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From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE EVALUATION of the impact of the implementation of part IV (Trade Pillar) of the EU-Central America Association Agreement

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Delegations will find attached document SWD(2023) 221 final.

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**COMMISSION STAFF WORKING DOCUMENT**  
**EXECUTIVE SUMMARY OF THE EVALUATION**

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

{SWD(2023) 220 final}

In December 2020, the Commission mandated an external consultant to undertake an ex-post evaluation of the trade pillar's impact of the EU-Central America<sup>1</sup> (CA) Association Agreement (trade pillar referred below as Free-Trade Agreement - FTA). The evaluation covers the economic, social, environmental, and human-rights dimensions of the FTA for the period 2013-2019. Its results were published in September 2022<sup>2</sup>. The staff working document (SWD) presents the views of the Commission services on this analysis.

In general terms, the Commission services consider that the FTA is **well balanced, offering substantial gains for both Parties** in terms of market access and rules. The FTA has also contributed to **the stability of the trade and investment environment**, thus promoting the expansion of export-oriented sectors. Ten years after its entry into application, the FTA remains relevant. It has reached maturity with a liberalisation process largely achieved, and a regular and active dialogue on trade.

**More detailed effects and impacts** of the Agreement are set out in the paragraphs below.

In economic terms, evidence shows a positive impact of the FTA for all Parties on their bilateral trade flows of goods and services as well as on investment. The FTA's impact on trade diversification and GDP has been positive although limited. The increase in economic welfare brought about by the FTA is greater than the losses of income due to tariff liberalisation.

In the social realm, evidence suggests that exports to the EU are likely to have helped to create or maintain formal and informal jobs, mainly in rural areas of CA. This has contributed to increase wages and reduce poverty. Progress is reported on gender equality and working conditions, but the extent of this progress varies by sectors and by company.

From an environmental perspective, although the analysis is affected by data limitations, the evidence shows that the FTA contributed to land-use change and to limited deforestation in CA. This in turn had a moderately negative impact on biodiversity and ecosystems. The analysis also shows the impacts of the agricultural sector on CA environment, such as poor water management, indirect deforestation, forest degradation, and pollution (related to agrochemical use).

On human rights, good progress was reported in the fight against child labour, while the application of freedom of association remains problematic, mostly in Honduras and Guatemala. The levels of economic informality remain high across all of CA.

The Commission services' **main recommendations** to further improve the implementation of the Agreement are set out in the four sections below on: (i) economic aspects; (ii) trade and sustainable development; (iii) impacts related to human rights; and (iv) coherence.

On economic development, the Commission services consider it important to make better use of the service and investment provisions of the Agreement. The EU might also consider supporting CA further in developing key infrastructure/investment plans by promoting EU sources of financing (both public and private) in areas facilitating the green transition,

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<sup>1</sup> Central American countries are: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

<sup>2</sup> DG TRADE evaluation website: [Ex-post evaluations \(europa.eu\)](https://ec.europa.eu/trade/policy/eu-trade-agreements/ex-post-evaluations/).

digitalisation, agriculture, and food-system sustainability. The EU Global Gateway initiative could contribute to achieving this goal.

On labour standards, the Commission services consider it particularly important to:

- a) strengthen the implementation of the International Labour Organization's (ILO) fundamental principles and rights at work (in particular, encourage Guatemala and Honduras, to create conditions for trade unions to be able to operate freely, in sectors where these are not yet in place);
- b) explore ways to include the principle of 'a safe and healthy working environment', (designated by the ILO in 2022 as one of the fundamental principles) as one to be upheld by all Parties.

On the environment, the Commission services consider particularly important to step up the dialogue with the EU's current Green Deal policies, including the farm-to-fork policy, the new EU due diligence measures to combat deforestation or on corporate governance. The Commission services also suggest working with CA to develop sustainable agriculture value chains and to limit the environmental footprints of key agricultural products, like palm oil, sugarcane, pineapples, coffee, and bananas.

On Human rights, the Commission services encourage Belgium to finalise the ratification of the Agreement to make possible a political dialogue on human rights and the entry into force of the essential element clause on human rights.

The Agreement remains coherent with the EU's main policies and trade-policy objectives overall, including with new policy priorities that have emerged at EU and global level. These include the Paris Agreement on Climate Change, the EU's Green Deal strategy and its farm-to-fork policy.

In line with the Communication on the EU Trade and Sustainable Development (TSD) policy review of 22 June 2022, the Commission services have started taking concrete measures to strengthen the implementation of labour and environmental commitments under the title on TSD. Most of the action points identified in the TSD review can be implemented by the Parties using the current provision of the FTA. The Commission service are contacting CA authorities in this regard. Providing for the possibility of withdrawing trade preferences as a measure of last resort ("trade sanctions") in cases of serious violations of the ILO 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.