for freedom of association. In the course of implementing the EU-CA, the TSD Board dialogues have placed freedom-of-association issues prominently on the EU-CA agenda, setting in motion important awareness-raising and transformation processes.
  - EU cooperation projects are also helping CA authorities to improve in freedom of association, with some significant progress made in economic sectors (such as the tuna sector in San Salvador) or in some social areas (tripartite dialogue was reinvigorated in Guatemala and San Salvador).

i) At country level, El Salvador, Guatemala, and Honduras should undertake further work to promote freedom of association, both in their legislation and in practice. To move closer to meeting their commitments under the TSD title (Article 286, part of which covers freedom of association and the right to collective bargaining), these countries should: (i) further align their laws with the ILO’s fundamental conventions Nos. 87 and 98; and (ii) ensure the effective implementation and enforcement of their laws in practice.

- In Honduras, employers’ representatives (COHEP) and workers’ movements have presented their positions on changes in the country’s Labour Code (Articles 472, 475, 510, 541), which had been requested by the ILO’s Committee of Experts. The employers’ representatives and workers’ movements suggested tripartite dialogue to discuss these proposed changes, ideally with ILO assistance. Building on this tripartite dialogue, the government, employers, and workers might consider discussing in the country’s Economic and Social Committee amendments to the country’s Labour Code to align it with ILO Conventions Nos. 87 and 98. In Honduras, there is also a need to: (i) strengthen capacity, including by allocating enough budget to capacity-strengthening activities; and (ii) improve the work of the Committee on Anti-Union Violence. Several cases discussed by the Committee on Freedom of Association highlight the importance of strengthening the effectiveness of labour inspection and administration in Honduras in the context of allegations of interference in trade-union activities in the agri-export sector.

- In Guatemala, representatives of stakeholders, businesses, and trade unions have all emphasised the importance of the country’s Tripartite Commission on Labour Relations and Freedom of Association. The ILO Committee of Experts has emphasised the need to reform
the country’s Labour Code to make possible the creation of sectoral unions, which it argues are particularly necessary in sectors mainly composed of small enterprises. The Committee of Experts also emphasised the need for the Guatemalan government to continue its efforts in line with the ILO’s 2013 roadmap to curb persistent anti-union violence. With EU funding, the Guatemalan Ministry of the Economy signed in April 2022 a contribution agreement with the ILO to support Guatemala in fulfilling the commitments of the roadmap on freedom of association and collective bargaining (ILO Conventions Nos. 87 and 98). The general objective of this action is to: (i) support social dialogue; (ii) strengthen the institutional framework for the implementation of the country’s ‘decent-employment’ policy (2017-2032); and (iii) provide technical assistance for the fulfilment of Guatemala’s commitments under the ILO’s roadmap on freedom of association and collective bargaining.

- **In El Salvador**, according to information provided by a trade union representative for this study, the EU-CA FTA’s entry into force created positive momentum for social dialogue and contributed to better working conditions and an improved climate for freedom of association. The trade union representative said that this positive trend started to be reversed in the last couple of years and should be reinvigorated, in cooperation with the government and the social partners.

  ii) **On the operation of trade unions at sector level**, the available evidence shows that the presence of trade unions plays an important role in ensuring compliance with workers’ rights and decent working conditions (e.g. through collective agreements). This in turn helps to reduce poverty and support sustainable development.

- **In the banana sector**, five CA countries (all except for El Salvador, which does not produce bananas for export to the EU) have a very low level of both unionisation and collective bargaining coverage. Sector representatives from CA interviewed for this study were of the view that many aspects related to working conditions and freedom of association in the banana sector predate the EU-CA FTA or have been mainly influenced by domestic factors.

- **In the sugar sector**, evidence was provided by sector representatives, both trade unions and businesses. This evidence suggests that in Costa Rica, El Salvador, Honduras, Nicaragua, and Panama, trade unions exist, operate, and negotiate collective agreements in all – or at least some – sugar mills. The situation is much more challenging in Guatemala, where only one trade union exists and faces difficulties in its work. Moreover, there is evidence suggesting that working conditions and freedom for trade unions to operate in large sugar mills across CA differ from the situation in the rest of the region’s sugar sector (the rest of the region’s sugar sector is represented by many small and medium-sized sugar producers of which there are as many as 7 000). In these smaller and medium-sized producers, jobs are often informal and of lower quality than in larger sugar mills, and there is no evidence that trade unions are active in that part of the sector. One therefore cannot consider the EU-CA FTA as a decisive factor influencing the situation either way in the sector. For example, in Nicaragua, trade unions in the sugar sector started operating and negotiating collective agreements in the 1950s, long before the entry into force of the Agreement.

- Other sectors, such as the palm-oil sector in Guatemala or the melon sector in Honduras, also do not offer ideal conditions for trade unions to set up and operate. In this context, it will be important to see whether the implementation of human-rights guidelines in the palm-oil sector in Guatemala will bring about any improvements in compliance with labour standards.
- Some evidence suggests that workers are unaware of trade union activity (e.g. in the sugar sector in Guatemala) and their related rights.

- However, sector representatives have also stated that exports to markets such as the EU may require compliance with certain sustainability standards and may therefore encourage adherence to certification schemes. Some of these certification schemes stipulate that producers must uphold workers’ rights and permit freedom of association. Trade-union representatives say that there have also been other positive developments, which were clearly related to the Agreement. For example, in El Salvador, the entry into force of the EU-CA FTA created momentum to improve working conditions, raise workers’ awareness, improve social dialogue, and provide more training, with the government playing the role of a mediator between trade unions and employers. That positive trend may need to be reinvigorated. In El Salvador’s tuna sector, positive changes in social dialogue and working conditions were introduced in response to coordinated action from European and CA trade unions and a case brought to the ILO.

h) Impact of the Agreement on non-discrimination at work

| The estimated employment effects of the Agreement for indigenous peoples, young workers and foreign nationals vary between these three groups, their countries of residency and the sectors in which they are employed. |
| Evidence shows potential positive employment impacts for many indigenous people, young workers, and immigrant workers (largely originating in other CA countries) due to their engagement in agriculture (see the section on the human-rights impact). |

- The exact scale of the Agreement’s effects depends on the sub-sector in which people are employed and the type of undertaking they are working in (for example, there were different effects in the subsistence farming sector than in market-oriented farms or plantations). Moreover, the type of job in which people work will also play a role (formal or informal; permanent or temporary for the harvest season).

- In some cases, immigrant workers (e.g. indigenous people from Panama working in the coffee sector in Costa Rica) are contracted every year by the same plantations offering jobs with a package including registration and healthcare services. There are also immigrant workers from Nicaragua working in the pineapple sector in Costa Rica. According to representatives of Costa Rica’s pineapple sector (CANAPEP), all workers employed by the members of CANAPEP are insured against accidents at work, and contributions for workers’ social security are paid by their employers.

- The model also estimates that the Agreement has had mostly negative, although relatively limited, effects for industry (with some exceptions, such as the textile sector in Panama, where the effects are estimated as positive), and may potentially also affect workers from the three vulnerable groups.

i) Impacts of the Agreement on the adoption and implementation of internationally recognised instruments of corporate social responsibility (CSR) and responsible business conduct (RBC)
Evidence suggests that the EU-CA FTA may have encouraged CSR/RBC practices, either through projects or private-sector requirements (i.e. commercial contracts between EU buyers and CA businesses).

- The available information suggests that in all CA countries, there are dedicated institutions promoting CSR/RBC practices, and most of those countries have a national framework in this area (e.g. a national action plan on business and human rights or a national CSR policy).

- In sectors engaged in exports to the EU, business associations and individual companies (although not all) promote and apply CSR/RBC practices and comply with international standards (e.g. the UN Global Compact or ISO 26000). Some also follow the requirements of different certification schemes, such as Global GAP, the Rainforest Alliance, SA8000, ISO14001, the Roundtable on Sustainable Palm Oil, and the International Sustainability and Carbon Certification (e.g. in sectors producing coffee, bananas, palm oil or pineapples).

- According to stakeholders, some companies that intend to start exporting to the EU also face requirements from EU buyers related to CSR/RBC practices. Equally, stakeholders say that exports to the EU encourage compliance with certification schemes (e.g. in the coffee sector in Honduras, certified coffee as a share of total coffee exports has increased). Moreover, there is an interest in CA in pursuing organic production, which may be competitive on the EU market.

3. Environmental impact (JC 4.3)

This section intends to respond to judgement criterion 4.3: What has been the environmental impact of implementing the Agreement’s trade pillar? This section presents the results of the environmental-impact evaluation of the Agreement. It covers three environmental areas: (i) climate change; (ii) biodiversity and ecosystems; and (iii) other environmental indicators, such as water. The Agreement may affect the environment in two main ways: (i) through trade-related impacts (e.g. the impacts of tariff preferences), as it will have an effect on production levels in certain sectors and for certain products; and (ii) through governance impacts (mostly by means of the provisions in the TSD title), as it may have an effect on the countries’ environmental policies related to those sectors and products, and on overarching national environmental policies and strategies. It is important to note that the environmental analysis presented in this report suffers from a lack of available and reliable data, making it difficult to draw robust conclusions.

a) Impact of the Agreement on climate change

- Evidence shows that the Agreement’s tariff reductions marginally increased GHG emissions in the EU and in the CA countries but contributed to reductions in GHG emissions in the rest of the world.

- This resulted in a marginal global decrease in GHG emissions (of roughly 0.2 million tonnes of CO2-eq.) in 2020 resulting from the Agreement’s tariff reductions.

- The contribution made by the TSD title to changes in CA climate policies could not be established.
- On the impacts of climate change, the Agreement’s tariff reductions are estimated (from the results of the economic modelling) to have caused greater production of goods and services in 2020 in both the EU and in CA, compared with the level of production of goods and services that would have occurred in the absence of the Agreement. In the absence of the Agreement, both Costa Rica and Panama would also have faced significantly higher tariffs and the other CA countries would have faced moderately higher tariffs in their access to the EU market. Based on an analysis of these production changes, combined with country-specific and sector-specific GHG emissions data, it is estimated that GHG emissions in 2020 would have been marginally lower in the CA countries in a scenario without the Agreement, all other things being equal. This is also the case for EU GHG emissions. Globally, however, it is estimated that GHG emissions would have been slightly higher in the absence of the Agreement as the Agreement’s tariff changes triggered production shifts from the rest of the world to the EU (and to a lesser extent to CA) in sectors in which emission intensities in the EU are lower than in the rest of the world. This can be explained by the fact that an item produced in the EU may be produced with lower GHG emissions than the same item in a different country.

- However, due to data limitations, the impact of non-tariff measures on trade, production, and corresponding GHG emissions has not been identified. The impact of the Agreement on climate governance is neutral – no evidence has been found for direct links between the EU-CA FTA and policy changes in Central America. Nevertheless, it is deemed positive (but not related to the Agreement) that all signatories of the Agreement ratified the Paris Agreement and started to integrate climate policies into their national strategies.

b) Impact of the Agreement on biodiversity and ecosystems

- Although the analysis is affected by some data limitations, available evidence shows that the Agreement had a moderately negative impact on biodiversity and on the ecosystems of CA countries. Such impacts may be more significant in specific sectors and regions.

- Evidence suggests that most land-use conversion resulting from the Agreement did not lead to permanent deforestation, although other ecosystems might have been affected (i.e. wetlands, mangroves, and rangelands) and potential impacts of the Agreement on deforestation cannot be refuted. It is therefore concluded that the impact of the Agreement on land-use change and deforestation is moderately negative. However, it is likely that the Agreement caused land-use change due to cropland expansion in CA, in particular in Costa Rica and Panama.

- On deforestation, land-use change caused by reduced tariffs is more likely to have led to deforestation in Panama than in Costa Rica. Qualitative analyses of key crops (like sugar cane from Guatemala and pineapples from Costa Rica) confirmed that the Agreement is likely to have contributed to land-use change and – to a limited extent – deforestation. Palm-oil production in Guatemala is not linked to any significant contribution to deforestation. Banana production in CA intensified the pre-existing environmental pressures associated with the production of bananas, notably due to the use of pesticides.

---

14 Land use, land-use change, and forestry emissions stemming from agriculture are excluded due to data limitations.
- The analysis also shows the agricultural sector’s impacts on environmental issues, such as water quantity, water quality, indirect deforestation, forest degradation, and pollution pressures, particularly related to agrochemical use. The impacts of the fishing sector (e.g. shrimp) on water/riparian areas and biodiversity is identified as a priority area.

i- Land-use change due to cropland

- The Agreement is likely to have caused land-use change due to cropland expansion through the Agreement’s impact on the production of agricultural crops in CA. Based on the analysis of quantitative land-use change, it is estimated that the Agreement’s tariff reductions for agricultural crops triggered 4 000 ha of land-use change in Costa Rica and 3 000 ha in Panama. The estimates for the other CA countries are that the Agreement led to changes in land use of only 10% of what was seen in Costa Rica and Panama, or roughly 300-400 ha in each of the other countries. The main reason for this is that the differences between tariffs under the Agreement and in the hypothetical situation without the Agreement are relatively large in Costa Rica and Panama, compared with the other CA countries. As a result, the changes in tariffs under the Agreement are likely to have had a much greater impact on agricultural production in Panama and Costa Rica than in the other countries.

ii- Deforestation

- On deforestation, it is estimated that the land-use change induced by tariff reductions under the Agreement led to limited deforestation in Panama (700 ha of permanent deforestation) and in Costa Rica (40 ha of permanent deforestation) over the period of the implementation of the Agreement. These results are based on the economic modelling, so any effect not shown in the economic modelling (such as non-tariff measures) has not been analysed in the deforestation analysis. Due to these methodological considerations, the possibility that the Agreement might have caused some additional deforestation in the six CA partner countries cannot be fully refuted.

- With regard to key products and their relationship with land-use change and deforestation, the following three points must be made.
  • On sugar cane production in CA, it is concluded that the Agreement is likely to have contributed to land-use change, and this means that we cannot rule out the possibility of indirect deforestation.
  • On palm oil, it is unlikely that the Agreement has contributed to direct deforestation in the CA countries, although indirect deforestation cannot be ruled out.
  • On pineapple production in Costa Rica, it is likely that the Agreement contributed to land-use change and even to direct deforestation. This is partially due to the rapid increase in the amount of land used for pineapple cultivation that followed soon after the implementation of the Agreement between 2014 and 2017 in sensitive ecosystems and protected areas.

The EU’s upcoming due-diligence regulation on deforestation intends to mitigate the further risks of deforestation induced by trading with the EU (see more in the part of Section 5.2.2 that covers efficiency, including institutions).
iii- The environmental impact of specific sectors

Palm oil

The Agreement helped to increase exports of Guatemalan palm oil to the EU. Guatemala is one of the countries in the world with the highest productivity in palm oil production. To comply with EU standards and EU demand for sustainable palm oil, the number of certified palm plantations in the country increased during the period of the Agreement’s implementation. This study therefore concludes that the Agreement had a moderately positive environmental impact on sustainable production practices, a conclusion which is further supported by examples from the Palm Growers’ Association of Guatemala in areas such as best pest-management practices. In addition, a literature review on direct deforestation reveals that the deforestation associated with the expansion of oil-palm farms in the period of the Agreement seems to be relatively low, although indirect deforestation as a result of the Agreement cannot be refuted.

Available literature details various threats to Guatemala’s environment associated with palm oil production. These include threats to water systems, threats to water quality, indirect deforestation, forest degradation, and pressures related to agrochemical use. This makes it likely that the Agreement further intensified those environmental pressures, and therefore this study concludes that the Agreement also had a moderately negative environmental impact. As a result of limited data on all the above-mentioned environmental issues, this study does not conclude about the general sustainability of the Guatemalan palm-oil sector, because – for example – indirect land-use changes, and deforestation could have had significant negative impacts on the country’s biodiversity.

Bananas

As a result of the Agreement, the share of CA banana exports destined for the EU rose significantly. Evidence shows that the Agreement further intensified the pre-existing environmental pressures associated with the production of bananas, and that the Agreement had a significant negative impact on the biodiversity and ecosystems of the CA countries. Those environmental pressures are mainly linked to bananas’ reliance on high agrochemical use, and the related impacts that these agrochemicals have on water and soil quality in natural ecosystems. The ex-post study acknowledges that the banana sector in Costa Rica is working towards more sustainable production practices.

