EU trade with Latin America and the Caribbean

Overview and figures

IN-DEPTH ANALYSIS

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This publication provides an overview of trade relations between the EU and Latin American and Caribbean countries and groupings. The EU has fully fledged agreements with two Latin American groupings (Cariforum and the Central America group), a multiparty trade agreement with three members of the Andean Community (Colombia, Ecuador, and Peru), and bilateral agreements with Chile and Mexico. Since November 2017, a new agreement governing trade relations with Cuba has also been provisionally applied. In addition, the EU is currently modernising its agreements with Mexico (with which it has reached an 'agreement in principle') and Chile. The EU also has framework agreements with Mercosur and its individual members (Argentina, Brazil, Paraguay, and Uruguay). The agreement with the former will be replaced, once the ongoing negotiations on an EU-Mercosur association agreement have been completed. This publication provides recent data on trade relations between the EU and Latin American and Caribbean countries and groupings, compares the main agreements governing trade relations that are already in place, and analyses the rationale behind the ongoing negotiations on the EU-Mercosur, EU-Mexico and EU-Chile agreements.

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EXECUTIVE SUMMARY

Growing geopolitical rivalry, escalating trade tensions between the United States and China (both big players in Latin America and the Caribbean – LAC) and a US trade policy shifting away from a multilateral towards a bilateral approach based on 'America First', have created uncertainty in this part of the world. The ongoing commitment and shift of LAC countries towards multilateralism and free and fair trade provides the EU with a window of opportunity to strengthen its footprint in a region with which it maintains close cooperation and political dialogue on account of its historical, cultural and economic ties. Although the 33 countries forming the Community of Latin American and Caribbean States (CELAC) are together currently the EU's fifth largest trading partner, the EU has in the past two decades lost market share to the USA and China.

Since the 1990s, the EU has pursued a strategy of promoting sub-regional integration initiatives within LAC and bi-regional integration between the EU and the then existing four sub-regional LAC groupings (the Andean Community of Nations (CAN), Cariforum, the Central America group, and Mercosur) as well as bilateral integration with Chile and Mexico. This has resulted in a number of agreements governing trade relations, including fully fledged agreements with two sub-regional groupings (Cariforum and Central America), a multiparty free trade agreement with three countries of the Andean Community (Colombia, Ecuador, and Peru; Bolivia may join at a later stage) and bilateral agreements with Mexico and Chile. Since November 2017, a new agreement with Cuba, governing trade relations (the EU-Cuba Political Dialogue and Cooperation Agreement (PDCA)), has also been provisionally applied (although it is not very comprehensive). In addition, the EU has an inter-regional framework agreement with Mercosur as well as bilateral framework agreements with its founding members (Argentina, Brazil, Paraguay, and Uruguay). Since 1999, the EU and Mercosur (excluding Venezuela) have been negotiating a fully fledged bi-regional agreement governing trade relations. Negotiations have gained momentum since 2016, with both parties aiming at a political agreement in 2018 (after earlier expectations for such an agreement by the end of 2017 were not met).

Alongside the ongoing EU-Mercosur negotiations, the EU is also in the process of modernising its 2000 Global Agreement with Mexico (negotiations are currently being concluded after an 'agreement in principle' was reached in April 2018) as well as its 2003 association agreement with Chile (for which negotiations are ongoing). The trade pillars of both of these existing agreements are less comprehensive and advanced in terms of liberalisation compared with recently negotiated trade agreements such as the EU-Canada Comprehensive Economic and Trade Agreement (CETA). They lack, among other things, specific provisions on sustainable development (which are covered in softer political dialogue frameworks) and have limited World Trade Organisation plus (WTO+) provisions on intellectual property rights (IPR), services, investment, public procurement and regulatory cooperation.

Overall, the EU's agreements governing trade relations with Latin America and the Caribbean differ considerably in terms of coverage and methodology, depending on the time at which they were concluded and the context of the negotiations.

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List of main acronyms used

APEC:	Asia-Pacific Economic Cooperation
BIT:	Bilateral investment treaty
CAFTA-DR:	Dominican Republic – Central America Free Trade Agreement
CAN:	Andean Community of Nations
CARICOM:	Caribbean Community
Cariforum:	Caribbean Forum of African, Caribbean and Pacific States
CELAC:	Community of Latin American and Caribbean States
CETA:	Comprehensive Economic and Trade Agreement
CJEU:	Court of Justice of the European Union
EFTA:	European Free Trade Association
EPA:	Economic partnership agreement
EuroLat:	Euro-Latin American Parliamentary Assembly
FDI:	Foreign direct investment
FTA:	Free trade agreement
FTAA:	Free Trade Area of the Americas
GATS:	General Agreement on Trade in Services
GI:	Geographical indication
GSP:	Generalised scheme of preferences
ICS:	Investment court system
IPR:	Intellectual property rights
LAC:	Latin America and the Caribbean
Mercosur:	Common Market of the South
MFN:	Most-favoured nation
NAFTA:	North American Free Trade Agreement
OECD:	Organisation for Economic Co-operation and Development
PDCA:	Political Dialogue and Cooperation Agreement (EU-Cuba)
PTA:	Preferential trade agreement
SME:	Small and medium-sized enterprise
SPS:	Sanitary and phytosanitary
TBT:	Technical barriers to trade
TPP:	Trans-Pacific Partnership
TRIPS:	Trade-related aspects of intellectual property rights
TRQ:	Tariff rate quota
TSD:	Trade and sustainable development
TTIP:	Transatlantic Trade and Investment Partnership
WTO:	World Trade Organization

1. Overview of EU trade relations with sub-regional groupings and individual countries in Latin America and the Caribbean

The EU maintains close cooperation and political dialogue with Latin America and the Caribbean (LAC) given its historical, cultural and economic ties with the region. Bi-regional EU-LAC summits as an intergovernmental mechanism for political dialogue began in 1999 and have been held every two years since 2013, with the 33-member-strong Community of Latin American and Caribbean States (CELAC) as the EU's counterpart.[1] In 2006, meanwhile, the Euro-Latin American Parliamentary Assembly (EuroLat) was formed to be the parliamentary dimension of the bi-regional strategic partnership.[2] The current President of the European Parliament, Antonio Tajani, has reaffirmed on various occasions, including at the 2017 EuroLat Parliamentary Assembly, that enhancing EU-LAC relations is one of the priorities of his presidency.[3]

Since the 1990s, the EU has pursued a strategy of promoting sub-regional integration initiatives within LAC and bi-regional integration between the EU and the then existing four sub-regional groupings (the Andean Community of Nations, Cariforum, the Central America group, and Mercosur) as well as bilateral integration with Chile and Mexico. This strategy was rolled out at a time when the USA was leading negotiations for the North American Free Trade Agreement (NAFTA) with Canada and Mexico, concluded in 1992, and the Free Trade Area of the Americas (FTAA) which stalled in 2005.[4] The EU strategy has also aimed to balance the dominant US footprint in LAC and to secure EU market access to the region. In the mid-2000s several Latin American countries experienced political shifts to left-wing governments seeking socialist alternatives to the free trade approach. As a result the EU's regional integration strategy for LAC did not develop as coherently as originally expected.

As of September 2018, the EU nevertheless has fully fledged agreements as part of interregional association agreements – including political dialogue, cooperation and a trade pillar – with two LAC groupings (Cariforum and the Central America group). It has also concluded a multiparty trade agreement with three countries of the Andean Community (Colombia, Ecuador, and Peru), which Bolivia may join in the future, and bilateral agreements governing trade relations[5] with Mexico and Chile. Furthermore, an EU-Mercosur interregional framework agreement has been in place since 1999, which is intended to be replaced by an association agreement once ongoing negotiations are concluded. Finally, the EU has bilateral framework agreements with Mercosur's founding members Argentina, Brazil, Paraguay, and Uruguay.[6] The EU's latest agreement governing trade relations concerns Cuba, although its provisions are not as comprehensive as those in many of the aforementioned agreements.

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1 Explainer: What Is CELAC?, B. O'Boyle, Americas Society/Council of the Americas, 27 January 2015.

2 EuroLat is a joint multilateral parliamentary assembly composed of 150 members, 75 from the European Parliament and 75 from the Latin American component, including Parlatino (Latin-American Parliament), Parlandino (Andean Parliament), Parlacen (Central American Parliament), Parlasur (Mercosur Parliament), the Mexican Congress, and the Chilean Congress, the Euro-Latin American Parliamentary Assembly (EuroLat), and the European Parliament.

3 European Parliament President speech at the formal sitting of the EuroLat Parliamentary Assembly to mark the 60th anniversary of the signing of the Treaty of Rome, 23 May 2017.

4 What Kind of Interregionalism? The EU-Mercosur Relationship within the Emerging 'Transatlantic Triangle', E. Pollio, Bruges Regional Integration & Global Governance Papers, 3/2010.

5 In this publication, the term 'agreement governing trade relations' signifies that the agreement at issue encompasses various areas of cooperation, including trade relations. If an agreement only governs trade relations, it will be referred to as a 'trade agreement'.

6 See Table 2 in Annex 1 for an overview of the agreements in place.

Since the mid-1990s, the EU's market share in LAC trade has decreased significantly.[7] Whereas in 1990 the EU accounted for 24.8 % of LAC trade, in 2011 its share had shrunk to 13.7 %.[8] This is the result of a combination of major geopolitical and policy shifts and the impact of the financial crisis. Key developments include: (i) the rise of emerging markets, notably China,[9] and their increasing prominence as new players in LAC; and (ii) the creation in 2011 of the Pacific Alliance, a new very dynamic Latin American sub-regional integration initiative founded by the Pacific Rim countries Chile, Colombia, Mexico and Peru, which share a strong interest in engaging with dynamic Asian markets.

Table 1 – EU trade with LAC groups/states and ranking of LAC's trade partners in 2017[10]

LAC countries/sub-regional groupings	EU total trade in goods value in billion €	Ranking of LAC's trading partners		
		USA	China	EU
Andean Community	28.0	1	2	3
Central America	11.6	1	3	2
Cariforum	8.7	1	3	2
Cuba	2.6	(lower ranking)	2	1
Mercosur	84.9	3	1	2
Mexico	61.9	1	2	3
Chile	17.1	2	1	3

Source: EPRS/Eurostat; Mercosur excludes data for Venezuela. Data extracted in August 2018.

As can be seen from Table 1, the USA has remained the first trading partner for most LAC groupings and individual countries. However, recent US trade policy changes – including the US withdrawal from the Trans-Pacific Partnership (TPP) (originally signed with 11 other Pacific Rim countries)[11] and the re-negotiation of NAFTA (which currently appears to be nearing its

7 Regional Trade Agreements in Latin America and the Caribbean: Trade, development and cooperation, P. Giordano, Inter-American Development Bank (IDB), 16 March 2010.

8 European Union and Latin America and the Caribbean: Investments for growth, social inclusion and environmental sustainability, Economic Commission for Latin America and the Caribbean (ECLAC), October 2012, p. 52.

9 Relaciones económicas entre América Latina y el Caribe y China. Oportunidades y desafíos, Comisión Económica para la América Latina y el Caribe (CEPAL), November 2016. The China-CELAC Forum, BRICS Policy Centre, 2016. During the past 10 years competition between EU and Chinese exports to Latin America has become fiercer (with EU key sectors such as electrical machinery and road vehicles being particularly concerned), indicating that China has successfully moved up the value-added chain. See: European and Chinese Trade Competition in Third Markets: The Case of Latin America, A. García-Herrero, T. Marbach, and X. Jianwei, Bruegel, Working paper Issue 06, 7 June 2018.

10 The data presented in this publication are derived mainly from Eurostat, with some data also coming from the International Monetary Fund (IMF) and the European Commission's DG TRADE (which publishes regular overviews of EU trade statistics, including for specific LAC sub-regional groupings and countries). This publication primarily refers to Eurostat data, because it is in many instances the most up-to-date data available. References to both sources are avoided as much as possible, in particular when discrepancies exist between the data. Please note that the figures on FDI only provide a snapshot of available data; this data is regularly updated and therefore subject to frequent change.

11 The TPP was reorganised into a TPP-11 and signed on 8 March 2018. About the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11), Australian Government.

completion)[12] – have created uncertainty in the region. This has also created opportunities for the EU to advance its interests, notably as regards Mercosur for which the EU lost its long-standing rank of first trading partner to China in 2017.[13] At the same time, recent developments in EU-US trade relations, specifically the July 2018 deal to pursue a bilateral trade deal and strengthen cooperation in several other areas, could create new dynamics. It remains to be seen how these will affect the EU's position.

Against the backdrop of ongoing geopolitical and trade policy shifts in the region, recent global and EU trade and investment policy developments, the EU is pursuing the three priorities for LAC set out in the 2015 EU trade policy communication 'Trade for All'.[14] These priorities consist of modernising the two trade pillars of the agreements concluded earlier with Chile and Mexico and finalising the long-standing negotiations with Mercosur to unlock untapped trade potential in the region.[15]

1.1. Existing agreements governing trade relations

This section analyses existing fully fledged agreements between, on the one hand, the EU and, on the other, countries and sub-regional groupings in Latin America and the Caribbean that are not currently undergoing modernisation (for new agreements and agreements that are currently being modernised, see Section 1.2). The EU's new agreement with Cuba, although not as comprehensive as some of the others, has also been included as it may constitute a stepping stone for a future trade agreement.

1.1.1. EU-Andean Community

The Andean Pact was founded in 1969 by the Cartagena Agreement and renamed Andean Community of Nations in 1996. Currently, it comprises four countries: Bolivia, Colombia, Ecuador, and Peru.[16] In 1993, the EU and the Andean Community concluded a Framework Agreement on Cooperation (also covering Venezuela) which entered into force in 1998. In 1996, political dialogue was institutionalised with the Declaration of Rome. In 2003, a Political Dialogue and Cooperation Agreement was signed, but it has not yet entered into force, despite completion of the ratification process by the Andean Community.

Negotiations on an interregional association agreement containing a political dialogue, cooperation and trade pillar were launched in 2007.[17] However, the talks stalled in 2008 partly because the political landscape in Bolivia and Ecuador had changed with the arrival in power of left-wing President Evo Morales in Bolivia in 2006 and left-wing President Rafael

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12 In August 2018 the USA struck a deal with Mexico. Council on Foreign Relations, Trump's Deal With Mexico: A New NAFTA?, 28 August 2018.

13 The results of EU-CELAC trade relations must also be considered against the broader regional and global economic context. Latin America and the Caribbean: Bouncing Back from Recession, IMF, 19 May 2017.

14 Trade for all. Towards a more responsible trade and investment policy, European Commission, 2015.

15 For a monthly update of ongoing negotiations, see the EPRS legislative train schedule on international trade.

16 Chile originally belonged to the founding members, but withdrew in 1976. It is currently an associate member. Venezuela joined the Andean Community in 1973 but left in 2006 amid disarray within the CAN owing to divergent views on liberalisation and more generally on development policy, to become a full member of Mercosur in 2012.

17 SICE: trade policy developments: Andean countries – EU, Organisation of American States (OAS).

Correa in Ecuador in 2007.[18] Both presidents preferred to pursue regional integration along the lines of the regional integration platform Bolivarian Alliance for the Peoples of our America (ALBA), which also includes Cuba and Venezuela.

As a result, a new negotiation format was defined.[19] Bloc-to-bloc negotiations continued on political dialogue and cooperation, while multiparty trade negotiations on a World Trade Organization Plus (WTO+) format[20] were pursued with those Andean Community countries willing to embark upon them, i.e. Peru, Colombia and Ecuador. Ultimately, in 2012, an ambitious and comprehensive trade agreement on progressive and reciprocal liberalisation was signed only with Peru and Colombia, both of which had signed a free trade agreement (FTA) with the USA in 2006. The agreement was thus strategically important for the EU to ensure a similar level of access to the markets of these two trading partners. It has been provisionally applied since 2013 and provides for the total liberalisation of trade in industrial products and fisheries over 10 years (with most tariffs eliminated at its entry into force) and increased market access for agricultural products (85 % are to be liberalised within 17 years). It also liberalises services and public procurement and contains provisions on intellectual property rights (IPR), human rights and labour and environmental standards.[21] From the perspective of the Andean countries, the EU concessions on import tariffs for bananas have been crucial.[22]

As regards Ecuador, the rationale for its decision to re-enter into negotiations with the EU in 2013 in order to join the EU-Colombia-Peru trade agreement was to secure improved market access to the EU.[23] Following the overhaul of the EU's generalised scheme of preferences (GSP)[24] Ecuador would have lost its GSP eligibility and would have faced most-favoured nation (MFN) tariffs instead.[25] In July 2014, the EU and Ecuador reached an agreement on Ecuador's accession protocol to the EU-Colombia-Peru trade agreement. The accession protocol was signed in November 2016.[26] On 1 January 2017, Ecuador formally joined the trade agreement.[27] As for Bolivia, it has retained its GSP status and has an option to join the multiparty trade agreement in the future.

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18 Latin America's new left in power: the governments of Hugo Chavez, Evo Morales and Rafael Correa', S. Ellner, *Latin American Perspectives*, Vol. 39(1), January 2012, pp. 96-114.

19 Peru, Colombia to negotiate bilateral deals with EU, Andina.com, 11 November 2008.

20 Deep Provision in Regional Trade Agreements: How Multilateral Friendly?, Organisation for Economic Co-operation and Development (OECD), February 2015, p. 2.

21 European Union: 'Trade Agreement' with Colombia and Peru, study commissioned by the Policy Department for External Policies, European Parliament, 20 March 2012.

22 The EU agreed to gradually lower its import tariff on bananas from these countries to a preferential tariff by 1 January 2020. Between the entry into force of the trade part of the agreement and 2020 a safeguard clause applies to prevent larger than anticipated increases in EU banana imports. If the country-specific trigger import volume (TIV) is exceeded, the EU can revert to MFN tariffs for three months. This scheme is also applicable to the EU's association agreement with Central America. See: G. Anania, The implications for bananas of the recent trade agreements between the EU and Andean and Central American countries, International Centre for Trade and Sustainable Development (ICTSD), Policy Brief Number 5, September 2010.

23 Assessing the economic impact of the trade agreement between the European Union and Ecuador, European Commission, June 2016.

24 Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008, which unilaterally grants preferential market access to developing countries, is applicable from 2014 to 2023.

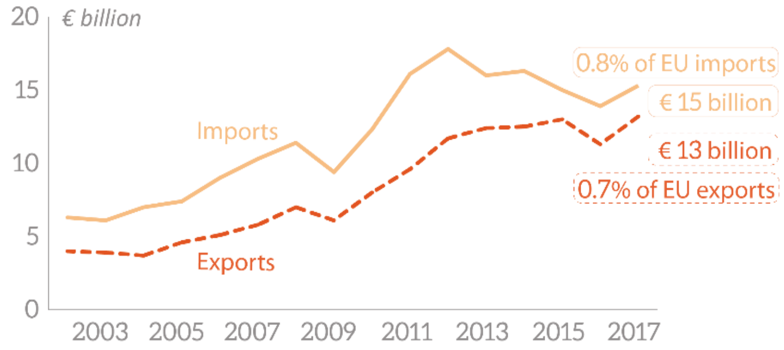
25 The EU's Generalised Scheme of Preferences (GSP), European Commission, August 2015.

26 Ecuador joins EU-Colombia/Peru trade agreement, European Commission, press release, 11 November 2016.

27 European Union, Countries and regions, Andean Community, European Commission, DG Trade.

Colombia and Peru, both members of the Pacific Alliance, account for the largest share of EU-Andean Community trade. Ecuador is the EU's third largest trading partner among the Andean countries with a trading volume of €5.2 billion, followed by Bolivia with €1.5 billion.[28]

Figure 1 – EU trade in goods with Andean Community



Source: Eurostat.

According to the 2017 Commission implementation report,[29] EU statistics indicate that more than 95 % of exports from Colombia and Peru to the EU are carried out under the terms of the agreement. Based on statistics from Colombia, the EU's preference utilisation rate in Colombia stood at 70.6 % in 2016 (compared to 55.7 % in 2014, indicating that EU exporters improved their use of the agreement). For Peru no data are available. For several products, such as sugar confectionery, tariff rate quotas (TRQs) have not yet been utilised and thus offer further growth potential.[30]

A 2018 implementation assessment[31] states that the trade agreement has prevented trade in goods between the EU and Colombia/Peru from declining as strongly as was the case for trade in goods between Colombia/Peru and the rest of the world after the agreement's implementation. Therefore it may be said to have had a stabilising effect on trade. Trade in goods with the two Andean countries is concentrated on only a few EU Member States. EU exports to Colombia and Peru are more diversified than EU imports from Colombia and Peru. However, the number of new products from Colombia and Peru exported to the EU has increased, suggesting some progress in diversification. In this context increased SME internationalisation may be highlighted as a positive trend in the implementation of the agreement.