Aquaculture

The case study on aquaculture in Costa Rica, Honduras, El Salvador, and Nicaragua (CA4) concludes that the tilapia and shrimp sector in the CA4 benefited from improved terms of trade as a direct result of the Agreement. Given the increase in exports of these products following the Agreement, especially those exported from Honduras, there was likely a positive trade impact for the CA4 as a result of the Agreement. However, it is also likely that the increase in production further drove the environmental pressures of production (e.g. overall environmental degradation and build-ups of nutrients and effluent). This case study therefore concludes that there was a marginally negative environmental impact from the Agreement. At the same time, an increasing number of CA4 farms have received sustainability certifications in recent years, showing a marginal positive environmental impact from the Agreement.
c) Impact of the Agreement on ‘greening’ the economy

- Evidence provided by the case study of the ex-post evaluation on environmental goods (EGs) shows that the Agreement contributed to both: (i) increased absolute and relative exports of EGs from the EU to the CA countries; and (ii) increased production of sustainable agricultural goods within the CA countries, which is deemed positive for ‘greening’ the economy.

- It cannot be concluded that these impacts improved the overall environmental performance of the CA economies, because the environmental footprints of non-environmental goods have not been taken into account, and these footprints may have changed due to shifts in production. EGs and other sustainable products should replace non-environmental goods to generate positive on-the-ground environmental impacts, but this has not occurred.

- Over the period of the FTA, the share of EGs in EU exports to the CA countries increased from 6.6% in 2010-2013 to 7.1% in 2014-2019. This increase is particularly remarkable as the share of EGs in global EU exports fell from 6.3% in 2010 to 5.4% in 2019. Because the ex-post report used the rather narrow definition of EGs from UNEP, it can be safely concluded that the increased share of EGs in EU exports to the CA countries in itself contributed to ‘greening’ the CA economy through its positive effect on shrinking the environmental footprints of products used in CA countries. However, this does not necessarily imply that the overall environmental footprint of EU products exported to CA has improved over the period of the Agreement, as differences between environmental footprints within non-EGs have not been considered. It is likely that various factors have driven this increased share in EG exports from the EU to CA and that the Agreement is responsible for a small proportion of this increase. To generate a more positive environmental impact, it would be necessary for greener technologies to be used both: (i) to produce the goods and services that are traded as the Agreement continues; and (ii) for the foreign investments made as the Agreement continues.

- On the impact of the Agreement in creating opportunities to green the energy sector in Costa Rica, the analysis showed that, over the period of the Agreement, Costa Rica was able to increase its exports of renewable-energy merchandise to the EU from EUR 2.2 million in 2010 to EUR 21.6 million in 2019. However, Costa Rica’s imports from the EU have been more volatile over this period, and worth an average of EUR 82 million a year. Furthermore, the impact of the Agreement on recent developments in the renewable-energy sector in Costa Rica is neutral: no evidence has been found for direct links between local sectoral changes and the Agreement. It is therefore concluded that, based on the increased EU imports, the impact of the Agreement on creating opportunities to green the energy sector in Costa Rica has been marginally positive.

On the Agreement’s contribution to greening the economy through the potential increase in trade in organic and/or certified agricultural products, it is concluded that some positive trends can be seen in: (i) areas such as the certification of palm-oil plantations in Guatemala; and (ii) a general interest in the CA countries to increase organic-production practices.

d) Impact of the Agreement on the use of water

Based on the quantitative water analysis, it is estimated that the Agreement’s tariff reductions for agricultural crops resulted in a net increase in ‘blue water’ consumption (considering all
The crops affected by the Agreement) of around 47 million m$^3$ in the CA countries by 2019, compared with the hypothetical situation without an Agreement$^{15}$. Costa Rica experienced the largest tariff-reduction-induced increase in water use (approximately 20 million m$^3$), followed by El Salvador (approximately 9 million m$^3$).

- On key sectors and their relationship with impacts on water use, it is concluded that the Agreement is likely to have contributed to an increase in water consumption through its impact on the sugar sector (mainly in El Salvador), and in the fruits and vegetables sector (primarily in Costa Rica). The ultimate impact of the increase in blue water consumption depends largely on the region where the goods are produced and that region’s local water-availability situation (as it was found that some producer regions in CA suffer from water scarcity). For this reason, detailed data on the origin of the exports to the EU would be needed to assess to what extent Agreement-induced water consumption had a negative effect (i.e. marginally or moderately). Current data constraints do not make it possible to establish a causal link between water usage and the Agreement in greater detail. In conclusion, the Agreement had a marginally positive impact on greening the economy and a marginally negative impact on water use in CA.

e) Impacts of the TSD title and other governance practices on environmental outcomes

The TSD title had a neutral-to-marginally-positive impact on the environment of the partner countries. The CA countries reported progress in implementing the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Convention on Biological Diversity, the Basel Convention, the Rotterdam Convention, and the Montreal Protocol. They also reported progress on ratifying the Minamata Convention on Mercury. At the same time, the EU urged the partner countries to take further action on some of the implementation measures. The TSD Board meetings are perceived by the EU and the CA partner countries as being relevant opportunities to exchange information on the climate, the environment, and social issues. In addition, organic agricultural production in the EU and in the CA countries has been an important point of discussion, and both the EU and the CA countries are interested in further exploring collaboration on this issue.

4. Human-rights impact of the Agreement (JC 4.4)

This section intends to respond to judgement criterion 4.4: What has been the human-rights impact of implementing the trade pillar? Based on the screening and scoping results of the human-rights analysis, four human-rights issues were selected for further analysis: (i) the right to work and the right to just conditions of work (for Costa Rica, Guatemala, Honduras, Nicaragua and Panama); (ii) indigenous peoples’ rights (in Guatemala and Honduras); (iii) freedom of association in sectors involved in trade with the EU (for Guatemala, Honduras and El Salvador – results are described in the social impact section); and (iv) child labour and children’s rights (in El Salvador, Guatemala and Honduras – results are described in the social impact section).

$^{15}$ Blue water is found in lakes, rivers, and reservoirs. It can be pumped from below surface aquifers. Available blue water is used for many purposes, including drinking water. It can be used in homes and businesses – like beverage manufacturers.
a) Impact on the right to work and the right to just and favourable conditions of work

The economic modelling suggests that jobs were created, and minor changes have been noted by stakeholders. However, the EU-CA FTA is assessed as not having significantly changed the situation regarding the right to work and the right to just and favourable conditions of work in CA countries.

- A serious situation involving pre-existing vulnerabilities related to these rights has been identified for Guatemala, Honduras, and Nicaragua. Many labour-rights issues are connected to insufficient protection under the law and ineffective implementation rather than to the Agreement itself. However, the overall high level of informality, poor working conditions, and unfair practices in economic sectors related to trade with the EU (e.g. sugar, fruits and vegetables) raise concern, as these may be intensified by increased economic activity. The literature review provides a good overview of the pre-existing and current issues, and in some instances points to specific issues in sectors that are relevant for economic activity under the Agreement. For example, many reports point to a serious pre-existing situation in the sugar sector due to: (i) the different position occupied by workers in larger sugar mills compared with the situation of workers employed by other sugar producers (the latter reportedly do not enjoy full rights and benefits); (ii) different working conditions for permanent workers compared with temporary workers employed for only part of the year during the harvest; and (iii) a production process that affects the health of workers in Guatemala, Honduras, and Nicaragua.

However, it is not possible to isolate the effect of the FTA on the right to work and the right to just and favourable conditions of work. Analysis of human-rights indicators makes it possible to assess the situation before the FTA began to be applied and after it came into force. But it is not possible to determine a direct causal link between the Agreement and human-rights developments in CA countries. Available data do not point to a clear impact of the Agreement on a variety of indicators, such as the unemployment rate, the labour-participation rate, the informal-employment rate and the ratio of hours worked, if values for the whole economy and the whole labour force are considered (labour-related data at the sector level has been analysed in the part of this staff working document related to social impacts). Data for many of the relevant indicators that could be used to broaden the analysis are either not available or are partial and available for only part of the sector or are only available for one year instead of the whole period under review. For example and depending on how each right is defined under the international human-rights instrument, this is the case for data on: (i) wages in various sectors; (ii) accidents at work by economic sector; and (iii) complaints on harassment or violence at work and other complaints.

As a result of the Agreement, positive effects on the number of people in employment in the sugar sector have been estimated for Guatemala, El Salvador, Honduras, and Nicaragua, with negligible changes in other sectors. Likewise, positive impacts are estimated in the sugar sector in Costa Rica. In addition, positive impacts are estimated by the model in employment and production in the fruit and vegetables sector (Costa Rica and Panama), the textiles sector (Panama) and the transport sector (Panama).

Based on this, it can be said that the EU-CA FTA may have had a minor role in strengthening the ability of Costa Rica and Panama to progressively fulfil their human-rights obligations regarding the right to work by increasing employment for their citizens. On the impact of the EU-CA FTA on the right to just and favourable conditions of work, stakeholders from various
CA countries found it difficult to attribute a clear impact to the EU-CA FTA, but they did not consider that the FTA had a significant impact in either direction.

Due to the particularly vulnerable situation in the sugar sector and the working conditions in this sector before the FTA, and due also to the production process for sugar, a very minor negative impact (proportionate to the results identified by the economic modelling and the share of exports to the EU in total sugar exports) of the Agreement cannot be excluded in Guatemala, Honduras, and Nicaragua. Changes for El Salvador have been negligible.

b) Impact on indigenous peoples’ rights

| Overall, no direct evidence of the impact of the EU-CA FTA on indigenous people’s rights has been found, including in evidence from stakeholder consultations. However, it cannot be ruled out that a minor impact may have occurred (proportionate to economic changes under the Agreement in the sugar and palm-oil sectors) especially because of the high vulnerability of indigenous peoples’ rights due to both the lack of appropriate mechanisms to protect these rights and the ineffective implementation of these rights. |

- A serious situation regarding pre-existing vulnerabilities related to indigenous peoples’ rights has been identified for Guatemala and Honduras. The Guatemalan legal framework does not sufficiently protect indigenous peoples’ rights. Although Honduras has a stronger legislative basis, indigenous people in Honduras face violations of their rights and existing laws are not effectively enforced to ensure their protection.

- Data for relevant human-rights indicators are not available and this substantially limits any analysis of the pre-FTA and post-FTA entry-into-force periods on lands occupied by indigenous peoples. Stakeholder consultations did not provide direct evidence of violations stemming from the Agreement. Nevertheless, these consultations revealed that the land rights of indigenous peoples continue to be a matter of concern, both in Guatemala and in Honduras.

- Following the general trends of deforestation and cropland development, the analysis concluded that, even though no direct evidence was found linking land use to the EU-CA FTA, the impact of the Agreement on land use cannot be excluded. For the human-rights analysis, this means that it is difficult to establish a direct link between land use and lands occupied by indigenous populations.

5. Factors influencing the achievement of the Agreement’s objectives and impact (EQ 2, JC 2.1 and 2.2)

This section intends to respond to EQ 2: What are the factors influencing (either positively or negatively) the achievement of the Agreement’s objectives? Although the analysis in the preceding sections outlined the level of achievement of the EU-CA FTA’s objectives, there is also a need to consider the factors that influence the achievement of these objectives in order to better understand: (i) what else can be done; (ii) what kind of actions should be continued; and (iii) what changes are required to support the implementation of the Agreement.

- These factors that influence the achievement of the Agreement’s objectives include the work of the EU-CA FTA bodies set up to manage the Agreement, as well as work of the relevant institutions of the Parties responsible for certain areas covered by the Agreement. The regular meetings of the specialised bodies (held annually except for 2017), the largely constructive approach taken by the Parties, and continued discussions during the year between sessions
have all been helpful. Taken together, these three factors mean that: (i) all initial procedural decisions have been taken in a timely manner; (ii) the identified trade obstacles are discussed when they occur; and (iii) the Parties exchange updates and look for ways to address the remaining issues.

- However, it took a long time to reach agreement in several areas, such as Croatia’s Accession Protocol to the Association Agreement (including the EU-CA FTA), and the explanatory notes related to the movement certificate EUR1. Similarly, progress has been made in several areas facilitating trade (such as customs, the exchange of data related to the management of sugar tariff rate quotas (TRQs), regional regulatory harmonisation in CA, or SPS) and in addressing some of the identified trade obstacles. But nevertheless, the time needed between the start of the implementation of the EU-CA FTA and the moment when those measures or solutions were put in place, means that the full benefits of the Agreement have been achieved only gradually over time.

- In any case, the removal of trade obstacles, the exchange of data and information, and the adoption and application of trade-facilitation measures have all had a positive impact on the achievement of the Agreement’s objectives. Moreover, and as mentioned in sections discussing trade in services and investment, there are limitations as to what can be achieved in these areas. There are several reasons for this. For example, there are no dedicated bodies set up by the EU-CA FTA to cover these areas, and limited data availability (in particular on investment by sector and investor) make it impossible to conduct a detailed analysis of trends and their drivers.

- However, the overall business environment in a country is shaped by the government, and this overall environment does indeed play a role in investment. And this overall business environment can either support investment or contribute to a reduction of FDI flows, as highlighted by the FDI-related data and trends since 2014.

- Data availability and the implementation/enforcement of domestic legislation are also important for their contribution to the EU-CA FTA’s objectives related to sustainability, which includes effective application of the relevant international conventions. Moreover, in these areas, several factors encourage the countries, sectors (e.g. business associations), and individual companies to apply labour and environmental standards. These factors include: (i) overall global trends towards sustainability practices; (ii) the requirements of other trade partners (such as the US or Canada) and international buyers; and (iii) the need to comply with a variety of rules (e.g. certification schemes) to be competitive on the international market.

- There are also factors which influence the situation in countries or individual sectors, and which may therefore also indirectly affect the achievement of the Agreement’s objectives. For example, weather conditions (including hurricanes, floods, or drought) or developments, such as the coffee-leaf rust (or other animal or plant-related diseases) may have had a significant impact on the harvest and exporting potential. As a consequence, these natural factors may have an impact on generated income and poverty levels in affected areas. For example, coffee-leaf rust reduced coffee exports from CA to the EU in the first few years of the EU-CA FTA’s implementation, with exports rising again from 2016, albeit sometimes not returning to their previous levels. Equally, world market prices for certain commodities (such as sugar and coffee) and their fluctuation over time may affect trade flows, income generation, and the profitability and operation of many small businesses. Similarly, setting prices at too low level (e.g. by big retailer chains purchasing from small producers) may influence trade flows and
the producers’ ability to apply sustainable labour and environmental practices, which often require higher costs. Finally, while the external evaluation focuses on the period until the end of 2019, global factors, such as COVID-19 or the Russia’s war of aggression against Ukraine (not considered in the study) also have an impact on trade flows in general, on EU-CA relations, and on the achievement of the Agreement’s objectives.


This section intends to respond to EQ 3: Has implementation of the Agreement’s trade pillar had unintended (positive or negative) consequences, and if so, which ones? A broad range of such unintended effects were identified at the negotiation stage, in particular in the 2009 EU-Central America Trade SIA. These unintended effects mostly related to undesirable social and environmental impacts associated with increased output and sectoral production shifts.

The effects anticipated in the SIA were mostly confirmed in the evaluation with minor exceptions (for more information on unintended effects, please refer to Section 2.2 on key findings on the SIA).

4.1.3 EFFICIENCY of the Agreement in achieving its economic objectives (EQ 4, EQ 5, EQ 6)

This section intends to respond to EQ 5: To what extent has implementation of the Agreement’s trade pillar been efficient in achieving its objectives? The evaluation questions EQ 4, EQ 5 and EQ 6 seek to determine the extent to which the Agreement has been used by traders, and whether there could have been other less costly mechanisms or instruments to achieve the same results. Indicators used to evaluate the responses to these questions are: (i) the level of utilisation of the preferences provided by the Agreement (including of TRQs); and (ii) the extent of trade diversion caused by the Agreement.

1- Preference utilisation rate and forgone duty savings of businesses\(^{16}\)

<table>
<thead>
<tr>
<th>The analysis shows that CA countries are fully taking advantage of the preference utilisation rates (PURs) and to a much greater extent than the EU exporters. The EU exporters use PURs mostly for products with high MFN-tariff equivalents or when volumes justify the administrative costs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(^{16}) The preference utilisation rate (PUR), calculate the use of preferences by EU and CA economic operators by comparing the use of WTO member tariff rate so called MFN rate with the preferential rate offered in the Agreement.</td>
</tr>
</tbody>
</table>
- Three main reasons are given for the lower PURs of EU exports to CA: (i) the use of the Agreement is complex for smaller firms, which try to avoid administrative burdens; (ii) MFN tariffs are zero in any case; and (iii) some of the CA export markets are too small in volume terms to use the Agreement.

2- The use of TRQs

The evidence shows that TRQs for sugar and rum applied to CA countries worked particularly well to manage the entry of sensitive products to the EU market. However, TRQs on beef were underused for SPS reasons. In contrast, EU exporters use TRQs for powdered milk and cheese to varying degrees – their modest use of TRQs might be explained by market size and market competition among other reasons.

- TRQs are provided for sensitive agricultural products to reduce or eliminate tariffs for a certain volume of imports. The aim of TRQs is to foster trade by reducing tariff barriers while avoiding too much pressure from import competition for domestic producers by setting a maximum on the quantity of imports to which the preferential tariff applies.

- For TRQs available for CA countries to export to the EU, only sugarcane products and rum had their quotas filled consistently. This made it possible to increase sugar exports to the EU by 69%. The reasons for the general underutilisation of TRQs by CA exporters are: (i) the large share of SMEs in some sectors, who indicate that the use of the system is challenging; (ii) domestic supply-side constraints; (iii) attractive alternative markets like the US; (iv) strict SPS rules; and (v) competition from other regions that have TRQ access to the EU market.

- EU exporters use TRQs to varying degrees. For example, imports of Honduran powdered milk reached almost 100% in 2018 and 2019 and imports of Guatemalan powdered milk also reached almost 100% in 2019. EU exporters did not export powdered milk in 2018 to Costa Rica, and only used 19% of their powdered milk TRQ in 2019. For cheese, Costa Rica saw its TRQ fill completely in 2018, with Honduras and Guatemala also showing consecutive years of increased utilisation, to levels above 50% in 2019. Other instances of TRQ use are much more modest. EU exporters indicate three main reasons for this: (i) the small size of partner countries’ markets make exports, including via TRQs, less attractive, especially for SMEs; (ii) SPS regimes in CA partners are fragmented; and (iii) some markets are unattractive due to political volatility.

3- Trade diversion, notably from intra-regional CA trade to trade with the EU

On trade diversion, the analysis shows that the overall level of trade diversion is non-existent or very limited. Most importantly, it shows that the EU-CA FTA does not appear to have come at the expense of intra-regional trade.

Summarising the analyses, in both value and volume terms, and for both imports and exports, we reach five main conclusions, set out below.
1) The overall level of trade diversion witnessed is non-existent or very limited.
2) Even in cases of reported evidence of trade diversion, we find that the trade diversion was limited in magnitude and time.
3) When looking at trade diversion in export values, we see that most diversion towards the EU and CA region occurs from the rest of the world. The EU-CA FTA does not appear to have come at the expense of intra-regional trade.
4) The evidence shows that, despite the EU-CA FTA and possible trade-diversion effects away from the CA region, trade in both value and volume terms has steadily increased overall within the region. The only exception to this is Panama. Costa Rica has also shown increases in trade in value terms with all trading partners except for the rest of the world. In volume terms, there is evidence for a very small amount of trade-diversion effects with El Salvador and Panama (exports) and Nicaragua and Panama (imports).

5) The most challenging country to analyze is Panama, where the overall trade changes are much more volatile. Trade between Panama and the other CA5 countries has decreased, but this is also the case for Panama-EU trade.

4.1.4 POLICY COHERENCE of the Agreement (EQ 8)

This section intends to respond to two evaluation questions. The first evaluation question is JC 8.1: How do the provisions of the Agreement’s trade pillar compare with the principles of current EU trade policy? The second evaluation question is JC 8.2: How do the provisions of the Agreement’s trade pillar compare with the EU’s commitment to sustainable development in trade policies as a contribution towards attaining the SDGs?

1. Coherence with EU trade policy

The Agreement remains largely coherent with current EU trade policy.

At the time the EU-CA FTA was signed, and over the first few years of its implementation, the Agreement was in line with the then-applicable EU trade-policy strategy outlined in the 2010 Communication Trade, Growth and World Affairs. This policy stressed the importance for EU trade relations with partner countries of trade in services, investment, public procurement, regulatory aspects, and IPRs. It also confirmed the framework for the ‘new generation’ of comprehensive EU trade agreements – the foundations for which were initially set out in the 2006 ‘Global Europe’ communication. The communication also referred to a need for continued engagement with civil society and support for SMEs in the context of trade policy and trade agreements.

Along these lines, the EU-CA FTA has been one of the first few ‘new-generation’ trade agreements to cover a wide range of areas, including a TSD title providing for active civil-society involvement. The EU-CA FTA also includes a well-developed institutional structure to manage its implementation. At the implementation stage, and as discussed in the preceding sections, there were annual meetings of the Market Access Subcommittee, the TBT Subcommittee, the SPS Subcommittee, the TSD Board and the IPR Subcommittee (relevant for GIs). These meetings covered detailed agendas and provided a forum for the Parties to monitor implementation, address concerns, and facilitate trade flows.

The Agreement remains in line with the EU’s new trade strategies adopted in 2015 and 2021. The 2015 ‘trade for all’ strategy sought to address new economic realities such as global value chains, the digital economy, and the importance of services, while also touching on issues of competition, e-commerce, innovation protection, and regulatory cooperation. Meanwhile, the 2021 strategy that promotes an ‘open, sustainable and assertive’ trade policy aims to: (i) build
on the EU’s openness to contribute to economic recovery through support for the green and
digital transformations; and (ii) provide a renewed focus on strengthening multilateralism and
reforming global trade rules to ensure that these rules are fair and sustainable. The policy also
provides for strengthened rules to tackle competitive distortions.

The Agreement is consistent with EU trade policy to a large extent. It includes provisions on
e-commerce and competition. For example, on e-commerce, the Parties have committed to
hold a regulatory dialogue covering issues such as: the protection of e-commerce consumers;
the treatment of unsolicited electronic communications; the recognition of certificates of
electronic signatures issued to the public; and facilitation of cross-border certification
services. However, because a dedicated body was not set up under the Agreement, these
provisions were not promoted and pursued to a level similar to that for trade in goods or
regulatory aspects, such as TBT or SPS.

2. Coherence with EU policies aimed at attaining the SDGs and the EU’s commitment to
the decent-work agenda

As outlined in the evaluation study, SDGs do not feature explicitly in the EU-CA FTA.
Nonetheless, trade flows between the Parties, as well as certain measures taken by them,
either unilaterally or as part of cooperation activities, helped to move towards
attainment of the SDGs.
Although the scope of the TSD chapters under other EU trade agreements has evolved
over time, the EU-CA TSD commitments related to the ILO’s decent-work agenda
remain valid.

In the Agreement, the Parties committed to promote sustainable development, both in the
overall objectives of the trade pillar and specifically within the TSD title. The text of the TSD
title covers commitments in a wide range of areas. On labour rights, the text of the TSD title
remains consistent with the current EU policy of promoting the ILO’s decent-work agenda
internally and with partner countries. The decent-work agenda emphasises the elimination of
child and forced labour and promotes CSR practices (European Commission, 2022b), both of
which are topics that have featured in the EU-CA policy dialogue and cooperation since the
start of the implementation of the Agreement.

However, the scope of the TSD chapters under other EU trade agreements has evolved over
time and more parts have been added to those TSD chapters under other EU trade agreements.
These additional parts are also relevant for EU-CA relations. These additional parts include:
(i) the promotion of decent working conditions, including wages and social protection; (ii) the
implementation of measures and policies related to occupational safety and health; (iii)
effective labour inspection; and (iv) the pursuit of social dialogue between governments and
social partners. Although SDGs as such do not feature explicitly in the EU-CA FTA, trade
flows between the Parties and certain measures taken by the Parties (either unilaterally or as
part of cooperation activities) help to move towards attainment of the SDGs. These measures
include measures on poverty reduction (through job creation or job maintenance in rural
areas), gender equality (through supporting women’s entrepreneurship and labour-market
access), or decent work for all.
3. Coherence with EU environmental and climate-change policies

On the coherence of the Agreement with the EU’s environmental policies, the external study found that the Agreement is broadly coherent with the EU policies in place at the time of the signature of the Agreement. The provisions of the Agreement notably provide a space for dialogue on developments in international and Commission policies related to climate change and environment that aim to accelerate the decarbonisation of the economy and the fight against deforestation.

In Article 287.2, the Parties reaffirm their commitment to effectively implement in their laws and practice the multilateral environmental agreements (MEAs) to which they are parties. A footnote to that provision specifies that its reference to MEAs shall encompass protocols, amendments, annexes, and adjustments ratified by the Parties. This approach allows for meaningful exchanges on the policy evolutions on environment and climate change which took place at international and EU level. Since the Agreement’s signing, major developments have taken place in the EU’s environmental policies. Milestone achievements include: the ratification of the Paris Agreement in 2016; the adoption of the European Green Deal in 2019; the release of the EU’s biodiversity strategy for 2030 in 2020 (European Commission, 2020b); the new circular economy action plan; and the zero-pollution action plan. Many measures taken in the context of the European Green Deal, and which are at different stages of the legislative process, may have implications for trade flows between the EU and CA. These include: (i) the carbon border adjustment mechanism; (ii) the proposal for a regulation on deforestation-free supply chains (which aims to ensure that timber, coffee, cocoa, palm oil, beef, soy, and their derivative products entering the EU market have not caused deforestation in their countries of origin); and (iii) the proposal for a directive on corporate governance due diligence. At global level, in December 2022 the 15th Conference of the Parties of the Convention on Biological Diversity agreed on the Kunming Montreal Global Biodiversity Framework (KMGBF). Building on the Convention’s previous strategic plans and the Aichi Targets, the KMGBF sets out an ambitious pathway to reach the global vision of a world living in harmony with nature by 2050. Among the key aspects of the KMGBF are: (i) 4 goals for 2050; (ii) 23 targets for 2030; and (iii) stronger monitoring and review mechanisms including a commitment by all Parties to set national targets to implement it.

The 2019 Green Deal is the top priority of the European Commission and identifies diplomacy and trade policy as ways to promote and enforce sustainable development across the globe, and to support the EU’s green transition. In addition, environmental objectives have also gained a more prominent and integral role in the EU’s 2021 EU trade-policy communication and the 2022 TSD policy review.

4.2 How did EU intervention make a difference?

Trade is an exclusive EU competence, and the difference the EU intervention made and the value it provided is analysed in Section 4.1 of this report against the four evaluation criteria of effectiveness, efficiency, coherence, and relevance.
4.3 Is the intervention still relevant? (EQ 9, JC 9.1, JC 9.2 and JC 9.3).

The following section seeks to answer EQ 9: ‘To what extent do the provisions of the Agreement’s trade pillar continue to be relevant in order to address the current trade needs and issues of the EU and CA?'

The Agreement has been relevant to broadly cover the current trade needs of the EU and CA as demonstrated in Section 4.1 on the effectiveness, impact, efficiency, and coherence of the Agreement. However more progress could still be achieved in supporting further the sustainability and diversification of the EU and CA economies. The Agreement remains relevant to tackle the new challenges confronting the EU-CA trade relationships such as climate change, digital transformation, or the new needs reflecting the development achieved by some CA countries, notably Costa Rica and Panama.

The current trade needs of the EU include the need to: (i) further expand exports; (ii) diversify supply; (iii) ensure more inclusive trade; and (iv) ensure the sustainability of production for both export and domestic markets. The needs of the CA partners include the diversification of trade and regional economic integration. CA partners are also increasingly interested in attracting investment to develop their own manufacturing industry to meet domestic demand. They are also interested in becoming more integrated in global value chains to take advantage of the global trend of reorganising global trade flows to decouple developed-world economies from geopolitical risks. Finally, both regions would benefit from taking commitments on e-commerce, the exchange of data flows, and IT services.

The ex-post evaluation has shown that the provisions of the trade pillar are relevant for these needs. Trade facilitation and the elimination of tariffs has created a basis for export diversification by the CA countries. And indeed some diversification (mostly within the Costa Rican pharmaceutical sector) has already taken place. The number of exporters has grown, and MSMEs have also benefited from the Agreement, contributing to the expansion of export-driven production and the more inclusive distribution of the benefits of trade. The TSD title provides a framework for addressing sustainable-development issues related to bilateral trade, and technical assistance and cooperation have also taken place in this area with some success. At the same time, it is clear that there are disagreements among stakeholders as to the effectiveness of these measures, mainly among civil-society representatives.

For example, the Paris Agreement on Climate Change, which was adopted in 2015 by the international community and the KMGBF adopted in December 2022 have become increasingly relevant to trade issues – particularly following the launch of the EU’s Green Deal in December 2019, which puts the green economic transition at the heart of all EU policies. New EU policies within the Green Deal package, such as the farm-to-fork policy or the due-diligence schemes on deforestation and governance, will have a significant impact on CA countries. In practice, CA partners are advancing in their own process of decarbonising their economies, in particular by developing renewable energies (including green hydrogen exports to the EU), while EU businesses are massively investing in renewable-energy operations in the region.

Another important trend is the digitalisation of the economy, which was accelerated by the COVID-19 pandemic. The digital economy requires strategic alignment to govern cross-border data flows building upon a toolbox of domestic regulatory, policy and networking
measures. Contrary to the most recent EU FTAs, the current agreement does not have the most recent provisions which could accompany the dialogue or develop new binding trade disciplines.

Another aspect to be taken into consideration is the most recent economic developments in the CA countries. For instance, in 2021, revenues from IT services were larger than tourist services in Costa Rica, while Panama recorded a trade surplus in services with the EU. There has also been progress in TSD, where the ex-post evaluation shows that there was progress in enforcing ILO conventions on the fight against child labour or freedom of association in Costa Rica and Panama, despite continued high levels of informality in the labour markets of both countries. The Agreement’s dialogue platform and the text of the Agreement itself are not necessarily adapted to address these new needs.
5. WHAT ARE THE CONCLUSIONS AND LESSONS LEARNT?

5.1 Conclusions

In general terms, the Commission services consider that the Agreement is well balanced and ambitious, offering substantial gains for both Parties in market access and rules. The Commission services consider that the Agreement has contributed to the stability and predictability of the trade and investment environment, thus promoting the expansion of export-oriented trade, as measured by both of the numbers of businesses engaged in the export trade and in the number of products traded. Ten years after its entry into implementation, the Agreement still offers many tools for trade and remains relevant in responding to the current needs of both Parties. The Agreement has reached a certain level of maturity, and the process of liberalisation has now largely been achieved. Dialogue between the EU and CA is regular and active, rendering the Agreement fully relevant. The Agreement overall remains coherent with the EU’s main policies and trade-policy objectives, including with new policy priorities that have emerged at EU and global level such as the Paris Agreement on Climate Change and the EU’s Green Deal strategy, including the farm-to-fork strategy.

In line with the Communication on the EU TSD policy review of 22 June 2022, the Commission has started taking concrete measures to strengthen the implementation of labour and environmental commitments under the title on TSD. It is doing so using the current provisions of the Agreement associated with relevant EU legislation (autonomous instruments), notably: (i) the forthcoming EU regulation on deforestation-free supply chains; (ii) the EU carbon border adjustment mechanism; and (iii) the proposed EU directive on corporate sustainability due diligence.

The vast majority of the action points from the TSD review are being implemented by the Parties already at this stage or by means of a decision of the bodies established under existing trade agreements (i.e. under the EU-CA FTA, the TSD Board, and/or the Association Committee/Council). The Commission is contacting the CA authorities in this regard. To provide for the possibility of withdrawing trade preferences as a measure of last resort (‘trade sanctions’) in cases of serious violations of the ILO’s fundamental principles and rights at work, or in case of material breaches of the Paris Agreement would require reopening the Agreement.

Once the Agreement has been fully ratified by all EU Member States, the Commission services will propose a targeted update, in order to fully implement the action points of the TSD policy review.
5.2 Lessons learnt

5.2.1 Effectiveness and impact

1 Economic aspect

a) Goods

The Commission services consider that the Agreement has positively supported the strong expansion of CA agricultural exports and an increase in the quality of these products in the last 10 years. However, the Commission are also of the view that more emphasis should be placed on the sustainability of agri-food value chains in the coming years. This is necessary to cope with global climate-change challenges and improve working conditions. In addition, it is important to continue enabling CA agricultural producers to increase their revenues by ensuring recognition for suppliers of quality agri-food products (GI coffees, etc.), thus better shielding producers from fluctuations in global crop prices. Another area of focus should be seeking to enable producers to take advantage of new market opportunities (such as the shift to organic food).