The report also contains an assessment of the implementation of the trade pillar as regards labour and environmental standards as well as human rights. Civil society organisations from the EU and Peru in October 2017 submitted to the EU a complaint against the Peruvian government for failing to fulfil its labour and environmental commitments under the trade agreement.[32] It contains cases from sectors such as agriculture, mining, oil and gas as well as textiles and clothing. A civil society assessment of the agreement after three years of its implementation criticises the lack of progress in implementing sustainable development in Colombia under the trade agreement.[33]

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28 European Union, Trade in goods with Bolivia, European Commission, DG Trade. European Commission, Agri-food trade statistical factsheet for Bolivia, 15 March 2018.

29 Third Annual Report on the Implementation of the EU-Colombia/Peru Trade Agreement, COM/2017/0585, European Commission, 10 October 2017.

30 The European Parliament's Committee on International Trade, rapporteur Santiago Fisas Ayxelà (EPP, Spain), will draft an own initiative report, 2018/2010(INI), on the agreement's implementation in the second half of 2018.

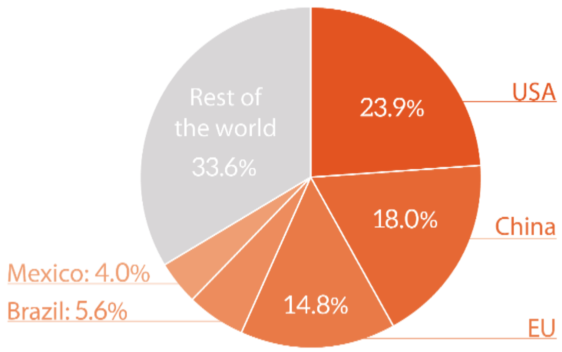
31 Trade agreement between the European Union and Columbia and Peru – European Implementation Assessment, European Parliament, DG EPRS, July 2018.

32 Complaint against the Peruvian Government for failing to fulfil its labour and environmental commitments under the Trade Agreement between Peru and the European Union, Plataforma Europa Perú and European civil society organisations, 19 October 2017.

33 Repercussions in Colombia of the free trade agreement with three years of implementation, Transnational Institute and The International Office on Human Rights - Action Colombia (OIDHACO), September 2016.

Figure 2 – Andean Community: top 5 trade partners

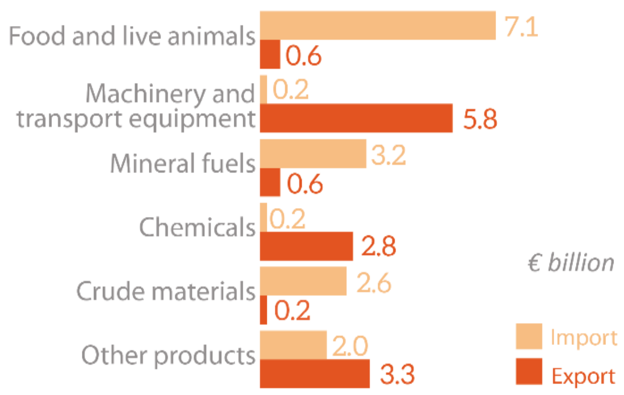
Trade in goods (exports plus imports) (2017)



Source: IMF.

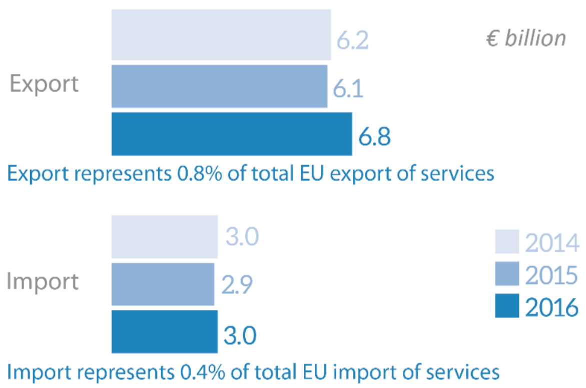
Figure 3 – Main trade products

EU trade in goods with Andean Community (2017)



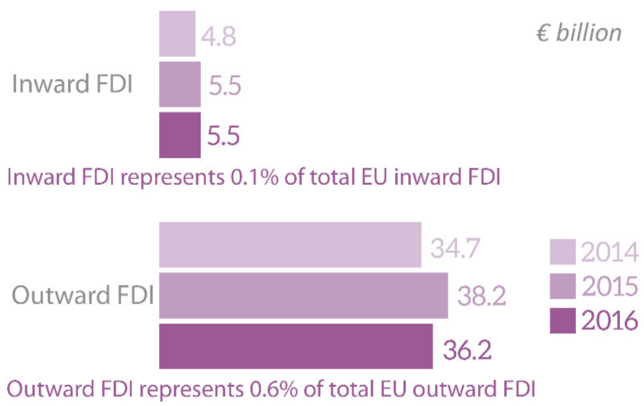
Source: Eurostat.

Figure 4 – EU trade in services with Andean Community



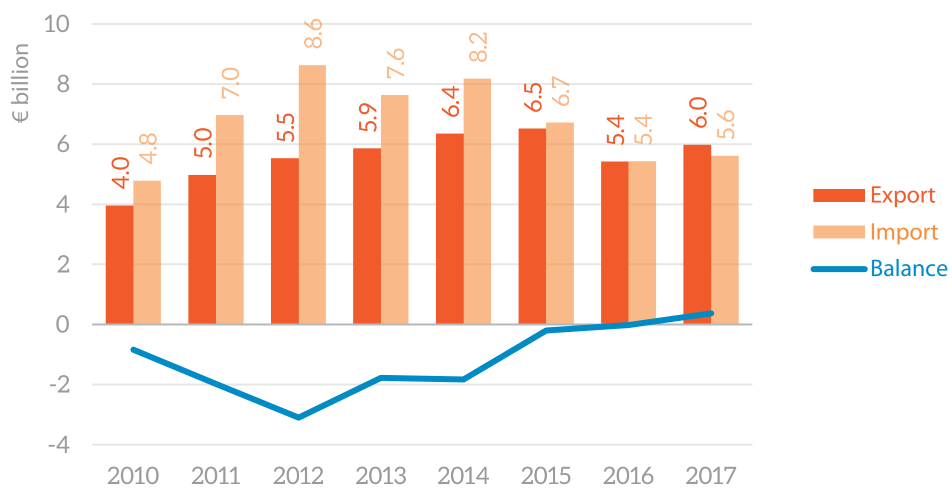
Source: Eurostat.

Figure 5 – EU FDI stocks with Andean Community



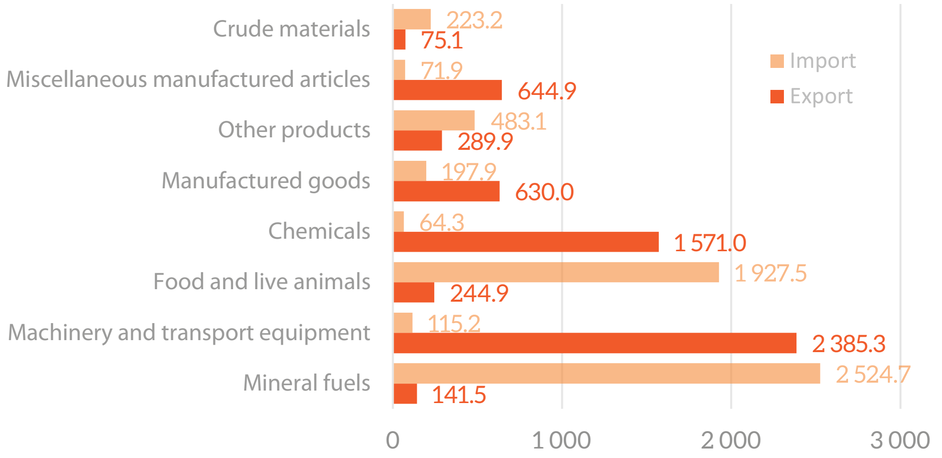
Source: Eurostat.

Figure 6 – EU trade in goods with Colombia (2010-2017)



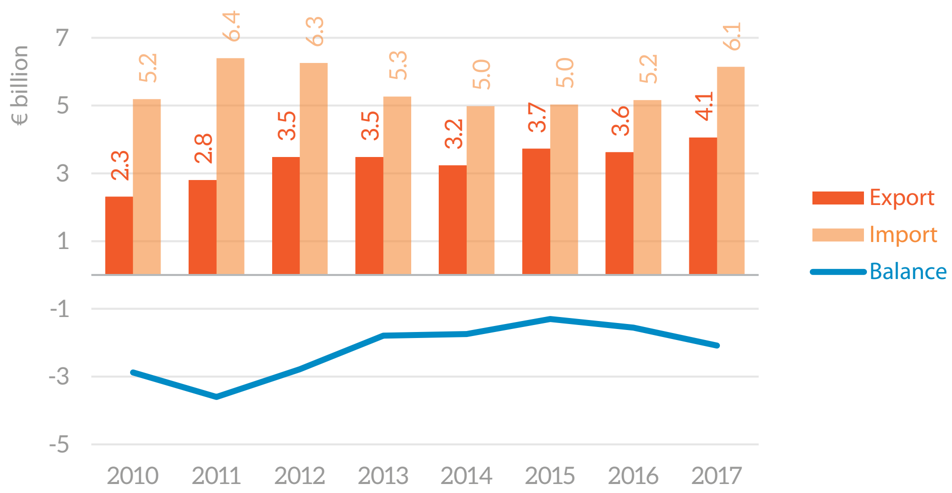
Source: Eurostat.

Figure 7 – EU trade with Colombia: Main products (2017, € million)



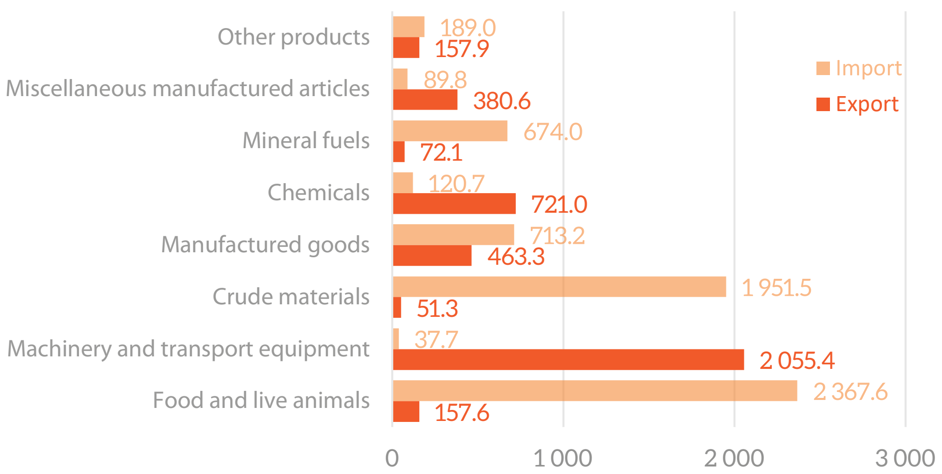
Source: Eurostat.