These aspects might take a more prominent place in the updated Agreement. In addition, the EU is currently developing a series of autonomous measures on EU commitments: (i) to reduce its environmental footprint on deforestation and GHG emissions; and (ii) on governance (see paragraph 3 of Section 5.2.1 on effectiveness and impact).

b) Services and investment

The Commission services consider that the Parties could have an interest in placing greater emphasis on services in their regular dialogue, notably in key sectors supporting countries’ development plans where EU companies have solid experience and leadership. Thus, the EU could further support the development of domestic and regional regulations in areas relevant for the EU-CA trade in services. Similarly, the Parties could exchange best practices and discuss appropriate solutions for highly relevant and rapidly evolving topics like e-commerce and its regulatory aspects. When relevant, possible, and requested, the EU could also provide technical assistance to its CA partners on these subjects.

On diversification, and in particular on diversification of industrial goods, there is increasing demand from CA countries to start a dialogue with the EU on ways to further attract FDI to implement their economic and investment plans. The Commission services suggest seeing how investment liberalisation provisions and dialogue set under the Agreement could be better used. The Commission services also suggest reflecting on other provisions that could facilitate investment in the region (notably on trade facilitation) that would be best suited to the CA context.

On economic development, the EU might consider giving further support further to CA to develop key infrastructure and investment plans. The EU could do this by promoting EU public/private sources of financing and other innovative sources of financing in areas that would facilitate the green economic transition, digitalisation, agriculture, and sustainable food systems. A more coordinated approach should be developed for financing public/private
investments in CA with the support of the EU international financial institutions. The EU’s ongoing Global Gateway initiative and other flanking measures could also help to achieve this goal.

Given the lack of a dedicated subcommittee on services, e-commerce and establishment, the Commission services consider that the EU and CA could explore the opportunity to have a dedicated dialogue on services and investment to address those matters. This dialogue could even be on an ad hoc basis. Considering the lack of available FDI data, the Commission services propose developing common standards for the collection and dissemination of FDI data, in particular at the sectoral level. This will enable better analysis of the FDI flows and identification of any bottlenecks preventing investment.

c) Other trade-related areas

The available evidence confirms that the subcommittees played a useful role in: (i) addressing specific issues, such as trade and the exchange of information; and (ii) stimulating policy dialogue and finding general solutions. The Commission services consider that the Agreement has been correctly applied overall, although certain issues have been more problematic and will be described in the paragraph below.

Customs

The Commission services consider that the application of Annex II on rules of origin has been well applied overall. Some specific rules require closer attention as their application has been problematic, such as: (i) the clause on direct transport; (ii) the absence of an accounting segregation provision; (iii) the application of the tolerance rule; or (iv) the efficient delivery of proof of origin (such as an approved-exporter regime).

SPS

The Commission services consider that the SPS provisions of the EU-CA FTA appear to be a dynamic, up-to-date, and standard treaty text, just like those found in most EU and other regional trade agreements. However, the implementation of these SPS provisions has remained problematic mostly on to the following two specific issues.

- The first issue is the ‘pre-listing’ of establishments (trade facilitation WTO+), and the registration of a new animal-export request.
- The second issue is the principle of regionalisation, which is to be applied in the event of epizootic diseases.

For both of these issues, the Commission services suggest exploring enforceable mechanisms that would be applicable when the implementation of certain SPS provisions is not observed or is incorrectly applied (for instance, provisions on pre-listing requirements, the ‘regionalisation principle’ or the registration of animal exports).

TBT

The Commission services consider that the application of the provisions on TBT have been well applied overall. However, the Commission services also believe that some changes in this area could be made by CA in implementing regional technical standards (see the section below on regional integration).
Intellectual property

The Commission services consider that the active dialogue in the Subcommittee on Intellectual Property has been successful in discussing the issue of protecting geographical indications (GIs) for the benefit of CA and EU products. The Commission services consider that extending the scope of the Subcommittee to follow up on the implementation of the entire intellectual-property chapter of the Agreement would be beneficial for both Parties. The Commission services are also of the view that positive momentum in strengthening and expanding the protection of GIs needs to be maintained, including by finding ways to address enforcement issues despite the lack of dedicated provisions in the Agreement on enforcement of GI protection.

Public procurement

The Commission services consider it important to continue working on the three following areas:

- Monitoring and availability of data. The lack of data means that it is not possible to regularly monitor Parties’ companies participation in tenders. In particular, some CA countries lack the capacity to obtain public-procurement data. There needs to be further reflection on how CA countries can strengthen their capacity in this area.

- Transparency and facilitation of access by suppliers to each other’s public-procurement markets. In September 2022, a ‘single point of access’ was set up at the regional level in CA to serve as an online interface for all public procurement in the region. This was in line with Article 212 of the Agreement. The Commission services recognise this as a significant first step that should facilitate access to the procurement markets of CA countries. The Commission services believe it is now important to build on this to achieve further transparency in public-procurement notices and further strengthen the single point of access, for example by adding transactional functions. For example, further work should include: (i) for CA suppliers, exposure to specific information and guidance on the kind of opportunities available under the Agreement; and (ii) training for businesses, contracting authorities, and relevant stakeholders on how to use the online systems, including technical assistance given by the EU to CA suppliers.

- As the issues of climate change and the environment become more prominent in the EU and CA, it would be appropriate to reflect on how public procurement can be used to achieve common green and climate considerations in line with international principles of non-discrimination and transparency, as reflected in the Agreement.

Market access and SMEs

The Commission services consider that CA exports of bananas and sugar (and specialty sugar extracted from sugarcane in particular) should continue being monitored given the sensitivity of these products for the economies of the EU’s ORs. The adverse effects of these imports on the EU’s ORs may be addressed by more targeted EU-led interventions to increase the ORs’ competitiveness.

The Commission services consider it important to maintain flanking measures to support information and engagement with EU business associations and companies in order to promote both the Association Agreement and the CA region as a destination for investment.
The Commission services also consider it to be important to reflect on measures or provisions which could facilitate exports by EU and CA SMEs. This could be done by a variety of methods including: (i) capacity-building activities and advisory services for CA; and (ii) better information and advisory services for EU SMEs.

**e) Regional integration**

The Commission services think that issues of regional integration, which are so important for the successful application of this Agreement, should be addressed in a more systemic manner and discussed with the participation of the Secretariat of Central America Economic Integration (SIECA) in the Association Committee and its subcommittees.

The Commission services also believe that it is important to strengthen the connection between the institutions of the Association Committee and the Committee of Central American Ministers of Trade (COMIECO). Commitments could be made by the SIECA Presidency Pro Tempore to share: (i) its programme on regional integration; (ii) the agenda of COMIECO meetings; and (iii) the communiqués resulting from these meetings. Further reflections are described in the institution section.

**2 Social aspects**

The data provided by the economic model used in the ex-post evaluation and corroborated by real-life data show that job creation resulting from the Agreement happened mostly in the agriculture and fishery sectors (with a few exceptions, such as medical equipment in Costa Rica and textiles in Panama). Against this background, the Commission services believe that the focus of the EU-CA dialogue on the ILO’s fundamental principles and rights at work (notably freedom of association and the fight against child labour) and on multilateral environmental agreements should be focused on those economic sectors (located mostly in rural areas) where the FTA has had a real economic impact.

The ex-post evaluation also shows that the Agreement has helped to create formal, but also informal jobs. This is problematic, because it means that the Agreement partly perpetuates high levels of informal work, which are observed across all CA countries. However, over the last 10 years, some progress in the formalisation of the economy has been observed by CA authorities.

The Commission services believe that the fight against informality, notably in rural areas, should increasingly be a focus of our discussions, including recent efforts made by Costa Rica and Panama to develop a social-security system, roll out universal health coverage, and bring SMEs into the formal economy.

The Commission services are also of the view that the EU should continue supporting (through technical assistance and capacity building) CA authorities and social partners so they can strengthen policies that address the problem of informality and job quality. Job quality and formality have an impact on workers’ welfare (e.g. through higher wage levels and the possibility of social-security contributions), economic stability (through the type of contract), and health (by compliance with rules on health and safety at work).

Evidence provided by stakeholder engagement also suggests that, against the background of poor enforcement of domestic labour legislation and alleged low job quality, some sector associations have adopted beneficial labour policies for their workers and environment applicable for the whole sector or certain parts of the sector. These policies should improve
working conditions and have been rolled out in sectors such as the pineapple sector in Costa Rica, and the palm oil and sugar sectors in Guatemala. The Commission services think that it is important to explore the opportunity for dialogue with these private-sector associations involving CA authorities to ensure the following:

- They should ensure that the implementation of those policies is monitored (e.g. by contracting external auditors or cooperating with labour-inspection services) and that there is regular reporting on these policies (e.g. annual reporting).
- They should encourage monitoring and audit results to be transparent and published (e.g. on websites of sector associations and included in annual corporate reporting) when monitoring mechanisms are already in place that complement labour-inspection services (e.g. an annual audit of the situation in sugar mills in Guatemala and a regular compliance check in the pineapple sector in Costa Rica).
- They should encourage the exchange of best practices between umbrella organisations, and sector associations within countries and the region.
- They should work to help develop unilateral roadmaps by sector associations to take commitments on developing monitoring mechanisms using the best international standards.
- They should encourage technical cooperation through joint actions and projects aimed at capacity building, in particular in the area of labour inspections.

The Commission services consider that it would also be appropriate to create a forum for dialogue among the different players in relevant value chains (from CA farmers to EU consumers) on the distribution of value addition in these chains to ensure the long-term sustainability of CA value chains. Some CA farmers have been complaining for several years of the low level of international prices at which their commodities are purchased. Providing decent working conditions and transforming agricultural value chains into sustainable value chains requires substantial investment.

On the availability of data on labour and social issues, the Commission services stress how important it is for CA countries to provide more regular data on employment (formal/informal), child labour, and gender-disaggregated data, starting with sub-sectors participating in international trade and thus likely to be affected by the FTAs.

a) Child labour

The Commission services acknowledge the progress made in preventing and ending child labour in some CA countries (e.g. Costa Rica and El Salvador), and from some exporting sectors (such as in sugar, bananas, or coffee in all CA countries). Nevertheless, the Commission services consider that dialogue with CA and cooperation support should be intensified to reduce and end child labour, in particular in Honduras and Guatemala.

b) Freedom of association

CA countries, notably El Salvador, Guatemala, and Honduras, should further align their laws with the ILO’s fundamental conventions No. 87 and No. 98 on freedom of association and the right to collective bargaining. CA countries should also ensure the effective implementation and enforcement of these laws. To that end, the Commission services encourage discussions between social partners in a tripartite dialogue to review the ILO’s recommendations and consider how to address them. Discussions in the TSD Board on priority areas for action remain important to consider progress achieved and point to remaining challenges. Dedicated events – such as the EU-CA conference on informality, freedom of association and the fight
against child labour (held in Guatemala City in November 2022) – can be useful as additional fora of information exchange.

Based on ex post evaluation findings, the Commission services encourage the private sector and CA governments to create the necessary conditions for trade unions to be able to cooperate freely notably in Guatemala and Honduras. These conditions of free cooperation are not yet in place, and the situation for trade unions in certain sectors or CA countries lags behind the rest of the region. For example, in Guatemala’s sugar sector there is only one trade union operating and it faces serious challenges, while in other countries trade unions are active in some or all sugar mills. Equally other sectors, such as the palm-oil sector in Guatemala or the melon sector in Honduras, do not offer conditions for the free establishment and operation of trade unions. In this context, it will be important to see whether the implementation of human-rights guidelines in the palm-oil sector in Guatemala will bring positive changes in this area.\(^\text{18}\)

The Commission is already providing support to Guatemala through the ‘Empleo digno’\(^\text{19}\) project to boost decent jobs through training and capacity building for different stakeholders (administrations, trade unions, employer associations), in cooperation with the ILO.

The Commission services encourage El Salvador to reinvigorate cooperation between the government and the social partners. Although progress in this area was recently made, further work is needed to improve relations between the government and social partners, and to improve conditions for the free operation of the social partners.

c) Labour inspections

The CA countries (most recently Guatemala) have strengthened the capacities (human and technical) of their labour-inspection services over the period under review. However, further efforts are needed to improve the efficiency and the transparency of the labour-inspection services (notably in Guatemala and Honduras). This process is now being further supported by the ILO Governing Body decision of March 2022 to adopt guidelines for inspection services, which will accompany two ILO conventions on inspection services (Nos. 81 and 129).

d) Health and safety at work

CA companies have been investing substantially to improve the health and safety conditions of their workers. However, the health and safety situation of workplaces varies across countries and sectors. In June 2022, the ILO International Conference decided to include health and safety at work in the ILO 1998 Declaration on Fundamental Principles and Rights at Work, and to add two related conventions (No. 155 on occupational safety and No. 187 on a promotional framework for occupational safety and health) to the list of ILO fundamental conventions.

Given the importance that matters of health and safety play in improving work conditions, these issues should be addressed in future TSD Board dialogues. The Commission services

\(^\text{18}\) Those guidelines were developed under the REFRAME project, which was funded by the EU and implemented by the ILO and focused on improving employment practices in the sugar and palm-oil sectors. In 2021, the guidelines were also adopted by the banana sector in Guatemala.

\(^\text{19}\) Guatemala’s ‘Empleo digno’ programme was funded by the EU: see website Inicio – Empleo Digno.
consider it important to explore ways to extend the commitment under Article 286 of the Agreement to comply with, promote, and achieve the fundamental rights, which are the subject of the fundamental ILO conventions, to occupational safety and health, thus reflecting the ILO decision of June 2022.

e) Non-discrimination at work

To ensure gender equality, the Commission services consider that it would be appropriate to strengthen discussions in the TSD Board and with private-sector associations on the implementation of ILO Conventions No. 100 on equal remuneration and No. 111 on discrimination at work. This encouragement of gender equality should include the equal access of women to education, vocational training, employment, professional development, and career progression to managerial positions.

On migrant workers, to the extent this has not been addressed yet in CA regional economic integration, the Commission services would encourage CA countries to discuss ways to address the mobility of workers. These discussions could address issues such as worker mobility for the harvest season, and worker’s enjoyment of rights established in the national legislation of the hosting country, such as payment of at-least minimum wages or social security contributions. Existing best practice from different sectors could be shared between the CA countries and relevant sector associations (e.g. with migrant workers employed in the coffee and pineapple sectors in Costa Rica). The EU could support such discussions by also sharing the experience of solutions adopted within its single market.

f) Responsible business conduct and CSR

The Commission services encourage CA countries to continue to engage in promoting and using CSR standards, including on the due diligence of supply chains. In particular, the Commission services encourage CA countries to do this for sectors involved in exports to the EU. Evidence shows that sustainability-certification schemes have helped to improve compliance with environmental standards and working conditions.

The Commission services suggest that the possibility of a dialogue with certification organisations could be explored to help obtain a better view of: (i) the challenges and opportunities experienced by certified companies and plantations; and (ii) the benefits that certification gave companies and plantations in accessing the EU market.

The Commission services also consider it important to encourage CA countries to develop national or even regional sustainable certification schemes. These schemes should aim to ensure that small producers, which lack the means to finance audits by private certification organisations, are supported by governmental certification bodies or supported by agriculture extension services.

On the specific case of organic certification, the Commission services encourage the CA countries to strive towards the convergence of their organic regulations, inspired by the EU’s regulatory framework for organics. This would facilitate intra-regional trade in organic products. It would also make it easier for producers in CA countries that do not have a
specific agreement on organics trade with the EU\textsuperscript{20} (e.g. Costa Rica) to certify their organic products for export to the EU (and other large markets for organic food, like the US, with very similar regulatory frameworks for organics).

3 Environmental aspects

Since 2012 when the Agreement was signed, global efforts and ambitions to limit global warming and to combat environmental degradation have accelerated enormously in both the EU and CA. The signature of the Paris Agreement in 2015 and the launch of the European Green Deal in 2019 have put the sustainability of value chains at the heart of EU trade policy. As a result, the Green Deal’s climate and environmental objectives have also been integrated into a broad range of EU strategies which are being translated into new regulations or schemes (notably the carbon border adjustment mechanism, the proposal for a regulation on deforestation-free supply chains, the proposal for a corporate due-diligence directive, and the proposal for a regulation on eco-design for sustainable products). At the same time, CA countries that have also signed and ratified the Paris Agreement have published new long-term strategies, often involving references to climate and environmental objectives.