Figure 8 – EU trade in goods with Peru (2010-2017)



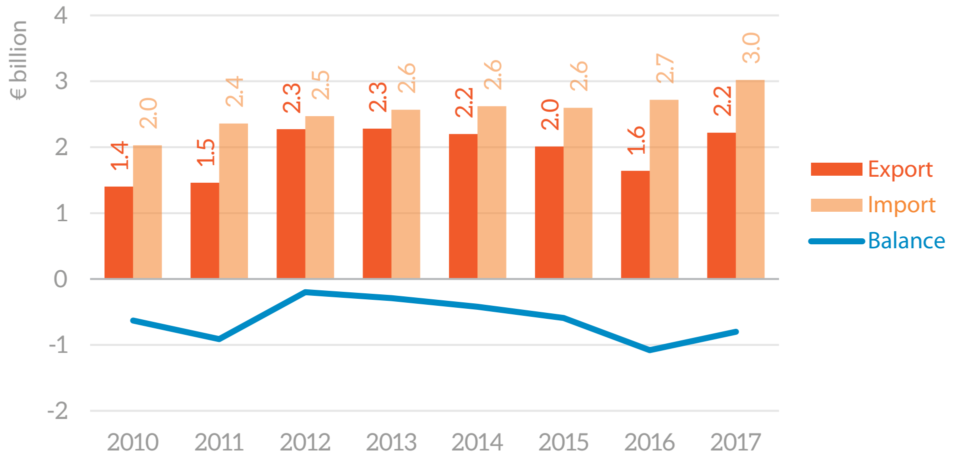
Source: Eurostat.

Figure 9 – EU trade with Peru: Main products (2017, € million)



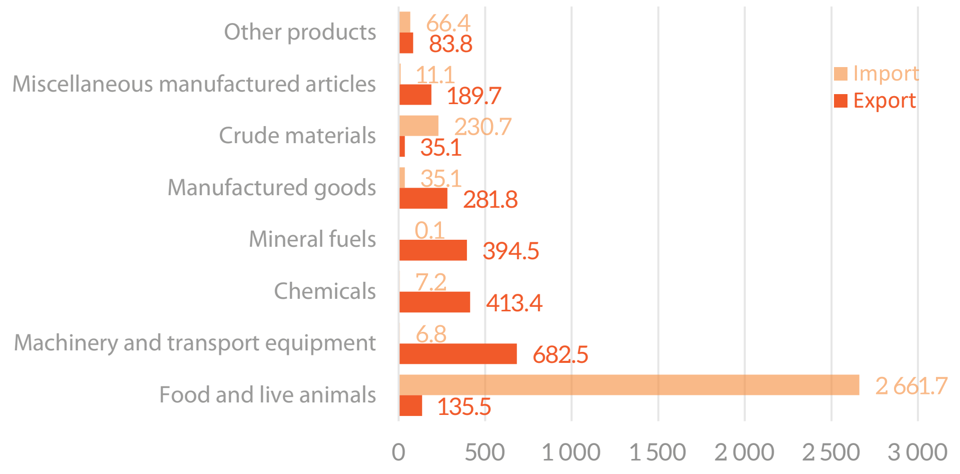
Source: Eurostat.

Figure 10 – EU trade in goods with Ecuador (2010-2017)



Source: Eurostat.

Figure 11 – EU trade with Ecuador: Main products (2017, € million)



Source: Eurostat.

1.1.2. EU-Central America

The Central America grouping is composed of six countries: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Close relations between the EU and Central America have their roots in the 1980s when the EU supported the region's successful peace process in the framework of the San Jose Dialogue. In 1993, the EU concluded the EU-Central America Framework Cooperation Agreement, in force since 1998.[34] In 2003, the parties signed the EU-Central America Political Dialogue and Cooperation Agreement which entered into force in 2014.

In 2007, negotiations started on an interregional association agreement. These were concluded in 2010. The EU's first region-to-region agreement in Latin America was signed in June 2012 and has three pillars: political dialogue, cooperation and trade. Pending the agreement's ratification, the trade provisions have been provisionally applied since 2013.[35] The trade pillar of the association agreement replaces the unilateral preferential access to its market that was granted to Central America under the EU's GSP.

The association agreement was designed to eliminate the majority of tariffs for manufactured goods and fisheries with complete liberalisation at the end of the tariff phase-out period, for most products within 10 years and with respect to only a small number (4 %) of products after 15 years.[36] Upon the entry into force of the agreement, Central American countries were set to liberalise 68 % of their existing trade with the EU. The agreement has been seen as a means both to diversify Central America's exports and its regional integration. Moreover, the agreement contains WTO+ provisions on, amongst other things, services, sanitary and phytosanitary measures (SPSs), technical barriers to trade (TBTs), geographical indications (GIs), and public procurement. An ambitious trade and sustainable development (TSD) chapter requires compliance with a list of labour conventions and multilateral environmental agreements (MEAs). The access to the Central American market gained by the EU through its association agreement is almost equal to that achieved by the USA by means of the Dominican Republic-Central America FTA (CAFTA-DR). The positive impact on bilateral trade was expected to be proportionate to the small size of the Central American economies.[37]

Figure 12 – EU trade in goods with Central America

Source: Eurostat.

[34] SICE: Trade policy developments: Central America-European Union, Foreign Trade Information System, OAS.

[35] Countries and regions, Central America, European Commission.

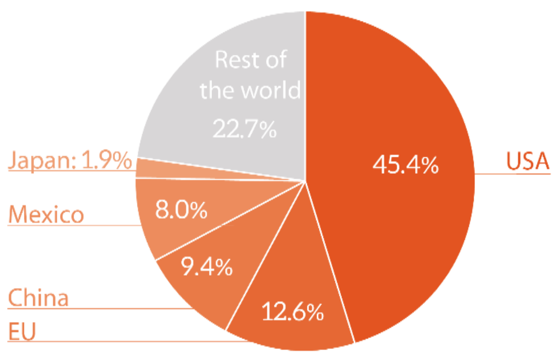
[36] EU-Central America: Trade relations under the Association Agreement, European Commission, 2012.

[37] EU-Central America Association Agreement – Free trade chapter, E. Bierbrauer, Policy Department for External Policies, European Parliament, 23 May 2011.

The European Commission's 2017 implementation report on the trade part of the association agreement with Central America[38] notes that the use of existing trade preferences has remained rather low for EU exports to Central America, but is higher for EU imports from Central America. As for the granted TRQs, the report states that they have been largely under-utilised and that hence there are unexploited opportunities for economic operators to deepen trade ties.[39] In addition to meetings of representatives of the European and Central American Advisory Groups set up under the TSD chapter of the association agreement, civil society is also involved in the implementation of the association agreement through the civil society dialogue forum. The most recent and web-streamed meeting between the European Commission and the forum took place on 13 June 2018.[40]

Figure 13 – Central America: top 5 trade partners

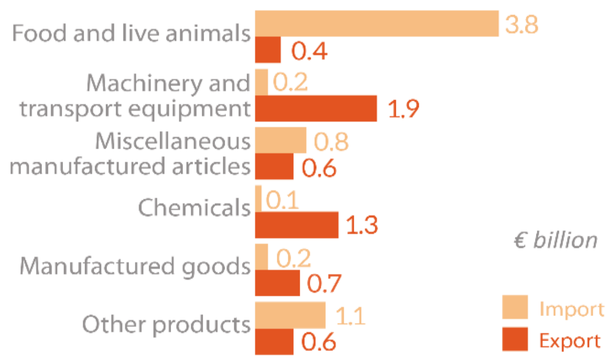
Trade in goods (exports plus imports) (2017)



Source: IMF.

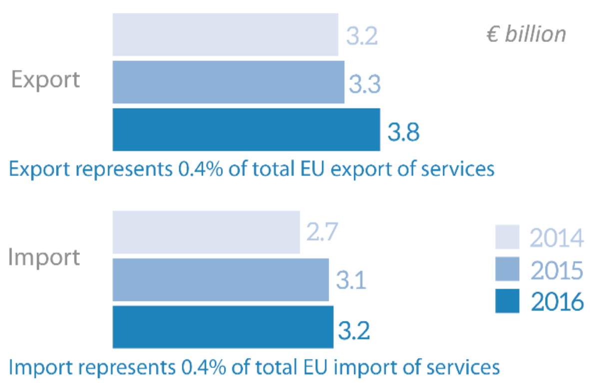
Figure 14 – Main trade products

EU trade in goods with Central America (2017)



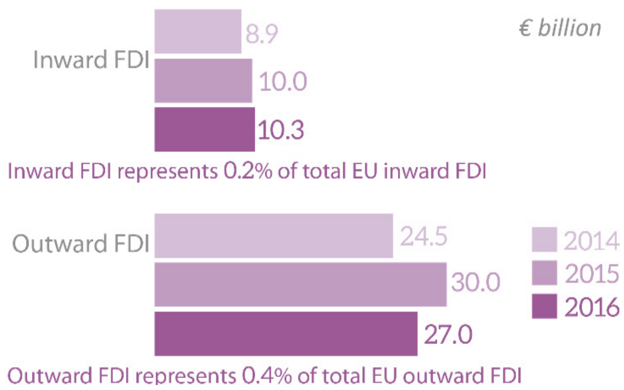
Source: Eurostat.

Figure 15 – EU trade in services with Central America



Source: Eurostat.

Figure 16 – EU FDI stocks with Central America



Source: Eurostat.

[38] Third Annual Report on the Implementation of Part IV of the association agreement with Central America, COM(2017)160, European Commission, 5 April 2017.

[39] The European Parliament's Committee on International Trade, rapporteur Reimer Böge (EPP, Germany), will draft an own-initiative report, 2018/2106(INI), on the agreement's implementation in the second half of 2018. In this context an EPRS European Implementation Assessment by Isabelle Ioannidis is forthcoming.

[40] Report to the civil society forum of the fourth meeting of the board of trade and sustainable development of the EU-Central America Association Agreement, European Commission, 13 June 2018.