Based on these developments and the restructuring of priorities during the implementation of the Agreement, the Commission services consider that it would be appropriate to align the prioritisation of actions within the Agreement with current policies under the EU’s Green Deal, notably the farm-to-fork strategy, the due diligence on deforestation which are transforming the EU’s trade relations with the CA countries. It is therefore important to discuss these policies and regulations within the TSD Board and through dedicated dissemination activities. The Agreement leaves room to encourage the partner countries to improve their environmental performance (e.g. Article 287 on multilateral environmental standards and agreements, Article 288 on trade favouring sustainable development, Article 289 on trade in forest products, and Article 290 on trade in fish products).

Related to this, the Commission services recommend drawing up a list of actions after TSD Board meetings to ensure that issues discussed in TSD Board meetings are followed-up on. Progress on previously agreed actions should also be presented at these meetings.

The Agreement has had a relatively large impact – through tariff liberalisation – on production in the agricultural sector in the CA countries. This impact on production is likely related to several other impacts on the environment. The Commission services therefore suggest working together with CA countries to intensify efforts to mitigate negative impacts through the agricultural sector by shrinking the environmental footprints of key agricultural products, like palm oil, sugarcane, pineapples, coffee and bananas. This could involve information exchange and the sharing of best practices between the EU and the CA countries to: (i) reduce the use of pesticides, agrochemicals, and better management of water consumption and sewage; and (ii) step up efforts to achieve deforestation-free agriculture. The EU is already supporting CA countries through cooperation projects, and future technical assistance and capacity building has already been programmed on those issues.

The Commission services believe it would be appropriate to improve the monitoring and tracking of environmental performance in the CA countries. The ex-post evaluation showed

that data on environmental performance in the CA countries were limited. As a result, the ex-post evaluation could not clearly assess the impacts of the Agreement on certain environmental issues (such as potential forest degradation, indirect land-use change, water quality, and the impact of producing environmentally certified products).

As concrete steps, the Commission services suggest including improved technical support for developing environmental tracking systems and the use of monitoring results in the TSD setting. For example, to improve monitoring, efforts could include working with Agricultural Monitoring in the Americas, an initiative that collects data on agricultural production involving various stakeholders (research groups, governmental bodies, and the private sector).

The Commission services also consider it important to support CA countries in their efforts to: (i) decarbonise their economies; (ii) promote sustainable agricultural supply chains; and (iii) conserve and sustainably use natural resources. The Commission services believe the best way this can be done, is by supporting CA investment plans with EU public and private financing. For instance, the ex-post evaluation case study on renewable energy in Costa Rica showed the untapped potential of Costa Rica’s offshore wind-energy sector. Under the Global Gateway initiative, the EU, together with CA countries, is identifying strategic investment projects that support the green, digital and just transition, and which could have a major impact on: (i) CA’s decarbonisation strategy; (ii) CA’s efforts to promote critical ecosystems; and (iii) CA’s efforts to make its supply chains more sustainable.

4 Human-rights-related aspects

The Commission services consider that, in the ongoing dialogue between the Parties under the TSD title special emphasis should continue to be placed on actions that need to be taken by CA governments in two areas: (i) actions to align CA national legal frameworks with ILO fundamental principles; and (ii) actions to effectively implement and enforce labour laws by strengthening the capacity of labour-inspection services, especially in the agricultural sector. Likewise, the CA Parties should create the conditions necessary to allow trade unions to operate freely. Moreover, to support these efforts, CA countries should continue to cooperate with the ILO on: (i) strengthening administrative capacity (e.g. labour inspections); (ii) awareness-raising on labour rights; and (iii) training for employers and workers (e.g. on health and safety at work).

The Commission services consider it appropriate to: (i) continue providing technical and financial support to CA countries to promote their compliance with international labour standards; and (ii) continue dialogue with CA countries under the TSD title. Such cooperation and reporting on FTA implementation should focus on country-specific priorities and objectives, tracking progress achieved. This should be accompanied by better coordination between different EU instruments and projects, including those projects launched by EU Member States (see the sub-section on the TSD Board in Section 5.2.2 on efficiency including institutions).

Based on the information provided by stakeholders, the Commission services consider that trade union membership has a tangible and positive impact on working conditions and the protection of workers’ rights. Allowing trade unions to be set up and operate at sector level is important to move towards better protection of workers’ rights overall. To that end, the CA governments should review the recommendations provided by the ILO and consider how to address them.
Given that the CA countries have large indigenous populations, especially in Guatemala, it is essential that economic activities under the Agreement are carried out with special attention to vulnerable population groups. For example, in line with Articles 284 and 288 of the TSD title, the Parties should continue to promote and use international instruments and good practices on CSR and on business and human rights. This will help to mitigate the effects of business activities on social and environmental aspects, including aspects relevant for indigenous peoples, with a particular focus on land rights, and the right to free, prior, and informed consent, in line with the ILO Convention No. 169.

5.2.2 Efficiency, including institutions

1 Institutions set up by the EU-CA FTA

a) Decision-making process

The Commission services consider that changes in the decision-making power of the EU-CA FTA institutions should be considered to support the implementation of the Agreement and improve the pace at which the Parties can react to the identified needs set out in the paragraphs below. In particular, the Commission services suggest setting up an effective delegation procedure to allow delegation from the Association Council (minister level) to the Association Committee (senior official level) to facilitate the adoption of decisions by the institutions of the Agreement. Indeed, experience shows that most of the meetings related to the trade pillar of the Agreement took place in the Association Committee.

b) Better links with the commitments taken by CA on regional integration

The Commission services consider that some commitments taken by CA on regional integration could be better monitored if SIECA could be more systematically associated at subcommittee and Association-Committee level.

The Commission services also suggest better connections between the bodies set up under the Agreement and the Central American Presidency Pro-Tempore (PPT). This will help give the EU and CA more information about: (i) the programme the PPT intends to implement on economic integration; (ii) regular updates; and (iii) the agenda and outcomes of COMIECO meetings.

c) Strengthen the work of the PPT

The Commission services would like to encourage CA, and in particular the PPT, to reflect on the possibility of setting up a more permanent structure for its secretariat. This would help with: (i) ensuring continuity of process; (ii) maintaining an institutional memory; (iii) alleviating the workload of the PPT; and (iv) facilitating work during the year. Options to be considered could include a rotating troika system and a request for support by the regional organisation to ensure that secretariat tasks are carried out.

2 Strengthen the implementation of the TSD dialogue

In parallel to the ex-post evaluation analysis of the Agreement’s trade pillar, the European Commission launched an extensive horizontal review of the implementation of the TSD titles in all its FTAs with other countries and blocs. The results of this work were published in a Commission Communication in June 2022, *The power of trade partnerships: together for
green and just economic growth. The document was endorsed by the European Parliament and the Council in October 2022. The results of this TSD review (TSDR) were translated into 20 action points that the Commission committed to progressively implement in close coordination with its partners or unilaterally. Therefore, the lessons learnt and the recommendations on the TSD extracted from the ex-post evaluation analysis by the Commission services are also made in the light of the TSDR.

a) Improve dialogue in the TSD Board

- As a first step, the Commission services suggest contacting CA partners during the next TSD Board and Association Committee meetings to discuss possible improvements to the TSD Board procedures on the basis of both this staff working document and the TSDR outcomes. In terms of process, this could include exploring opportunities to exchange key data (updates on key labour and environment indicators) ahead of the annual TSD Board meetings – either in writing or through dedicated bilateral preparatory meetings. This would make it possible to dedicate the time available at the TSD Board meeting to meaningful discussions of priority issues.

- On the focus areas of EU-CA TSD work, the Commission services suggest strengthening the EU-CA TSD dialogue on the basis of the two actions set out in the two paragraphs below:

The Commission services suggest refining country-specific implementation priorities on the core dimensions of the TSD title (labour and environment, including climate change). These priorities will take into account the findings of the ex-post evaluation as well as the inputs of both relevant international organisations (notably the ILO) and civil society groups. Future dialogues – in the TSD Board, as well as bilaterally with individual CA countries – should focus on those country-specific implementation priorities.

In conjunction with the above priorities, the Commission services will seek to discuss in the TSD Board – and to address through relevant EU-CA cooperation activities – matters of mutual interest identified through the ex-post evaluation. These matters include certification; market access for small-scale farmers and SMEs; the use of water; and organic products (see the minutes of the 2022 TSD Board meeting). In the TSD Board, the Commission services will also seek to address requirements laid down by forthcoming EU legislation, notably on deforestation-free supply chains, and the opportunities this legislation could create.

b) Strengthen work with civil society

The Commission services believe that there might be a need for more regular dialogue by CA governments with their respective domestic advisory groups (DAGs), in the run-up to TSD Board meetings and throughout the year. The Commission will continue providing support to CA DAGs through capacity building (e.g. through specific training on issues pertaining to the Agreement, including participation in meetings). The Commission services suggest that CA partners explore the possibility of setting up a technical secretariat to CA DAGs.

---

21 COM (2022) 409 final.
The Commission services will contact the CA governments to explore possible approaches to: (i) support DAGs; (ii) further promote interaction between DAGs; (iii) foster transparency on the composition of DAGs; (iv) consult DAGs on technical assistance projects; and (v) extend the remit of DAGs to the entire trade agreement.

The Commission services also suggest discussing with CA partners possible adaptations to the formula of meetings of the Civil Society Dialogue Forum to ensure structured and focused discussions. This could possibly be achieved by organising panels concentrating on thematic issues, while maintaining possibilities for civil society to also raise other issues of interest or concern.

Governments should also ensure that they follow up on recommendations by civil-society groups. And they should encourage civil society groups to draft their recommendations with a stronger focus on implementation and operation, pointing to specific implementation gaps, challenges, and opportunities, and enabling measurement of progress.

5.2.3 Coherence with EU policies

The Commission services consider it important to strengthen the coherence of EU trade-policy action with the EU’s political and cooperation work. In line with the European treaties, protection of human rights is one of the EU’s overarching objectives in its external action and is at the centre of the EU trade agenda. In addition, the EU Green Deal strategy of December 2019 put the objective of the green transition of the EU economy at the heart of EU policies, including its trade policy. The EU’s 2021 trade policy review and its 2022 TSD review refer to these policies as overarching strategies. The EU-CA FTA is one of the ‘new-generation’ FTAs that go beyond strictly trade-related matters to include fundamental rights in its human rights clause and the TSD title (with provisions on labour rights).

1- Essential clause on human rights

Taking into account the importance of the political dialogue on human rights and its possible impact on our trade policy, the Commission services consider it important to complete the ratification of the EU-CA Association Agreement to enable the entry into force of the remaining pillars of the Agreement. In particular, enforceable human rights obligations are contained in: (i) Part I ‘General and Institutional Provisions’, Article 1 ‘Principles’; and (ii) Part V ‘Final Provisions’, Article 355 ‘Fulfilment of Obligations’. The Commission services encourage Belgium to finalise its ratification process so that the provisions may enter into force. Issues identified in the baseline analysis of the human-rights situation in CA as well as the possible minor impact of the Agreement on indigenous peoples’ rights are relevant under the human-rights clause of this Agreement. In line with the provisions of the Agreement, Parties are obliged to ensure that democratic principles and human rights specified in the human-rights clause are upheld within their respective jurisdictions.

2- Ensure better coherence with our cooperation programmes

Part III of the Association Agreement on cooperation has the following general objective: ‘supporting the implementation of this Agreement in order to reach an effective partnership between the two regions by facilitating resources, mechanisms, tools, and procedures.
Although Part III has not entered into force, it is important that the EU’s partnership in the CA region remains as aligned as possible with that objective to support the implementation of the trade pillar, especially when project activities have objectives in the areas of trade-related assistance or TSD.

Therefore, the Commission services consider it important to strengthen coherence with cooperation projects and makes the following four proposals.

- EU should map all relevant ongoing EU-CA cooperation/assistance activities to maximise their contributions to the implementation of region-specific or country-specific TRA/TSD implementation priorities. This approach should also be valid for Member State projects.
- The design of future EU-CA cooperation/assistance activities should – from the outset -be informed by the region-specific or country-specific TRA/TSD implementation priorities, building on the achievements of past/current projects.
- Parties should better engage with civil society on labour rights (e.g. through DAGs under the TSD title) to identify areas where further policy dialogue and capacity-building projects are most relevant.
- EU should improve coordination between various EU/MS instruments and projects carried out on the ground.
ANNEX I: PROCEDURAL INFORMATION

1. Lead DG, Decide Planning/CWP references

Lead DG: European Commission Directorate-General for Trade, DG Trade
Decide reference number: PLAN/2018/4639 - TRADE - Ex post evaluation of the EU-Central America Association Agreement.

2. ORGANISATION AND TIMING

An Inter-service Steering Group (ISG) was established on 29/11/2019 for the purpose of reviewing and finalizing the Terms of Reference; supporting the evaluation work and the evaluation project manager in steering the evaluation by monitoring the progress of the evaluation, by providing comments and by assuring the quality and objectivity of the evaluation reports; analysing the results of the evaluation in view of the subsequent follow-up; and contributing to the Staff Working Document.

The ISG included all other relevant services of the Commission: Secretary-General; DG for Agriculture and Rural Development; DG for Climate Action; DG for Competition; DG for Employment, Social Affairs and Inclusion; DG for Energy; DG for Environment; DG Statistical Authority of the European Union; DG for Internal Market, Industry, Entrepreneurship and SMEs; DG for International Partnerships; DG for Maritime Affairs and Fisheries; DG for Mobility and Transport; DG for Regional and Urban Policy; DG for Research and Innovation; DG for Health and Food Safety; DG Taxation and Customs Union; DG Trade; and the European External Action Service.

The ISG met 6 times: on 29 November 2019 [ToR], 16 April 2021 [Inception], 10 December 2021 [Draft Interim], 28 April 2022 [Draft Final] and 15 March 2022 [SWD].

Evidence, sources, and quality

The evidence for the impact assessment report was gathered through various activities and from different sources:
- A quantitative econometric modelling simulation
- Input by stakeholders to the public consultation

ANNEX II: METHODOLOGY AND ANALYTICAL MODELS USED

The evaluation followed the methodology as briefly laid out in the 2019 evaluation roadmap and was further guided by the Better Regulation tools. The evaluation assesses the effectiveness, impact, efficiency, coherence, and relevance of the Agreement:

- At the level of the operational objectives set out in Article 78 of the Agreement, the evaluation assesses its effectiveness to support expansion and diversification of trade between the Parties through reduction of tariffs and non-tariff barriers and the ability to increase investment flows, open access to public procurement markets, protect IPRs, and promote competition, sustainable development and regional economic integration in Central America through different measures and areas of cooperation between the Parties as foreseen in the Agreement.

- Regarding impact, it evaluates to what extent the Agreement has contributed to sustainable development in all its dimensions – economic, social (including human rights and labour rights) and environmental – and whether and to what extent the potential impacts as expected at the time of its negotiation (and outlined in the Sustainability Impact Assessment study) have occurred.

- The Agreement’s efficiency is assessed in relation to the resources used (including the distribution of costs and benefits among different groups of stakeholders and the existence of unnecessary costs and legal complexities in relation to achievement of the objectives).

- The Agreement’s coherence with the EU’s trade and development policies, and the EU’s commitment to sustainable development in trade and its contribution to attainment of SDGs are evaluated, focusing on EU policies that were in place at the time of negotiations and as they have evolved until now.

- Finally, the EU-CA FTA’s relevance with respect to the current trade needs of the EU and Central America is assessed.

To address this set of complex issues, the evaluation is based on a diverse set of sources and inputs and uses different methods and analytical tools.

The evaluation builds on four main types of inputs and sources:

- Previous studies of the Agreement – such as the 2009 “Trade Sustainability Impact Assessment (SIA) of the Association Agreement to be negotiated between the EU and Central America”, the 2012 study assessing economic impacts of the EU-CA FTA, the 2018 study by the European Parliament Research Service “The Trade Pillar in the EU-Central America Association Agreement”, the Commission’s annual reports on the implementation of the Agreement, as well as relevant research published by third parties – constituted both an important source of factual information and data and a point of reference to compare the evaluation findings against.

- An evaluation study commissioned to an external contractor served as an important input into the evaluation. The external study employed a mix of quantitative and qualitative

---

24 Ref. Ares (2019)3139989 - 13/05/2019
methods, including case studies, as well as extensive consultations. The external contractor also used the results of the Commission’s economic modelling (see description below) as a source for their own analysis. The external study’s findings, conclusions and recommendations were discussed with and within the Commission services. The main part of this report outlines the Commission’s views and indicates where they agree with and where they differ from findings of the external evaluation team.