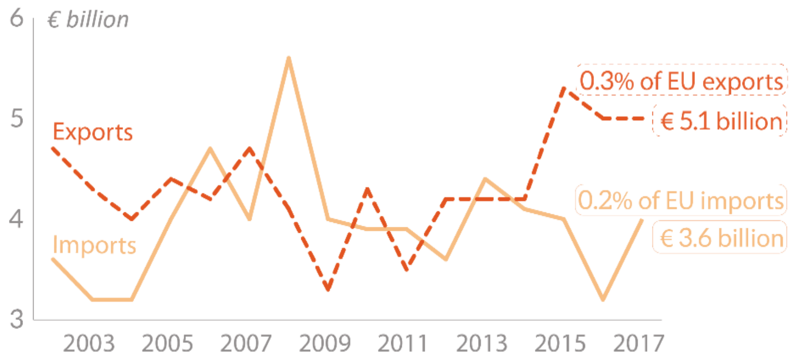
1.1.3. EU-Cariforum

EU relations with the Caribbean countries were initially organised in the framework of the Group of African, Caribbean and Pacific States (ACP) which is currently governed by the 2000 Cotonou Agreement. The Caribbean countries are small, middle-income countries, with the exception of Haiti, and most of them are islands.[41] They account for only a small share of EU trade. The Caribbean is, however, important to the EU in geopolitical terms, since British, Dutch, and French overseas countries and territories are part of its immediate neighbourhood.

The EU's first regional counterpart in the Caribbean was the Caribbean Community (CARICOM) which was created in 1973. In 1992 the Caribbean Forum of African, Caribbean and Pacific States (Cariforum) was formed, encompassing CARICOM and the Dominican Republic. It subsequently became the EU's dialogue partner.

Negotiations on an EU-Cariforum Economic Partnership Agreement (EPA)[42] began in 2004. The agreement entered into force in 2008.[43] A key goal of the EU-Cariforum EPA has been to replace the EU's non-reciprocal trade preferences and to introduce the principle of reciprocity into the EU's trade relations with the ACP countries.[44] Reciprocal liberalisation between the EU and the Caribbean countries is asymmetrical in order to take into account the partners' different levels of economic development. Therefore a long transitional period of 25 years was agreed to expand current market liberalisation for 51 % of Caribbean imports from the EU to eventually reach 86.9 %. The EU grants the Caribbean countries complete free market access. However, agricultural and fishery products and a number of industrial goods are excluded from free market access.[45]

Figure 17 – EU trade in goods with Cariforum



Source: Eurostat.

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[41] Cuba is the only Caribbean country not to have signed the Cotonou Agreement.

[42] EPAs are the main instruments for promoting trade between the EU and the African, Caribbean and Pacific (ACP) regions under the 2000 Cotonou Agreement. They constitute key elements of EU-ACP trade relations, designed to be WTO-compatible. They are set to progressively replace the EU preferential trade regime. European Union, [Fact Sheets on the European Union, Trade regimes applicable to developing countries]().

[43] Cuba is part of Cariforum, but it is not a signatory of the EU-Cariforum EPA.

[44] [Trade and Investment Agreements for Sustainable Development? Lessons from the EU's Economic Partnership Agreement with the Caribbean](), E. Schmieg, SWP research paper, July 2015.

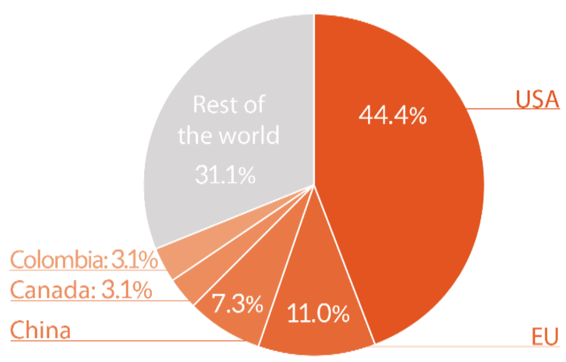
[45] [Cariforum–EU Economic Partnership Agreement: An overview](). Information Paper, European Commission, July 2008.

The EU-Cariforum EPA is also supposed to foster sustainable development, promote interregional integration, and connect trade policy with development instruments. It incorporates several sustainable development rules, such as comprehensive commitments on social and environmental dialogue, an obligation not to lower environmental, labour and other social standards in order to attract FDI and a monitoring provision.

In line with Article 5 of the EU-Cariforum EPA, a first five-year review of the EPA's implementation was conducted in 2014 for the 2008 to 2013 period.[46] Although the EU-Cariforum EPA's aid for trade component to support the implementation of the agreement has had a positive impact, there is still room for improvement as regards the EPA's joint institutions and the dissemination of information on the agreement. The review highlights delays both in the development cooperation part and in implementation of the trade part. Only 10 out of 15 Cariforum states have applied tariff reductions indicated for 2013, and export duties have been eliminated only partially. Although the Caribbean partners now enjoy free market access to the EU, they have so far had only limited success in seizing additional export opportunities, with only modest new trade flows.

Figure 18 – Cariforum: top 5 trade partners

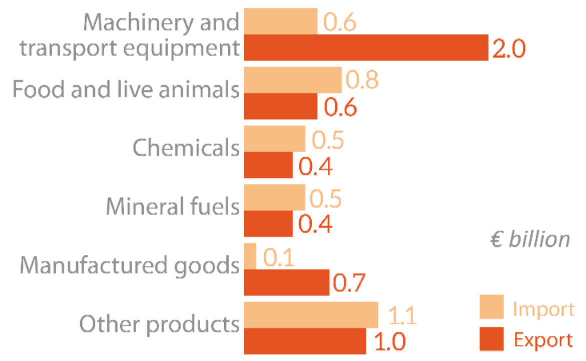
Trade in goods (exports plus imports) (2017)



Source: IMF.

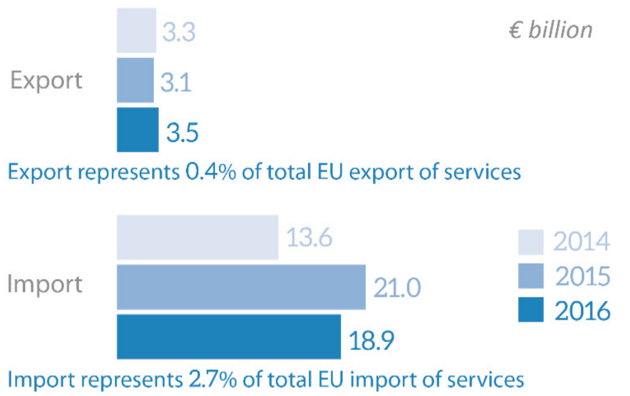
Figure 19 – Main trade products

EU trade in goods with Cariforum (2017)



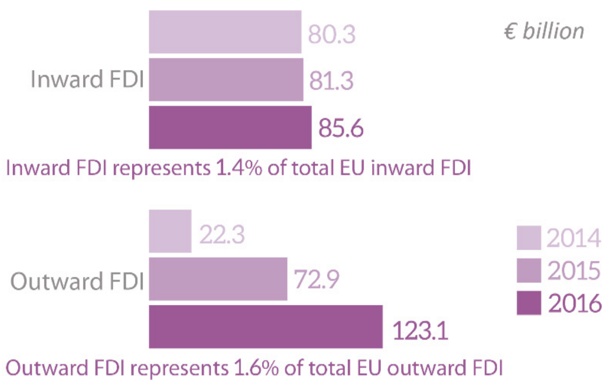
Source: Eurostat.

Figure 20 – EU trade in services with Cariforum



Source: Eurostat.

Figure 21 – EU FDI stocks with Cariforum



Source: Eurostat.

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[46] Monitoring the implementation and results of the Cariforum–EU EPA Agreement, R. H. Singh et al, September 2014.

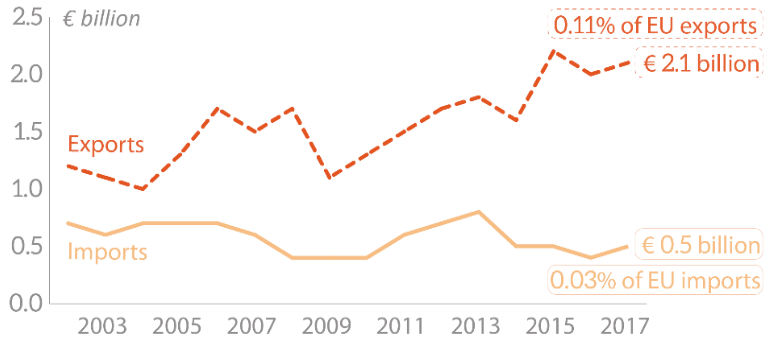
1.1.4. EU-Cuba

Until November 2017 EU-Cuba relations were governed by the Common Position of 2 December 1996 which made full cooperation with Cuba conditional on progress on human rights and political liberties but did not exclude economic cooperation.[47]

In July 2017 the European Parliament gave its consent to the conclusion of the EU-Cuba Political Dialogue and Cooperation Agreement signed in December 2016.[48] As a mixed agreement, most parts have been applied provisionally since November 2017 until the PDCA's ratification by all Member States.[49] A first EU-Cuba Joint Council meeting took place on 15 May 2018.[50]

The PDCA provides an initial legal and institutional framework to normalise EU-Cuba ties and may constitute a stepping stone towards a more ambitious trade agreement in the future.[51] Part IV of the PDCA contains provisions on trade and trade cooperation which codify general WTO principles such as the MFN and national treatment principles for EU-Cuba trade. MFN is excluded from application to third countries through preferential agreements concluded between Cuba and third countries. In addition, the PDCA includes provisions on trade facilitation and cooperation in areas such as TBTs and standards, with a view to improving prospects for deeper economic relations. It includes a clause envisaging the future development of a stronger framework for investment.[52]

Figure 22 – EU trade in goods with Cuba



Source: Eurostat.

47 Common Position of 2 December 1996 defined by the Council on the basis of Article J.2 of the Treaty on European Union, on Cuba, 96/697/CFSP.

48 E. Gómez Ramírez, EU-Cuba Political Dialogue and Cooperation Agreement, EPRS, European Parliament, June 2017; G. Grieger, EU-Cuba Agreement, EPRS, European Parliament, July 2017.

49 J. Tvevad, EU-Cuba relations: a new chapter begins, Policy Department for External Policies, European Parliament, 11 July 2017. EU-Cuba relations, factsheet, European External Action Service, 7 May 2018.

50 Council of the European Union, EU-Cuba Joint Council meeting, 15 May 2018.

51 In 2017, total EU-Cuba in goods trade stood at €2.5 billion, with the EU exporting goods worth €2.0 billion and importing goods worth €0.47 billion. See: European Commission, Trade with Cuba, 16 April 2018. European Commission, Agri-food trade statistical factsheet for Cuba, 15 March 2018.