- **Statistical data** from EU sources – notably Eurostat data, e.g., on bilateral trade and economic aspects in the EU – and other official sources – such as statistics published and provided by the CA partner countries, UN COMTRADE data for global trade – and complementary data published by international organisations, academic sources, business, and civil society organisations were used for quantitative analysis.

- **Consultations** were used to collect qualitative (and where possible, quantitative) data and views from a wide range of stakeholders.

In terms of the **methodology** used, in a first, conceptual stage, the Agreement’s intervention logic was developed and agreed (see Figure 1 below), and based on this, the evaluation framework and matrix were designed (see at the end of this Annex for more detail).

For each of the judgement criteria as defined in the evaluation matrix, a specific methodology was developed and applied – although all these methodologies shared a common principal methodological approach: to determine the Agreement’s effect by comparing the actual situation with the Agreement in place with a hypothetical counterfactual scenario of the world without the Agreement. However, the degree to which this methodological approach could be applied varied: for some economic effects (and non-economic effects directly derived therefrom, such as employment effects), the use of the economic model, as described below, guaranteed that the effect of the Agreement could be isolated from other factors that also affect trade and economic development. For other impacts, the evaluation resorted to descriptive statistical analyses and qualitative assessments based on data and information obtained from a variety of sources, among which consultations of stakeholders have been of high importance.

---

Figure 1: Intervention hypothesis of the Trade Pillar of the EU-Central America Association Agreement

**Policy instrument**
- Promoting economic regional integration
- Facilitating trade in goods
- Expansion and diversification of trade, through reduction or elimination of tariff & NTBs
- Liberalising trade in services
- Creating environment favourable to investment
- Promoting free and undistorted competition
- Protecting intellectual property rights effectively
- Opening government procurement markets gradually and reciprocally
- Promoting international trade and investment, to contribute to sustainable development through collaborative work
- Establishing an effective, fair and predictable dispute settlement system

**Objectives (Part IV, Art. 78)**
- Regional economic integration
- Trade in goods
- Establishment, trade in services and electronic commerce
- Current payments and capital movements
- Trade and competition
- Intellectual property
- Government procurement
- TSU
- Dispute settlement
- Transparency & institutions

**Provisions (Part IV)**
- Association Council, supervised implementation, improved relations, amended Agreement, accelerated liberalisation
- Sub-committee on MA for Goods, accelerated liberalisation for trade in goods and tariff reductions
- Sub-committee on Customs, TF and RoO, addressed customs and RoO facilitating trade flows
- Sub-committee on TBT, standards and technical regulations not limit trade
- Sub-committee on SPs, dialogue on SPs, problems addressed
- Association Committee in Trade configuration
- Sub-committee on IP, promoted technology transfer & GI protection
- WG on Gov Procurement, transparency, market access
- TSU promotion (Board)
- Association Committee Gov consultations and dispute settlement mechanism; problems prevented and resolved, Agreement interpreted and managed

**Implementation activities**
- Increased trade and investment flows between Central American countries
- Reduced barriers facilitate increased EUCA trade and investment flows
- More competitive companies, incl. SMEs, participate in trade
- Better availability and affordability of diverse goods and services
- Increased diversification of trade flows
- Improved, competitive business environment
- Further developed regulatory framework related to trade
- Encouraged cooperation between EU and Central America related to trade
- Strengthened administrative capacity, including enforcement, related to trade

**Short-term outcomes**
- Strengthened & deepened regional integration in Central America
- Expanded and diversified trade between the Parties, improved market access
- Strengthened and consolidated trade relations of the Parties
- Job creation in sectors involved in bilateral and regional trade and supporting ones
- Increased & consolidated diversification of economy, technology & innovation
- Gradually reduced structural asymmetries between the Parties
- Regulatory environment in line with WTO rules and international standards
- Effective implementation & enforcement of international labour & env standards
- Enhanced bi-regional cooperation in all areas of common interest for SD
- Maintained and further enhanced level of good governance
- Good, transparent governance and improved respect for human rights

**Medium-term outcomes**
- Reinforced good neighbourly relations in Central America
- Higher economic growth
- Gradually improved living standards
- Poverty eradication
- More competitive and diversified economy more resilient to external shocks
- Better integration of both regions into global economy

**Long-term impacts (Art. 1, Art. 2 & Recitals)**
In each case, the evaluation aimed to show the causal link between the Agreement and any observed development (contribution analysis). It is an inherent limitation of the evaluation that this causal link in many instances cannot be proven (except for the economic modelling, which in turn has other limitations, as explained below), although the methods used, and the quality assurance applied (see below) ensure the robustness of the analysis and conclusions. Regarding the causal chains related to the Agreement’s non-economic impact, the two main ones considered were:

- Indirect (economic) channel: The Agreement leads to changes in bilateral trade between the Parties, which lead to broader changes in production and economic structures, and these in turn have non-economic impact (such as changes in employment and wages, working conditions, or environmental indicators).
- Direct effects: Provisions in the Agreement, notably in the TSD Title, have direct effects on social, labour, and environmental issues by creating obligations on, or encouraging certain behaviour by, the Parties, as well as through providing a framework for mutual consultations and monitoring.

The methodological approaches for the various evaluation dimensions can be summarised as follows:

The evaluation of the Agreement’s economic effects was based, first and foremost, on the economic modelling (see below), complemented with descriptive-statistical analysis – notably in areas where modelling results are not robust or unavailable, such as trade in services, investment, government procurement, and the impact of non-tariff measures – as well as qualitative information. The breadth of methodologies used is large, in response to the diversity of topics considered (see tasks 10.1 to 10.16 in the evaluation matrix provided separately, and in the external contractor’s final report, and the indications of the “required (or delivered) analysis” there).

The same approach was followed for the analysis of social effects (in a broad sense), although the use of modelling results was limited to a few social indicators, such as employment effects, and impacts on wages and welfare. Therefore, most of the social impact evaluation was based on a comparison of quantitative descriptive-statistical and qualitative analysis. The main approach was to first describe the situation in the EU and partner countries and changes over time regarding the subject matter, as well as factors influencing observed trends, to determine in the second step in which way and to what extent the Agreement might have affected the analysed aspects. The sources of information varied depending on the specific issues addressed (see tasks 10.13, 11.1 to 11.6 and 11.8 in the evaluation matrix provided separately, as well as the final report of the external consultant and its Annexes C-1 and C-2, and the indications of the “required analysis” and “sources of evidence” listed there).

For the evaluation of the Agreement’s environmental impact, the two main causal channels mentioned above were analysed. The methodology acknowledges four impact channels to

---

26 Methodologies to avoid this, such as randomised control trials, cannot be used in the context of FTA evaluations.

27 Key issues related to the evaluation methodology are described in detail in the external contractor’s inception report, available at the project’s website: [http://central-america.fta-evaluation.eu/en/resources-2/study-outputs](http://central-america.fta-evaluation.eu/en/resources-2/study-outputs) as well as in the Annex B4 (gravity analysis) and Annex D3 (environmental analysis) to the final report available at the same website.
distinguish the ways in which the Agreement may have created impacts on the various areas of the environment: The scale effect (the impact created from increased production as a result of the Agreement), the structural effect (the dynamic effect of the Agreement on the growth and contraction in production in different sectors), technology effects (impacts triggered through increased efficiencies from increased competition or from a transfer in environmental goods and services) and potentially the product effect (impact via changes in production standards and use of goods in a country, e.g. through strengthened environmental policies and regulation). Where possible, a quantitative analysis was carried out, using the economic modelling results (changes on output) as the starting point. For environmental impact areas where a model-based approach was not possible, quantitative statistics and trends were analysed, complemented by qualitative research. Specifically, the following impact areas were analysed:

- Climate change, with a focus on the Agreement’s impact on the major GHG emissions (carbon dioxide, methane, and nitrous oxide) and the air pollutants, such as primary particulates.
- To assess the Agreement’s potential impact on biodiversity, its effects on land use change, specifically deforestation that may have been caused by changes in agricultural production were analysed using a new methodology developed in cooperation with DG ENV. In addition, effects on marine ecosystem and mangrove forests arising from tilapia and shrimp production in Costa Rica, El Salvador, Honduras, and Nicaragua were assessed, together with an opposite trend of an increasing certification and sustainable practices of large-scale aquaculture producers exporting to the EU. The environmental part of analysis also included impacts on the governance of natural resources through the TSD Title.
- Effects on other environmental impact areas (air quality, water, and waste) were analysed based on qualitative and, where possible, quantitative data, by establishing a baseline and exploring developments in environmental performance since start of the implementation of the Agreement, considering relevant provisions in the Agreement’s TSD Title. The analysis also included further case studies, i.e., palm oil in Guatemala, renewable energy in Costa Rica, organic coffee in Honduras and trade in environmental goods and services.

The human rights analysis focussed on how the Agreement may have affected the enjoyment of specific human rights in the Parties and the ability of the state Parties involved to fulfil or progressively realise their human rights obligations. The analysis relied on the methodology for human rights impact assessments (HRIA) as established by the United Nations Human Rights Council (2011) and the European Commission (2015). The impact analysis included a causal chain analysis starting with identification of pre-existing human rights vulnerabilities, as well as economic, social, and environmental effects created by the Agreement, and a preliminary selection of human rights potentially affected (positively or negatively) by it. Then, based on the economic model and available evidence from diverse sources, including stakeholder consultations, further in-depth analysis of the potentially most affected human rights (or groups of human rights) was conducted, which was concluded with a set of recommendations. The normative background for the analysis was constituted by the international human rights’ normative framework, including the core UN human rights treaties and conventions, the Charter of Fundamental Rights of the European Union, relevant regional human rights treaties, core ILO Conventions, as well as relevant, domestic legislation and customary international law.

Complementing the overall evaluation, ten case studies were prepared as part of the external evaluation study. Their purpose is to illustrate some of the more general findings as well as to address issues, through a focused analysis (“deep-dive”), which go beyond the general analysis.
outlined in tasks 10-12 provided by the Terms of Reference. The selection of case studies was guided by the geographic scope (originally, one case study for each of the six countries of Central America, two regional ones covering Central America and two focused on the EU) with a diversity of topics and impacts, relevant for the Agreement. The initial selection was discussed and agreed with the Commission, while during the study certain modifications, including in the geographic scope, were approved, given data availability, as well as relevance of the topics for certain CA countries. **Box 1** provides a list of the case studies; the full case studies are available in Annexes G-H of the final report of the external evaluation study.  

**Box 1: List of case studies prepared as part of the evaluation**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Impacts of the Trade Pillar of the EU-CA Association Agreement on EU banana producers</td>
</tr>
<tr>
<td>2.</td>
<td>Trade in environmental goods and services (opportunities for the EU and partner countries)</td>
</tr>
<tr>
<td>3.</td>
<td>Impacts of the Trade Pillar on freedom of association in sectors El Salvador, Guatemala and Honduras involved in trade with the EU</td>
</tr>
<tr>
<td>4.</td>
<td>The effects of the Trade Pillar on sustainable aquaculture in Honduras, Nicaragua, Costa Rica, and El Salvador</td>
</tr>
<tr>
<td>5.</td>
<td>Opportunities created in services sector, in particular the renewable energy sector in Costa Rica</td>
</tr>
<tr>
<td>6.</td>
<td>Impacts of the Trade Pillar on child labour and children's rights in El Salvador (scope extended to also cover Guatemala and Honduras)</td>
</tr>
<tr>
<td>7.</td>
<td>Impacts of the Trade Pillar on the environment in Guatemala, the case of palm oil</td>
</tr>
<tr>
<td>8.</td>
<td>Impacts of the Trade Pillar on sustainable agriculture in the coffee industry (organic coffee) in Honduras</td>
</tr>
<tr>
<td>9.</td>
<td>Impacts of the Trade Pillar on women and gender equality, notably in agricultural value chains in sectors exporting to the EU in Nicaragua (scope extended to also cover other CA countries)</td>
</tr>
<tr>
<td>10.</td>
<td>Implementation and effect of the Free Trade Zone in port of Colon in Panama, including aspects related to direct transportation clause</td>
</tr>
</tbody>
</table>

Despite the broad approach and solid methodological underpinnings of the evaluation, a number of **limitations and adaptations** need to be noted. First, due to the covid-19 pandemic, consultation activities had to be implemented online, including workshops, interviews, and other meetings. Thanks to enhanced efforts of the local team members of the external study, it was possible to achieve a good representation across countries and stakeholders’ groups. Second, some limitations in data availability and reliability required the substitution of quantitative by qualitative analysis, and in some cases prevented a definitive assessment of causality between the Agreement and observed developments. Despite these issues, however, we consider that the evaluation findings, conclusions, and recommendations are valid and robust, as a result of the diversity of sources and tools used, and the quality assurance undertaken. In this respect, the **quality** of factual information and evaluation findings presented in the evaluation report has been assured through an internal and external review process undertaken primarily at the level of the external study, which provided the main source for data and analysis. Each report produced by the external contractor was first presented in draft form and subjected to

---

a review and comments by both the Commission services and external stakeholders, including the Partner country authorities and non-state actors.

Analytical (computable general equilibrium, CGE) model description

For the CGE simulations, DG Trade has used the static version of the MIRAGE CGE model and Version 10 of the GTAP database, using 2014 as the base year, brought forward to 2019. MIRAGE is a CGE model of the world economy extending the comparative static framework of the standard GTAP model developed by Hertel (1997), while preserving for this analysis the features of the standard GTAP, such as constant returns to production technology, perfectly competitive markets and product differentiation by countries of origin (the so-called Ermington assumption). The model has a neoclassical closure (employment is taken as given but wages show the macro-economic effect on supply and demand of labour, while sectoral employment variations indicate which sectors gain or lose). The model simulations cover the period 2014 to 2019, comparing the developments with and without the Agreement during this period.

**Sectors:** Version 10 of the GTAP database distinguishes 65 sectors. For the modelling, these were aggregated to 23 sectors. This allows an analysis of the Agreement’s effects on specific sectors where the largest trade impact is taking place. Table 1 provides details on the sectors as defined in the model.

### Table 1: Economic sectors as defined in the model

<table>
<thead>
<tr>
<th>Sector No</th>
<th>EU-CA sector specification</th>
<th>Sector No</th>
<th>EU-CA sector specification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fruits &amp; Vegetables (F&amp;V)</td>
<td>13</td>
<td>Rubber &amp; Plastics (R&amp;P)</td>
</tr>
<tr>
<td>2</td>
<td>Vegetable oils (VO)</td>
<td>14</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>3</td>
<td>Sugar</td>
<td>15</td>
<td>Non-Ferrous Metals (NFM)</td>
</tr>
<tr>
<td>4</td>
<td>Other agriculture (Other Agri)</td>
<td>16</td>
<td>Electronics</td>
</tr>
<tr>
<td>5</td>
<td>Primary products</td>
<td>17</td>
<td>Electrical equipment</td>
</tr>
<tr>
<td>6</td>
<td>Other crops</td>
<td>18</td>
<td>Machinery</td>
</tr>
<tr>
<td>7</td>
<td>Processed foods</td>
<td>19</td>
<td>Motor vehicles</td>
</tr>
<tr>
<td>8</td>
<td>Primary products</td>
<td>20</td>
<td>Transport equipment</td>
</tr>
<tr>
<td>9</td>
<td>Beverages &amp; Tobacco (B&amp;T)</td>
<td>21</td>
<td>Other manufacturing</td>
</tr>
<tr>
<td>10</td>
<td>Textiles</td>
<td>22</td>
<td>Transport services</td>
</tr>
<tr>
<td>11</td>
<td>Paper &amp; paper products (PPP)</td>
<td>23</td>
<td>Other services</td>
</tr>
<tr>
<td>12</td>
<td>Chemicals</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

29 A more detailed description of the applied model is available in Annex A of the inception report of the external contractor’s study available at: http://central-america.fta-evaluation.eu/en/resources-2/study-outputs

30 [https://www.gtap.agecon.purdue.edu/databases/contribute/detailedsector.asp](https://www.gtap.agecon.purdue.edu/databases/contribute/detailedsector.asp)
Regions
The model aggregates the 141 GTAP regions\(^{31}\) into 23 regions, as shown in Table 2. The level of aggregation is higher than for sectors, but inevitable given the low sector aggregation, to keep the model manageable. All six Central American countries are split out and so are the EU27 and UK. There is also a division into Caribbean countries and EPA countries which matters for the analysis on the impact of the EU-CA FTA on banana trade. Turkey is modelled separately to look at the effect of the FTA on the EU-Turkey Customs Union, and LDCs are split out allowing to look at the effect on the poorest countries in the world.

Table 2: Regions as defined in the model

<table>
<thead>
<tr>
<th>Region no.</th>
<th>Region name</th>
<th>Region no.</th>
<th>Region name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EU27</td>
<td>13</td>
<td>US</td>
</tr>
<tr>
<td>2</td>
<td>Costa Rica</td>
<td>14</td>
<td>Mexico</td>
</tr>
<tr>
<td>3</td>
<td>Guatemala</td>
<td>15</td>
<td>Caribbean</td>
</tr>
<tr>
<td>4</td>
<td>El Salvador</td>
<td>16</td>
<td>Colombia</td>
</tr>
<tr>
<td>5</td>
<td>Honduras</td>
<td>17</td>
<td>MERCOSUR</td>
</tr>
<tr>
<td>6</td>
<td>Nicaragua</td>
<td>18</td>
<td>Other Latin-American countries</td>
</tr>
<tr>
<td>7</td>
<td>Panama</td>
<td>19</td>
<td>EPA countries</td>
</tr>
<tr>
<td>8</td>
<td>UK</td>
<td>20</td>
<td>Turkey</td>
</tr>
<tr>
<td>9</td>
<td>China</td>
<td>21</td>
<td>LDC</td>
</tr>
<tr>
<td>10</td>
<td>Japan</td>
<td>22</td>
<td>Other High-Income Countries (HICs)</td>
</tr>
<tr>
<td>11</td>
<td>South Korea</td>
<td>23</td>
<td>Rest of the World</td>
</tr>
<tr>
<td>12</td>
<td>Canada</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Prepared by the authors based on information provided by the European Commission.

Baseline
Unlike in ex ante simulations, the model baseline is constituted by the actual situation, i.e., the Agreement being in place. Although the baseline thus in principle represents the observable economic developments, a number of assumptions needed to be made:

- It is assumed that the Agreement entered into force at the beginning of 2013 for all six Central American countries.
- The baseline also incorporates the EU FTAs that have been applied up to 2019 (e.g., CETA with Canada and EPA with Japan). Accordingly, the tariff changes brought about by these are included in the baseline tariffs considered for the simulations and do not change in the experiment.
- The withdrawal of the UK from the EU is considered in the model as it has come into effect since January 2021. But the scenario does not model any effects of Brexit – neither between the EU and UK, nor between the UK and the CA countries.
- The impact of COVID-19 is not considered as the experiment runs from 2013 until 2019.

Policy scenario

\(^{31}\) [https://www.gtap.agecon.purdue.edu/databases/regions.aspx?version=10.211]
The policy scenario simulates the absence of the EU-CA FTA. Therefore, it is assumed that:
- The EU would apply MFN tariffs on imports from two of the six partner countries (Costa Rica and Panama) throughout the whole period (had there been no FTA in place). The EU would apply GSP+ tariffs on imports from four of the six partner countries (Guatemala, El Salvador, Honduras, and Nicaragua), assuming they would have retained their GSP+ status had there been no FTA.
- Access of the EU to the markets in Central America is subject to MFN tariffs as applied by Central America.

It is important to note that the simulation only comprises changes in tariffs. Changes in non-tariff barriers – for both goods and services – resulting from the Agreement are not modelled. This means that the simulations only capture a part of the Agreement’s effects, and in particular any simulated changes regarding intra-regional integration, trade facilitation measures and trade in services are exclusively the result of indirect adjustment effects across the economies and may not reflect the reality.
### ANNEX III: EVALUATION MATRIX AND, WHERE RELEVANT, DETAILS ON ANSWERS TO THE EVALUATION QUESTIONS (BY CRITERION)

**Table 1: Analytical framework for the evaluation of the implementation of the EU-CA FTA**

<table>
<thead>
<tr>
<th>Evaluation questions</th>
<th>Judgement criteria</th>
<th>Required analysis</th>
<th>Sources of evidence</th>
<th>Section in the Synthesis Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQ 1A: To what extent have the objectives as laid down in Article 78 of Part IV of the Agreement been achieved?</td>
<td>JC 1.1: To what extent has the Trade Pillar implementation led to the expansion and the diversification of trade in goods between the Parties, through the reduction of or elimination of tariff and non-tariff barriers to trade?</td>
<td>Task 10.1: Analysis of the evolution of trade in goods between the EU, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama taken individually. Descriptive statistics for goods sectors. Evolution of bilateral tariffs.</td>
<td>Time series analysis of COMEXT and UN COMTRADE statistics (for bilateral/total trade) and UNCTAD TRAINS (for tariffs). Case study on trade in bananas.</td>
<td>5.1.1</td>
</tr>
<tr>
<td></td>
<td>JC 1.2: To what extent has the Trade Pillar implementation led to the facilitation of trade in goods through, in particular, the agreed provisions regarding customs and trade facilitation, standards, technical regulations, and conformity assessment procedures as well as sanitary and phytosanitary measures?</td>
<td>Task 10.1: Analysis of the evolution of trade in goods between the EU, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama taken individually. (Bullet Points 6: The impact of implementation of the Trade Pillar in relation to the creation, persistence, reduction, or removal of non-tariff measures (NTMs) Task 10.5: analysis of impact on implementation of the Trade Pillar of the various institutional structures (Assessment</td>
<td>Desk research FTA legal provisions Reports from the Association Committee and Sub-committee meetings Interviews Workshops CSD dialogue meetings Online consultation Business survey</td>
<td>5.1.2</td>
</tr>
</tbody>
</table>

32 Tasks classified as priority in the Terms of Reference are shown in **bold**.
<table>
<thead>
<tr>
<th>Evaluation questions</th>
<th>Judgement criteria</th>
<th>Required analysis</th>
<th>Sources of evidence</th>
<th>Section in the Synthesis Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>JC 1.3: To what extent has the Trade Pillar implementation led to the liberalisation of trade in services in conformity with Article V of the WTO’s General Agreement on Trade in Services?</td>
<td>Task 10.2: Analysis of the evolution of trade in services between the EU and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama. (<em>Statistical analysis of trends of trade in services and capital flows, between CA and the UE and between CA countries</em>)</td>
<td>Analysis of time series trade in services statistics (from Eurostat, OECD and UNCTAD)</td>
<td>5.1.3</td>
<td></td>
</tr>
<tr>
<td>JC 1.4: To what extent has the Trade Pillar implementation led to the promotion of economic regional integration in the</td>
<td>Task 10.10: Analysis of the extent to which the implementation of the Trade Pillar has led to greater regional economic integration between the Central Desk research FTA legal provisions Reports from the Association Committee and Sub-committee</td>
<td></td>
<td>5.1.5</td>
<td></td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>area of customs procedures, technical regulations, and sanitary and phytosanitary measures to facilitate the circulation of goods between and within the Parties?</td>
<td></td>
<td>American partners (adoption of simplified customs procedures, harmonization of regulatory measures, in particular in the SPS area, or through the implementation of any other areas e.g., competition)</td>
<td>meetings Interviews Workshops Online consultation Business survey</td>
<td></td>
</tr>
<tr>
<td><strong>JC 1.5:</strong> To what extent has the Trade Pillar implementation led to the development of a climate conducive to increased investment flows, the improvement of the conditions of establishment between the Parties on the basis of the principle of non-discrimination and the facilitation of trade and investment among the Parties through current payments and capital movements related to direct investment;</td>
<td></td>
<td>Task 10.3: Analysis of the evolution of foreign direct investment (FDI) (statistical analysis of trends in FDI flows across affected sectors, analysis of investment climate)</td>
<td>Analysis of time series investment statistics at different levels of disaggregation Stakeholder consultations Online consultation</td>
<td></td>
</tr>
<tr>
<td><strong>JC 1.6:</strong> To what extent has the Trade Pillar implementation led the effective, reciprocal, and gradual opening of government</td>
<td></td>
<td>Task 10.8: Analysis of the implementation of the Public Procurement chapter of the Agreement using both statistical and qualitative analysis (inter alia the share of the total value)</td>
<td>Analysis of time series procurement statistics at different levels of government Meeting documents (ad</td>
<td></td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------</td>
<td>------------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>procurement markets of the Parties?</td>
<td>of procurement by all levels of government in the partner countries that is covered by the Trade Pillar together with the proportion that has been awarded to EU businesses; and vice versa.) Task 10.5: Analysis of the impact on implementation of the Trade Pillar of the various institutional structures (assessment of progress made by the Ad hoc Working Group on Government Procurement)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JC 1.7: To what extent has the Trade Pillar implementation led to the adequate and effective protection of intellectual property rights, in accordance with international obligations in force between the Parties, so as to ensure the balance between the rights of the right-holders and public interest, taking into consideration the differences between the Parties and the promotion of technology transfer between the regions?</td>
<td>Task 10.5: Analysis of the impact on implementation of the Trade Pillar of the various institutional structures (assessment of progress made by the Sub-committee on Intellectual Property) Task 10.9: Analysis of the implementation of other areas of the Trade Pillar (analysis of trade flows (in particular agri-food products) and in particular the existence (or not) of trade of GI products in the respective markets)</td>
<td>Analysis of time series statistics on GI products FTA legal provisions Meeting documents (IPR Sub-committee) Desk research Interviews</td>
<td></td>
<td>5.1.4</td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>--------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>JC 1.8: To what extent has the Trade Pillar implementation led to the promotion of <strong>free and undistorted competition</strong> in the economic and trade relations between the Parties?</td>
<td>Task 10.9: Analysis of the implementation of other areas of the Trade Pillar (<strong>competition policy</strong>)</td>
<td>Desk research, Online consultation, Business survey</td>
<td>5.1.4</td>
<td></td>
</tr>
<tr>
<td>JC 1.9: To what extent has the Trade Pillar implementation led to the establishment of an effective, fair, and predictable <strong>dispute settlement mechanism</strong>?</td>
<td>Task 10.5: Analysis of the impact on implementation of the Trade Pillar of the various institutional structures (<strong>assess effectiveness of dispute settlement mechanism</strong>)</td>
<td>Desk research, Interviews, Reports from the Association Committee and Sub-committee meetings</td>
<td>5.1.6</td>
<td></td>
</tr>
<tr>
<td>JC 1.10: To what extent has the Trade Pillar implementation led to the promotion of international trade and investment between the Parties in a way that contributes to the objective of <strong>sustainable development</strong> through joint collaborative work?</td>
<td><strong>Task 11.1:</strong> Analysis of the effects of implementation of the Trade and Sustainable Development (TSD) chapter of the Agreement. <strong>Task 11.2:</strong> Analysis of the impact on implementation of the Trade Pillar of the institutional structure established by or resulting from the Trade and Sustainable Development chapter</td>
<td>Desk research, FTA legal provisions, Meeting documents (TSD Board, DAG-to-DAG, Civil Society Forum), Interviews, Workshops, Online consultation</td>
<td>5.1.7</td>
<td></td>
</tr>
<tr>
<td>EQ 2: What are the factors influencing (either positively or negatively) the achievements of JC 2.1: What are the factors that have influenced positively the achievements of these objectives?</td>
<td>Identification of factors influencing the achievements of those objectives as part of the analysis listed above</td>
<td>All sources of evidence / methodological tools listed under EQ1</td>
<td>5.2.5</td>
<td></td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>the objectives specified in Article 78?</td>
<td>factors that have negatively influenced the achievements of these objectives?</td>
<td>Identification of stakeholder groups that have been affected by the Trade Pillar implementation in an unintended manner. Identification of the Trade Pillar implementation’s effects on economic, environmental, labour, or human rights aspects as listed above.</td>
<td>CGE model results Desk research Interviews Workshops Online consultation Business survey Desk research Interviews Workshops Online consultation</td>
<td>5.2.6</td>
</tr>
<tr>
<td>EQ 3: Has implementation of the Trade Pillar had unintended (positive or negative) consequences, and if so, which ones?</td>
<td>JC 3.1: What social, human rights, environmental and/or economic impacts have resulted from the Agreement which were not intended?</td>
<td>Identification of stakeholder groups that have been affected by the Trade Pillar implementation in an unintended manner. Identification of the Trade Pillar implementation’s effects on economic, environmental, labour, or human rights aspects as listed above.</td>
<td>CSD dialogue meetings</td>
<td>5.2.6</td>
</tr>
<tr>
<td>JC 3.2: Have there been any positive unintended effects?</td>
<td>JC 3.3: Have there been any negative unintended effects?</td>
<td>Identification of stakeholder groups that have been affected by the Trade Pillar implementation in an unintended manner. Identification of the Trade Pillar implementation’s effects on economic, environmental, labour, or human rights aspects as listed above</td>
<td></td>
<td>5.2.6</td>
</tr>
<tr>
<td>EQ 4: What has been the impact of implementation of the Trade Pillar?</td>
<td>JC 4.1: What has been the economic impact of the Trade Pillar implementation?</td>
<td>Task 10.4: Analysis of the overall economic impacts of implementation of the Trade Pillar in terms of key macroeconomic and sectoral variables. Task 10.1: Analysis of the evolution of trade in goods between the EU, Costa Rica, El</td>
<td>CGE Model Analysis of merchandise trade, reviewing growth trends per product lines and measuring the evolution of the diversification of exports over time using indicators</td>
<td>5.2.1</td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>---------------------</td>
<td>--------------------------------</td>
</tr>
</tbody>
</table>
| Salvador, Guatemala, Honduras, Nicaragua, Panama taken individually.  
(Bullet Point 10: Diversification of exports and imports;  
Bullet Point 8: Investigation of whether new enterprises started to export or whether enterprises already exporting started to export new products)  
Task 10.11: Analysis of the impact of tariff concession granted by the EU for imports of bananas  
**Task 10.12: Analysis of the impact of implementation of the Trade Pillar on SMEs**  
Task 10.14: Analysis of the impact of implementation of the Trade Pillar on the budgets of the EU and the partner countries  
Task 10.15: Analysis of the impact of implementation of the Trade Pillar on EU Outermost Regions (ORs)  
Task 10.16: Analysis of the impact of the implementation of the Trade Pillar on developing countries – with particular emphasis on LDCs and on
| such as for example concentration ratios or the Herfindahl-Hirschman Index (HHI).  
Stakeholder consultations: survey, interviews, and workshops  
Business Survey  
Desk research  
Case study on Port Colon in Panama |
<table>
<thead>
<tr>
<th>Evaluation questions</th>
<th>Judgement criteria</th>
<th>Required analysis</th>
<th>Sources of evidence</th>
<th>Section in the Synthesis Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>JC 4.2: What has been the social impact of the implementation of Trade Pillar?</td>
<td></td>
<td>Task 10.13: Analysis of the impact of implementation of the Trade Pillar on consumers&lt;br&gt;Task 11.3: Analysis of the impacts of Trade Pillar implementation on wages, sectoral employment, and household income at the macro level (welfare effect) in the EU and Central America.&lt;br&gt;<strong>Task 11.4: Analysis of the effects of Trade Pillar implementation on the four pillars of the Decent Work Agenda (job creation, labour standards, social protection, and social dialogue); working conditions; poverty reduction and enforcement.</strong>&lt;br&gt;<strong>Task 11.5: Analysis of the effects of implementation of the Trade Pillar on the informal economy and informal employment</strong>&lt;br&gt;Task 11.8: Analysis of effects of Trade Pillar implementation on the adoption and implementation of internationally recognised instruments</td>
<td>Trade and social statistics&lt;br&gt;CGE modelling results&lt;br&gt;Desk research&lt;br&gt;Interviews&lt;br&gt;Workshops&lt;br&gt;CSD dialogue meetings&lt;br&gt;Meetings under TSD Title and meeting documents&lt;br&gt;Online consultation&lt;br&gt;Case study on women&lt;br&gt;Case study on child labour&lt;br&gt;Case study on freedom of association&lt;br&gt;Case study on coffee in Honduras</td>
<td></td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>JC 4.3: What has been the environmental impact of the implementation of the Trade Pillar?</td>
<td>Task 11.6: Analysis of the effects of Trade Pillar implementation on gender inequality.</td>
<td>of responsible business conduct and corporate social responsibility.</td>
<td>CGE model results: CO₂ emissions, sectoral outputs Additional quantitative analysis Desk research Interviews Workshops Online consultation Case study on palm oil sector in Guatemala Case study on environmental goods Case study on renewable energy in Costa Rica Case study on aquaculture</td>
<td>5.2.3</td>
</tr>
<tr>
<td>JC 4.4: What has been the human rights impact of the implementation of the Trade Pillar?</td>
<td>Task 12: Analysis of the effects of the implementation of the Trade Pillar on human rights</td>
<td></td>
<td></td>
<td>5.2.4</td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>JC 4.5: To what extent are the actual impacts of the Trade Pillar in line with the expected impacts as laid out in the EU-CA Trade Sustainability Impact Assessment?</td>
<td>Task 9: Review the EU-Central America Sustainability Impact Assessment (&quot;SIA&quot;)</td>
<td>Desk research: comparative review of effects anticipated in the SIA and effects identified in the evaluation</td>
<td>5.2.6</td>
<td></td>
</tr>
<tr>
<td>EQ 5: To what extent has implementation of the Trade Pillar been efficient with respect to achieving its objectives?</td>
<td>Task 10.1: Analysis of the evolution of trade in goods between the EU, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama taken individually. <em>(Bullet Point 3: Preference utilisation rate and foregone duty saving of economic operators of both Parties; Bullet Point 4: Use of tariff rate quotas)</em></td>
<td>Analysis of the preference utilisation rate and tariff rate quotas based on data provided by the Commission</td>
<td>5.3.1</td>
<td></td>
</tr>
<tr>
<td>JC 5.1: To what extent have the preferences of the Trade Pillar been utilized?</td>
<td>Task 10.1: Analysis of the evolution of trade in goods between the EU, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama taken individually. <em>(Bullet Point 2: Development of trade in goods against previously applicable GSP+ tariffs (zero tariff vs. tariff greater than zero under GSP+); Bullet Point 11: Comparison of the</em></td>
<td>Regression analysis to investigate whether the GSP status of a product had a significant increase on trade development Analysis of COMEXT and COMTRADE data with a suitable reference group of countries</td>
<td>5.3.1</td>
<td></td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------</td>
<td>-------------------</td>
<td>---------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>EQ 6: To what extent are the costs associated with implementation of the Trade Pillar proportionate to the benefits it has generated? Is the distribution of both costs and benefits proportionate among different stakeholder groups and interests?</td>
<td>JC 6.1: What costs have been involved in the Trade Pillar implementation (e.g., foregone tariff revenue, costs of committee/ working group/DAG meetings, compliance costs for businesses)?</td>
<td>Identification of input and cost types related to the implementation of the Trade Pillar. Calculation of economic impact of the Trade Pillar (based on CGE results) Analysis of the foregone tariff revenues due to tariff reductions Estimation of overall budgetary consequences of the Trade Pillar for the EU by considering effects of GDP increases on EU revenue, foregone tariff revenues due to tariff reductions between EU and the partner countries, and changes in trade volumes with other trade partners (results of analysis of Task 10.14: Analysis of the impact of the implementation of</td>
<td>CGE model results Interviews Workshops</td>
<td>5.3.2</td>
</tr>
<tr>
<td>JC 6.2: How do these costs compare to the benefits, e.g., in terms of GDP increases?</td>
<td>JC 6.3: Is the distribution of costs and benefits proportionate among different stakeholder groups and interests?</td>
<td></td>
<td></td>
<td>5.3.2</td>
</tr>
<tr>
<td>JC 5.3: To what extent has the Trade Pillar led to trade diversion?</td>
<td>Task 10.1: Analysis of the evolution of trade in goods between the EU, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama taken individually. (Bullet Point 5: Trade diversion)</td>
<td>CGE model results Analysis of COMEXT and COMTRADE data</td>
<td></td>
<td>5.3.1</td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>--------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>EQ 7: Are there unnecessary regulatory costs (including administrative burden)?</td>
<td>JC 7.1: What are the regulatory costs (including administrative burden) associated with the Trade Pillar?</td>
<td>Identification of input and regulatory costs (including administrative burden) related to the implementation of the Trade Pillar. Identification of areas where costs reductions could be achieved</td>
<td>Document review Interviews</td>
<td>5.3.2</td>
</tr>
<tr>
<td>JC 7.2: What scope, if any, has there been to achieve the objectives at a lower cost?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQ 8: To what extent has implementation of the Trade Pillar been coherent with the EU’s trade and development policies – and in particular, with the EU’s commitment to sustainable development in trade policies as a contribution towards attainment of the SDGs?</td>
<td>JC 8.1: How do the provisions of the Trade Pillar compare with the principles of current EU trade policy?</td>
<td>Identification of areas of (lack of) coherence between the Trade Pillar / key principles of current EU trade policy and EU’s commitment to sustainable development in trade policies as a contribution to attainment of the SDGs.</td>
<td>Document review Description of the Trade Pillar Interviews Workshops</td>
<td>5.4</td>
</tr>
<tr>
<td>JC 8.2: How do the provisions of the Trade Pillar compare with EU’s commitment to sustainable development in trade policies as a contribution towards attainment of the SDGs?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EQ 9: To what extent do the provisions of the</td>
<td>JC 9.1: What are the current trade issues faced by the EU, and</td>
<td>Identification of key trade issues currently faced by the EU, and</td>
<td>Interviews Meeting documents (Sub-</td>
<td>5.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation questions</td>
<td>Judgement criteria</td>
<td>Required analysis</td>
<td>Sources of evidence</td>
<td>Section in the Synthesis Report</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Trade Pillar continue to be relevant in order to address the current trade needs and issues of the EU and Central America?</td>
<td>JC 9.2: To what extent can the provisions of the Trade Pillar be used to address these issues? JC 9.3: Which trade issues are unlikely to be addressed by the Trade Pillar?</td>
<td>Central America. Qualitative assessment of stakeholders concerning the possibility of the Trade Pillar to address the issues, and identification of issues which may not be resolved through the Trade Pillar.</td>
<td>committees) Workshops Online consultation</td>
<td>5.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.5</td>
</tr>
</tbody>
</table>
ANNEX IV: STAKEHOLDERS CONSULTATION – SYNOPSIS REPORT