52 Political Dialogue and Cooperation Agreement, Council of the EU, 12504/16, 25 November 2016. For more information, see also: Cuba 'updates' its economic model. Perspectives for cooperation with the European Union, E. Schmieg, German Institute for International and Security Affairs, April 2017.

1.2. Ongoing negotiations on agreements governing trade relations

This section analyses ongoing trade negotiations between the EU and Latin American countries and sub-regional groupings. These negotiations cover both 'new' agreements (EU-Mercosur) and modernisations of existing fully fledged agreements (EU-Mexico and EU-Chile).

1.2.1. EU-Mercosur

Mercosur, the 'common market of the south', was founded in 1991 when Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción. In 2012, Venezuela formally joined Mercosur as a fifth member, but in December 2016 the country was suspended temporarily for failure to transpose Mercosur rules into Venezuelan law.[53] In August 2017, the suspension was prolonged indefinitely, on the basis of Mercosur's democracy clause, until democracy is restored in Venezuela. Bolivia, which is still one of the five associate members (together with Chile, Colombia, Ecuador, Peru and Suriname), is in the process of joining Mercosur, with its accession protocol pending ratification by all Mercosur parliaments.[54]

With a combined gross domestic product (GDP) of US$2.7 trillion in 2017, Mercosur is LAC's biggest trading bloc.[55] Despite making use of the EU's supranational integration model, Mercosur's institutional structure has remained weak and decisions are taken at intergovernmental level by consensus, as member states have been unwilling to cede sovereignty to supranational organs.[56]

According to Article 1 of Mercosur's founding treaty, the aim is to create a common market.[57] Yet the bloc is still far from having achieved this goal. A customs union with a common external tariff (CET) was established as a stepping stone to a common market, but the CET has not been applied consistently, since domestic policy interests have frequently prevailed.[58] Mercosur has failed to implement its full harmonisation agenda including in competition policy and technical regulations.[59]

Considerable asymmetries exist among Mercosur countries because of the large differences in size and structure of their economies. While Argentina and Brazil have comparatively low involvement in global trade as reflected in their low trade-to-GDP ratio, Paraguay and Uruguay – given their small markets – have been more dependent on international and regional trade.[60] Following significant growth of trade within Mercosur after its creation, trade flows have slowed down as a result of the financial crisis in the big Mercosur members and their weakened

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[53] Le Venezuela qualifie de « coup d'Etat » sa suspension du Mercosur, Le Monde, 2 December 2016; Venezuela suspended indefinitely: 'Without democracy, you can't be part of Mercosur', MercoPress, 6 August 2017.

[54] Bolivia, a un paso de ingresar al MERCOSUR, International Centre for Trade and Development, 2018.

[55] World Bank database.

[56] 'The Mercosur experience and theories of regional integration', C. R. Caichiolo, *Contexto Internacional*, Vol. 39(1) January/April 2017, pp. 117-134.

[57] The Law of Mercosur, M. Toscano Franca Filho, L. Lixinski, M. Belén Olmos Giupponi (eds.), Bloomsbury Publishing, 2010.

[58] Economic asymmetry and institutional shortfall in Mercosur: predictions for deepening Mercosur integration, F.E. Bakker, Master's thesis June 2013; C. P. Bown (Peterson Institute for International Economics) and P. Tovar (Pontificia Universidad Católica del Perú), Mercosur is not really a free trade agreement, let alone a customs union, 17 September 2016.

[59] 'Regulatory Cooperation in Latin America: The Case of Mercosur', M. Mota Prado and V. B., *Law and Contemporary Problems*, Vol. 78, 2015, pp. 205-230.

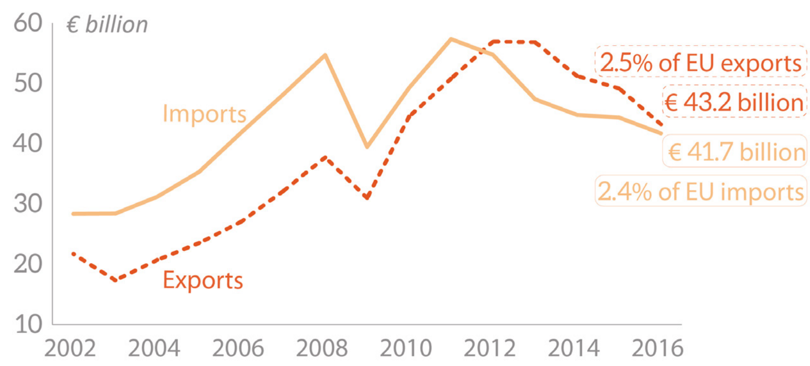
[60] Non-Tariff Measures in Mercosur: Deepening Regional Integration and Looking Beyond, UNCTAD, May 2017.

purchasing power. Since the mid-2000s, new external actors like China have imported significant volumes of commodities from Mercosur countries, thereby increasingly exposing the latter to fluctuating global commodity prices and heightening the risk of de-industrialisation.[61]

In accordance with Mercosur Decision 32/00 of 2000, which reaffirms that its members cannot individually negotiate and conclude trade agreements with third countries, Mercosur countries have concluded a number of preferential trade agreements (PTA) and free trade agreements (FTA) as a bloc.[62] Mercosur has launched negotiations on an FTA with Canada, the European Free Trade Association (EFTA) which includes Iceland, Liechtenstein, Norway, and Switzerland, as well as with Singapore and South Korea.[63]

EU bilateral trade relations with the four founding members of Mercosur go back to the beginning of the 1990s.[64] The EU concluded framework trade and cooperation agreements with Argentina in 1990, with Paraguay in 1992, with Uruguay in 1994, and with Brazil in 1995. In parallel, a first inter-regional cooperation agreement was signed in 1992 but was replaced by the 1995 interregional framework cooperation agreement which entered into force in 1999.[65] It covers political dialogue, trade and economic cooperation and currently governs the relations between the two trading blocs, but was originally conceived as a stepping stone to an ambitious bi-regional EU-Mercosur association agreement liberalising trade between the two parties.[66]

Figure 23 – EU trade in goods with Mercosur-4



Source: Eurostat.

Since 1999, the EU and Mercosur (excluding Venezuela) have been negotiating on trade liberalisation as part of their overall negotiations on a bi-regional association agreement that should also include a political and a cooperation pillar.[67] However, in 2004 the parties failed to agree on each other's final offers on account of differing levels of ambition regarding the liberalisation of trade in agriculture, services and public procurement markets. Talks were

61 Mercosur: South America's Fractious Trade Bloc, C. Felter and D. Renwick, Council on Foreign Relations, 5 October 2016.

62 Legal Framework of the Common Market of the Southern Cone, Foreign Trade International System, Organisation of American States (OAS).

63 How two new free trade agreements could transform Brazil, M. Piacitelli, World Economic Forum, 27 March 2017; South Korea to launch free trade agreement negotiations with Mercosur, EFE, 25 May 2018; Singapore and Mercosur launch negotiations for free trade agreement, Ministry of trade and industry of Singapore, 24 July 2018.

64 Bilateral framework agreements for cooperation with the Mercosur countries, Summaries of EU legislation, Eur-Lex.

65 European Commission, press release, Memo-94-62, undated.

66 Communication from the Commission to the Council and the European Parliament, The European Community and Mercosur – An enhanced policy, 19 October 1994.

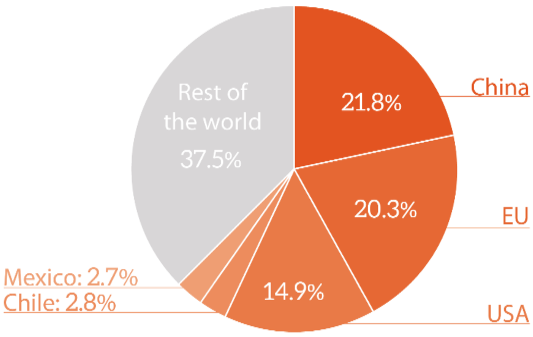
67 As the Council's negotiating directives were adopted in September 1999, investment protection is not within the scope of the current negotiations, since the exclusive competence for investment (excluding portfolio investment) was only conferred from Member State to EU level with the entry into force of the 2009 Lisbon Treaty. European Commission press release 199910621/99, 13 September 1999.

suspended until the 2010 EU-LAC summit in Madrid when they were re-launched. They stalled again in 2012, the year of Venezuela's formal accession to Mercosur.[68]

In economic terms, the cost of no agreement is rising for Mercosur, as none of its members, except Paraguay, benefit any longer from the EU's GSP and thus face fierce competition from those countries still benefiting from it.[69]

Figure 24 – Mercosur-4: top 5 trade partners

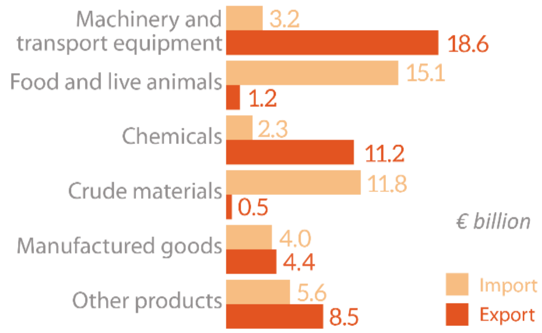
Trade in goods (exports plus imports) (2017)



Source: IMF.

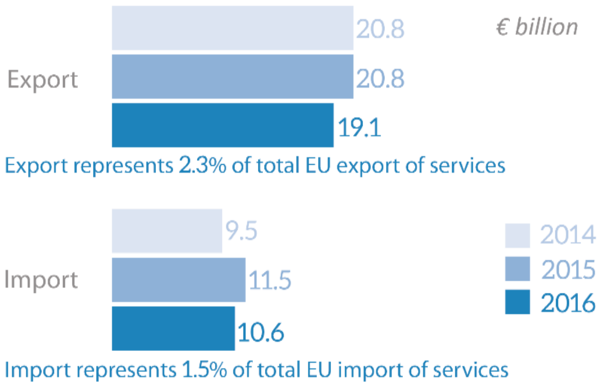
Figure 25 – Main trade products

EU trade in goods with Mercosur-4 (2017)



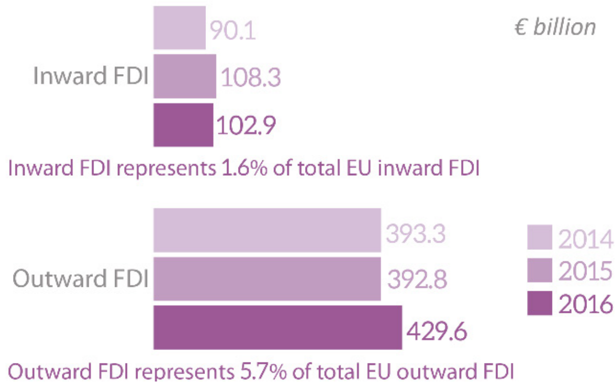
Source: Eurostat.

Figure 26 – EU trade in services with Mercosur-4



Source: Eurostat.

Figure 27 – EU FDI stocks with Mercosur-4



Source: Eurostat.

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68 Venezuela is an observer of the EU-Mercosur negotiations on an association agreement. Bilateral relations between the EU and Venezuela are not governed by a bilateral legal framework. European Commission, Countries and Regions, Venezuela. EU-Venezuela total trade in goods shrunk to an all-time low of €2.4 billion in 2017, European Commission, Trade in goods with Venezuela.

69 Generalised Scheme of Preferences in a nutshell, European Commission.

As a result of the arrival in office of two pro-business presidents, Mauricio Macri in Argentina and Michel Temer in Brazil, in 2015 and in 2016 respectively, the long-standing negotiations with the EU on an interregional association agreement have gained momentum.[70] May 2016 saw the first exchange of market access offers since the re-launch of negotiations.[71] The negotiation rounds in March and July 2017 witnessed considerable progress on a wide range of chapters.[72]

However, agriculture, including geographical indications (GIs), has remained a key stumbling block. Mercosur is a major producer of agricultural products such as beef and soybeans which currently make up a large part of Mercosur's exports to the EU. According to a 2016 study on the cumulative impact of the EU's trade agreements on EU agriculture, EU agricultural sectors will be very differently affected by opening the EU market to agricultural imports. A number of the EU's offensive agricultural products would benefit from increased market liberalisation, such as cereals, in particular wheat, and also beverages, such as wine and spirits. Sensitive EU products such as beef and, to a lesser extent, poultry and sugar, by contrast, would come under pressure.[73]

A significant number of EU Member States in the Agriculture and Fisheries Council of 12 June 2017 called for greater transparency and a balanced approach in the EU-Mercosur negotiations and for close involvement of the agricultural ministers of the Member States to allow them to adapt the negotiating mandate, if appropriate.[74] The EU's offers on beef and ethanol of October 2017 attracted criticism both from Mercosur countries for not being ambitious enough and from several EU Member States for being too ambitious.[75]

As regards industrial sectors, in particular the automotive, pharmaceutical, chemical and textile sectors, financial and maritime shipping services, telecommunications, and public procurement, EU offensive interests contrast with Mercosur's defensive interests.[76] A 2011 study estimates that the gains for the EU through increased exports of industrial goods could range between €21 billion and €29 billion. It also states that the deal could enhance the EU's GDP by €15 billion to €21 billion and Mercosur's GDP by €2 billion to 3 billion.[77] A new sustainable impact assessment is under way. The inception report was published in January

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70 Brazil's economic policy lurches right, P. Millard, Bloomberg, 1 September 2016; Viewpoint: Argentina's pro-business president delivers on politics over economics, J. Cruz Díaz and H. Lough, Americas Society/Council of the Americas, 12 December 2016.

71 EU, Mercosur exchange offers, amid Brazil political turmoil, International Centre for Trade and Sustainable Development (ICTSD), 19 May 2016; Uruguay says beef and ethanol are included in Mercosur/EU proposals, but with no volumes or time span, MercoPress, 13 September 2016.

72 Report of the XXVIIth negotiation round of the trade part of the EU-Mercosur Association Agreement, Buenos Aires, 14-20 March 2017, European Commission; Report from the XXVIIIth round of negotiations of the trade part of the Association Agreement between the European Union and Mercosur, Brussels, 3-7 July 2017, European Commission.

73 Cumulative economic impact of future trade agreements on EU agriculture, Joint Research Centre, P. Boulanger, H. Dudu, E. Ferrari, M. Himics, and R. M'barek, 2016.

74 Outcome of the 3547th Council meeting, Agriculture and Fisheries, Council of the European Union, 12 June 2017.

75 Brazil, Argentina call EU trade offer to Mercosur disappointing, Reuters, 6 October 2017; EU's proposed trade deal with Latin America criticised by trade ministers, The Irish Times, 13 October 2017; França quer alterar mandato de negociação no acordo Mercosul-UE, Reuters, 16 October 2017; EU, Mercosur Trade Talks in Decisive Stage Amid Push for Deal, International Centre for Trade and Sustainable Development (ICTSD), 19 October 2017.

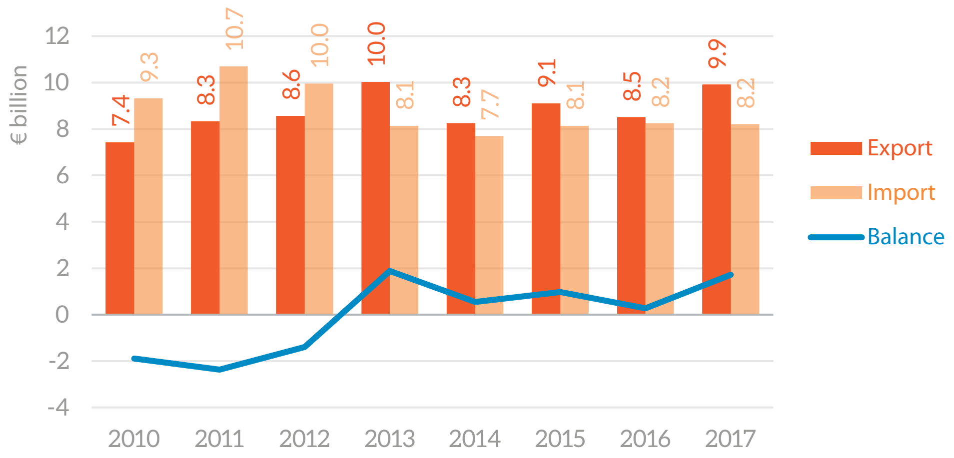
76 A 2011 European Commission impact assessment concludes that gains from an EU-Mercosur agreement in the EU manufacturing sector would outweigh the losses for the EU in the agri-food sector. The increase in GDP would range from €8.9 billion to €66 billion under different scenarios. Potential EU-Mercosur Free Trade Agreement: Impact Assessment, European Commission, 2011.

77 Assessment of barriers to trade and investment between the EU and Mercosur, Economic Impact Assessment, Copenhagen Economics, May 2011.

2018.[78] Although further progress on several chapters was made during the meetings negotiators held in November and December 2017, the parties ultimately failed to reach a political agreement at the end of 2017 as originally planned. Three further negotiating rounds in February/March, June and July 2018, did not allow negotiators to make enough headway on outstanding issues to strike a deal.[79] The EU-Mercosur agreement would be the EU's most important trade agreement in terms of value, several times the size of the EU Canada (CETA) and the EU-Japan FTA. It would ensure that the EU has comprehensive agreements governing trade relations with almost all Latin American and Caribbean countries (with the exception of Cuba, Bolivia and Venezuela).

Since 2007 Brazil has had a strategic partnership with the EU which includes the Mercosur integration process, climate change, the fight against poverty and sustainable energies.[80] In 2011, a joint action plan was adopted for the 2012 to 2014 period. The most recent EU-Brazil summit took place in 2014.[81]

Figure 28 – EU trade in goods with Argentina (2010-2017)



Source: Eurostat.

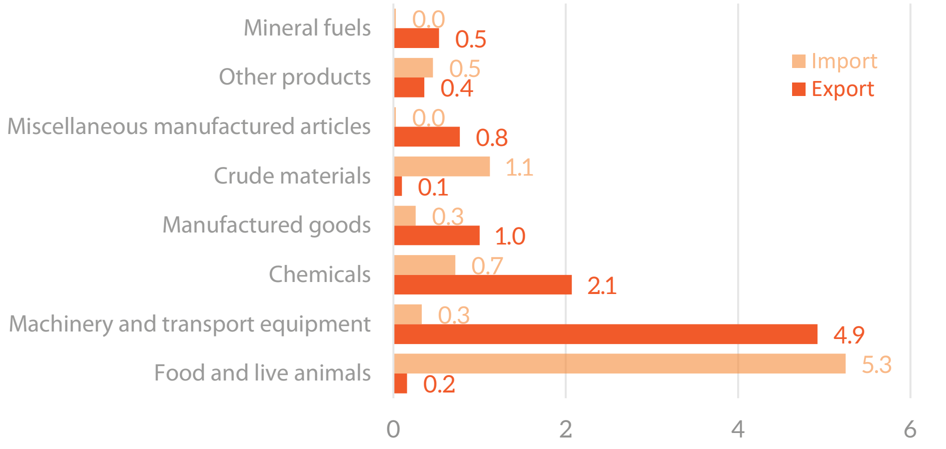
[78] Sustainability Impact Assessment in support of association agreement negotiations between the European Union and Mercosur, Inception Report, LSE Consulting, 24 January 2018.

[79] Report from the XXXIIth round of negotiations of the Trade Part of the Association Agreement between the European Union and Mercosur, Asunción, 21 February – 2 March 2018, European Commission; Report from the XXXIIIth round of negotiations, Montevideo, 4 – 8 June 2018, European Commission; Report from the XXXIVth round of negotiations, Brussels, 7 – 19 July 2018, European Commission. For further developments please see the EPRS legislative train schedule.

[80] Brazil and the EU, European External Action Service, 11 May 2016.

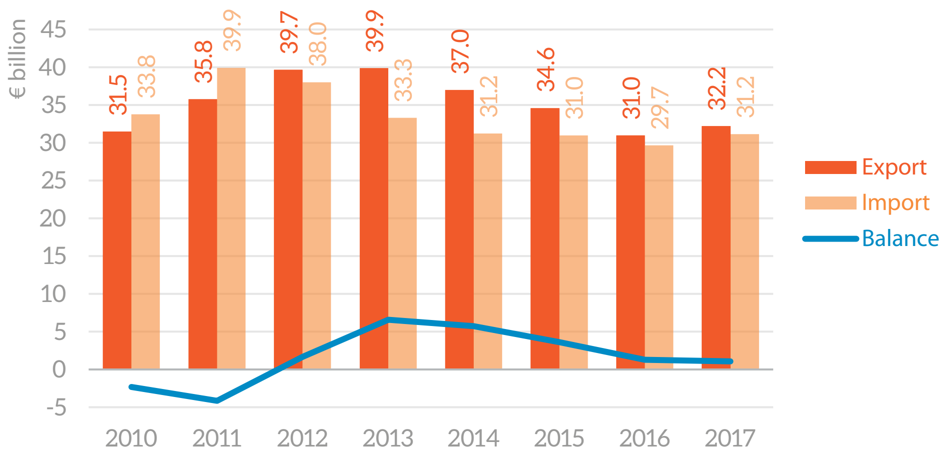
[81] A. Ayuso and S. Gratius, The Economic Agenda between Brazil and the EU: Prospects for a Bilateral and Global Upgrading, Istituto Affari Internazionali, IAI Papers 18, 8 April 2018.