Introduction

This Report describes stakeholder engagement activities undertaken by the external study team, as part of the ex-post evaluation of the Trade Pillar of the Association Agreement between the EU and its Member States and six countries of Central America (EU-CA FTA).

In line with the Terms of Reference (ToR) for the external evaluation, the purpose of stakeholder engagement was to identify sectors and groups affected positively or negatively by the Agreement and to collect evidence facilitating the analysis of reasons underpinning those effects. Engagement activities covered all pillars of the analysis: economic, social, related to human rights and environmental, as well as elements related to operation of institutions set up under the EU-CA FTA and topics analysed in the case studies. Further engagement (e.g., interviews) was used to collect information and data to close the knowledge gaps and to test (e.g., through workshops) preliminary findings from the analysis. Moreover, the engagement activities were meant to increase transparency of the evaluation process and to encourage a dialogue about the EU-CA FTA implementation, progress achieved, and ways to further improve it.

The stakeholder engagement strategy was developed by the study team and approved by the Commission services at the evaluation inception phase, and engagement activities took place throughout the whole project lifetime. In close collaboration with the Commission, some changes have been made to optimise the outreach or to adapt original plans where these turned out to be not possible to deliver (e.g., online workshops instead of events attended in person, due to COVID-19).

Stakeholders from the EU and Central America were identified in accordance with their role in trade agreement implementation and the relevance for topics covered by the analysis, as well as in as balanced as possible composition reflecting a wide range of interested groups. They included but were not limited to:

1. Representatives of the Commission and Central American governments, as well as related agencies, e.g., promoting exports, and customs agencies.
2. Chambers of Commerce, business associations, horizontal and sectoral, incl. representatives of sectors involved in trade between the Parties, e.g., banana, pineapple, sugar, coffee, palm oil, textiles, wine and spirits, and others. Other business organisations, such as those supporting women entrepreneurs or promoting the use of Corporate Social Responsibility by businesses, as well as individual companies, including SMEs, were also consulted.
3. Other civil society representatives, including trade unions and NGOs representing interests of different groups (e.g., indigenous peoples) and thematic areas (e.g., environment).
4. Other types of institutions, e.g., human rights institutions, and academia.

Prior to the evaluation, the Commission held stakeholder consultations on the roadmap for the project to gather preliminary views regarding the proposed approach to the ex-post evaluation, incl. the possible collection of topics for future case studies\textsuperscript{34}.

**Summary of consultation activities**

In line with the ToR for the external evaluation, the study team used a mix of engagement activities to collect the necessary evidence. Throughout the project, their type and calendar were adapted to the circumstances (e.g., the COVID-19 pandemic) and the emerging needs.

At each stage of the evaluation, the study team held meetings with the **Interservice Steering Group (ISG)** of the European Commission and the European External Action Service (EEAS) to discuss plans for the project (kick-off meeting), the proposed methodology and calendar of activities (draft Inception Report), preliminary results of the analysis (draft Interim Report) and final outcomes, incl. case studies, conclusions, and recommendations (draft Final Report). The ISG meetings took place in January, April and December 2021, and April 2022.

The study team also presented and discussed each of the draft evaluation reports with EU civil society at **Civil Society Dialogue** meetings organised by the Commission. They were held in May 2021, February 2022, and May 2022 to consult the proposed methodology, test the findings at the interim and the final stage of the analysis, and to gather additional views. Presentations delivered at those meetings and the related minutes are available at the study website.\textsuperscript{35} At each meeting, civil society had the opportunity to provide verbal and written comments on the draft reports to ensure that additional evidence, corrections, and other suggestions can be included into the revised versions to improve the quality of the analysis.

Study team representatives were also invited to provide updates about the evaluation and ways for civil society engagement at meetings of the **EU Advisory Group** established under the Trade and Sustainable Development (TSD) Title of the Agreement. Those meetings took place at each of the three stages of the project, i.e., in March 2021, October 2021 and April 2022.

Likewise, the study team was invited to deliver presentations at **the annual meetings with Central America under the EU-CA FTA** to introduce the evaluation in 2021, and to share results of the analysis in 2022. These included meetings of the intergovernmental institutions (e.g., the Association Committee, the TSD Board, the Market Access Sub-Committee, and the Ad Hoc Group on Public Procurement), as well as the civil society meetings (DAG-to-DAG and the Civil Society Dialogue Forum).

At the end of the interim phase of the project, in January and February 2022, the study team held **workshops with Central American stakeholders** with a view to presenting and testing the preliminary results of the analysis. The workshops, which due to the COVID-19 pandemic were organised as virtual events (for half a day each), gathered 416 participants in total, including


representatives of the Central American Governments, EU Delegations in the region, business associations, trade unions, NGOs, organisations representing indigenous population, academia, and individual companies. The number of participants in each workshop is outlined in the table below (the workshop in Nicaragua was replaced by interviews).

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costa Rica</td>
<td>68</td>
</tr>
<tr>
<td>El Salvador</td>
<td>89</td>
</tr>
<tr>
<td>Guatemala</td>
<td>83</td>
</tr>
<tr>
<td>Honduras</td>
<td>87</td>
</tr>
<tr>
<td>Panama</td>
<td>89</td>
</tr>
</tbody>
</table>

Each workshop was held in English and Spanish and was divided into sessions, each covering one pillar of the analysis, i.e., economic, social, human rights and environmental. Additionally, there were bespoke sessions tailored to each Central American country, e.g., regarding the Panama Canal in Panama, banana sector in Guatemala, and Corporate Social Responsibility in El Salvador, to name a few. For those, the study team invited local experts to deliver presentations and answer questions. Presentations by the study team, outlining preliminary outcomes of the analysis across all its pillars, were followed by discussions with participants. To facilitate them, the study team prepared information materials and an executive summary of preliminary findings of the analysis, in English and Spanish. They were shared with participants before and after the workshops. Information materials prepared and presented at those occasions are available at the study website.\(^{36}\)

Discussion at workshops helped to identify areas for additional analysis and discussion with CA stakeholders and were followed by a series of interviews held in February and March 2022. Given the situation in Nicaragua at the time of the project, it was considered not possible to hold a workshop in a similar formula. Instead, the project team reached out to the Government of Nicaragua (as one of the Parties to the EU-CA FTA) and separately to other stakeholders, including civil society Advisory Group, to conduct interviews. Discussion with the Government focused on the implementation of the TSD Title, including interaction with the Advisory Group, and areas for a possible cooperation, including organic products. The response rate from non-state actors was lower than in the case of other CA countries, however, those who reacted, provided valuable inputs to the analysis. This included, e.g., evidence from the sugar sector representatives (CNPA and trade unions) and CONIMYPIME representing MSMEs, to name a few. Overall, the project team reached out to business associations, women organisations, trade unions, human rights and environmental NGOs, research institutes and other organisations regarding the situation in Nicaragua and inputs to the reports.

**Interviews** with the EU, as well as Central American stakeholders represented an important form of engagement enabling the study team to receive additional information and data, close knowledge gaps, better understand impacts of the Agreement, the operation of institutions set up under the EU-CA FTA, and the situation in sectors involved in trade between the Parties, as well as to collect recommendations regarding how to improve implementation of the Agreement. In total, representatives of 104 EU and CA institutions and organisations were interviewed. Due to the circumstances related to COVID-19 pandemic, as well as a wide range of interviewed stakeholders, most interviews were held virtually. However, to ensure an adequate coverage

across stakeholder groups, notably in Central America, some interviews (e.g., with local SMEs) were held by phone by local study team members based in Central America, or indirectly where the study team used intermediation of other CA stakeholders (e.g., a university in Western Honduras to collect information from women working in the coffee sector given the existing links the university had). In many cases, the interviews were held individually, but some group discussions were also held (e.g., a regional meeting with sugar sector representatives, or meetings with representatives of ministries from CA countries implementing the TSD Title). The study team ensured a balanced representation of the stakeholders across Government and non-governmental actors, all pillars of the analysis, sectors, and types of stakeholders, i.e., business associations, trade unions, NGOs, and others. The interviews provided valuable insights and were complemented by written comments and additional information shared by the EU and CA stakeholders, governments, and the civil society alike, at each stage of the evaluation.

In line with the established practice, the study was accompanied by an online survey, which was composed of two parts: a general questionnaire and a targeted survey for businesses. Both were open beyond the recommended period of 12 weeks, remaining available from 15 July 2021 to 20 December 2021, and later additionally in February 2022, i.e., in the follow-up to workshops with Central America. The general questionnaire was available in English, Spanish, French and German and included a wide range of questions focused on economic, social, human rights and environmental impacts of the Agreement and its effects for different groups of stakeholders in the EU and Central America. It was promoted by e-mails, newsletters, social media, and in meetings held or attended by the study team. Replies from all interested Parties were encouraged, incl. governments, business associations, trade unions, NGOs, other civil society organisations, academia, think tanks, other public authorities, and individual citizens. The business survey was published in English and Spanish and was directed to the business community in the EU and CA, including those involved in trade between the Parties. It covered questions focused on the use of the Agreement and its different provisions and impacts thereof, as well as reasons why certain companies might not have used the Agreement. In total, 17 replies were submitted to the general questionnaire and five to the business survey. All of them were subsequently reflected in the evaluation reports.

A website37 for the project was created at the inception phase, in English and Spanish, to provide the general information and updates about the project, present the main outputs (reports), and the summary of engagement activities. It displays the main reports from the ex-post evaluation, presentations delivered at the Civil Society Dialogue meetings and minutes thereof, as well as materials developed for the workshops. Throughout the project, it also provided updates about milestones (e.g., publication of a Report) and deadlines for stakeholder activities (e.g., timeline for comments). Together with other communication tools (see below), the website aimed at extending the outreach of the project, facilitating access to documents, and contact with the study team and ensuring transparency at each stage.

The study team regularly informed stakeholders about progress achieved and milestones in the project, the following steps, and the related timeline. Twelve e-mails, in English and Spanish, including three with graphical newsletters were sent to a wide range of stakeholders from the

EU and Central America (755 recipients in the mailing list). They encouraged comments on draft reports, replies to the online survey and other actions. Further 25 e-mails\textsuperscript{38} were sent to the Central American stakeholders in relation to workshops, with agendas, the executive summary of the draft Interim Report (in English and Spanish) and other relevant information. The e-mails and newsletters generated some stakeholder activity and in response to those, the study team has received questions and additional submissions that were useful for the analysis. The study team also had a dedicated e-mail address for stakeholders to get in touch.

\textbf{Social media}, notably a dedicated twitter account, were also used, with 42 tweets sent during the project (in English and Spanish). They informed about milestones, invited for workshops, and summarised their outcomes (and outcomes of the CSD meetings) and encouraged further engagement, including comments, and provided additional information and data. The account had 65 followers and followed 33 other users.

\textsuperscript{38} This number covers only the main information e-mails, however, does not include detailed correspondence between the local team and CA stakeholders invited for workshops.