Figure 29 – EU trade with Argentina: Main products (2017, € billion)



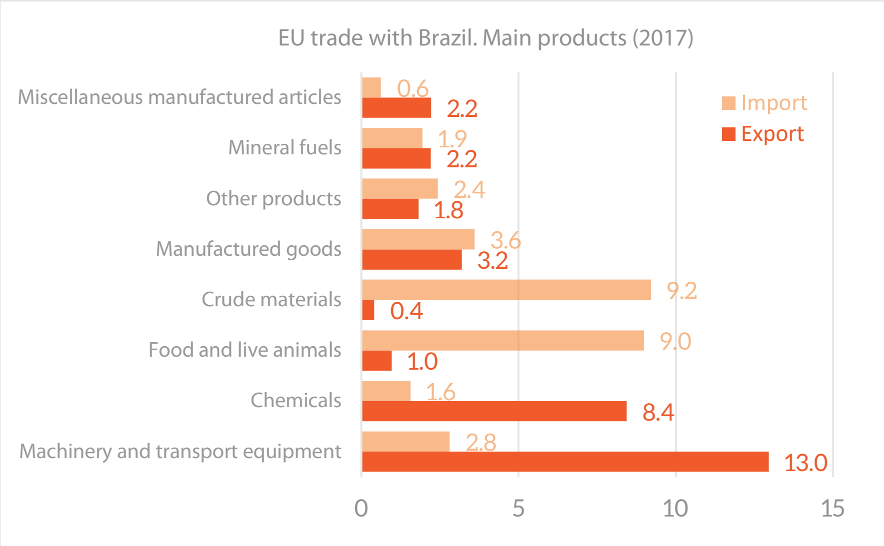
Source: Eurostat.

Figure 30 – EU trade in goods with Brazil (2010-2017)



Source: Eurostat.

Figure 31 – EU trade with Brazil: Main products (2017, € billion)



Source: Eurostat.

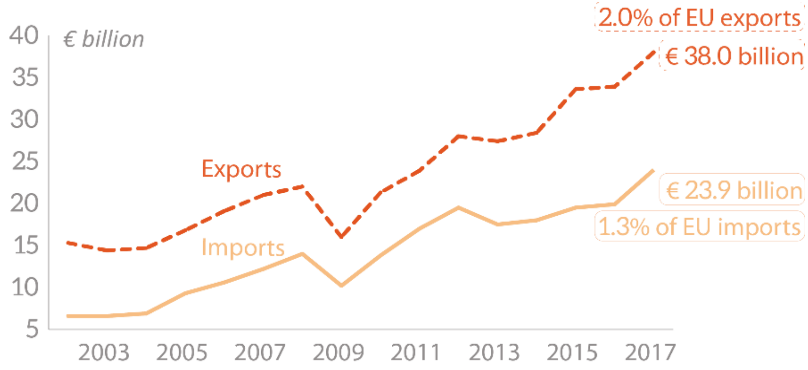
1.2.2. Modernisation of the EU-Mexico Global Agreement

Mexico (formally known as the United Mexican States) has the 14th largest economy in the world in terms of GDP and the second largest in Latin America (after Brazil).[82] It belongs to the G20, the OECD, the Pacific Alliance and APEC.

Mexico was the first Latin American country to sign an economic partnership, political coordination and cooperation agreement (the 'Global Agreement') with the EU in 1997.[83] The Global Agreement has been in force since 2000 and consists of three pillars, namely political dialogue, trade and cooperation. Under the Global Agreement's trade pillar, trade in goods and trade in services between the EU and Mexico has been (partially) liberalised and various other trade disciplines have to some extent been established. Mexico also has a strategic partnership with the EU (Brazil is the EU's other strategic partner in Latin America).[84] This is unique in the sense that Mexico is the only country that has both a strategic partnership and a global agreement (or association agreement) with the EU. The partnership is an indicative strategy that facilitates wider dialogue and deeper (political) cooperation between the parties. It contains only limited objectives with respect to bilateral trade relations.

Mexico has in recent years undertaken an ambitious set of internal structural reforms, agreed in the 'Pact for Mexico' (including tax, energy/telecoms and education reforms) and has pushed for the introduction of mechanisms to facilitate investment flows in infrastructure.[85] This provides opportunities for EU firms looking for greater access to the Mexican market. Since 2013, the EU and Mexico have been working on the modernisation of the Global Agreement's trade pillar.[86] The objective is to unlock unfulfilled bilateral trade and investment potential by expanding the trade pillar's scope to include new trade issues (such as investment protection, regulatory cooperation, and trade and sustainable development). In addition, the modernisation seeks to adapt the trade pillar to political and economic changes that have occurred in both the EU and Mexico since 2000. Apart from gaining improved access to a market of well over 100 million consumers, the aforementioned economic reforms carried out by Mexico in 2013 (in particular in the energy and telecom sectors) also form an important incentive for the EU to pursue this modernisation.[87]

Figure 32 – EU trade in goods with Mexico



Source: Eurostat.

[82] Mexico: economic indicators and trade with the EU, EPRS and Globalstat, European Parliament, March 2017.

[83] Economic Partnership, Political Coordination and Cooperation Agreement, 28 October 2000.

[84] Strategic Partnership, 15 July 2008.

[85] Estudios económicos de la OCDE: México, OECD, January 2015.

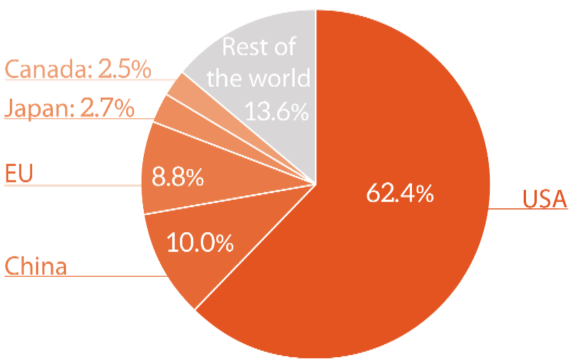
[86] See: Harte R., Modernisation of the trade pillar of the EU-Mexico Global Agreement, EPRS, European Parliament, September 2017.

[87] The EU-Latin American Strategic Partnership: state of play and ways forward, Policy Department for External Policies, European Parliament, July 2017.

On 21 April 2018, the EU and Mexico announced an 'agreement in principle' on the trade pillar's modernisation. The parties are now working on finalising the technical details before the agreement can be signed.[88] It will subsequently have to be ratified at both the EU and the Member State level, because it will be a mixed agreement.[89] The 'agreement in principal' contains at least the following chapters: trade in goods, trade remedies, SPS matters, cooperation on animal welfare and antimicrobial resistance, energy and raw materials, TBT, cross border trade in services, temporary admission, mutual recognition of professional qualifications, domestic regulation, financial services, maritime services, telecommunications, delivery, digital trade, investment, capital movement, investment dispute resolution, public procurement, competition, subsidies, state-owned enterprises, TSD, good regulatory practices, SMEs, dispute settlement, anti-corruption.[90]

Figure 33 – Mexico: top 5 trade partners

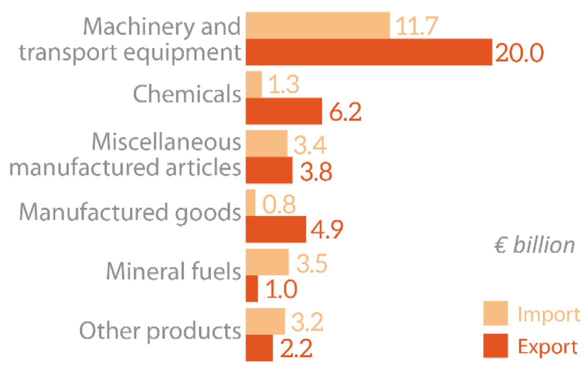
Trade in goods (exports plus imports) (2017)



Source: IMF.

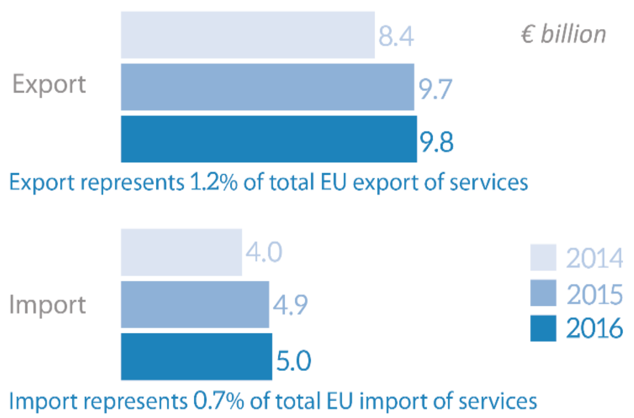
Figure 34 – Main trade products

EU trade in goods with Mexico (2017)



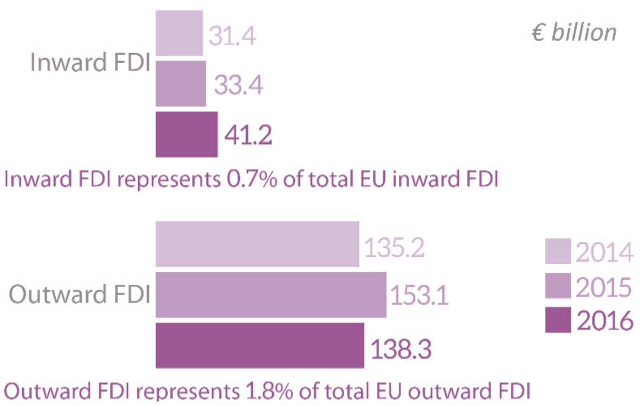
Source: Eurostat.

Figure 35 – EU trade in services with Mexico



Source: Eurostat.

Figure 36 – EU FDI stocks with Mexico



Source: Eurostat.

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88 For further developments, please see the [EPRS legislative train schedule](#).

89 [The EU-Mexico Trade agreement explained](#), European Commission, DG TRADE.

90 See: [New EU-Mexico agreement: The Agreement in Principle and its texts](#), European Commission.

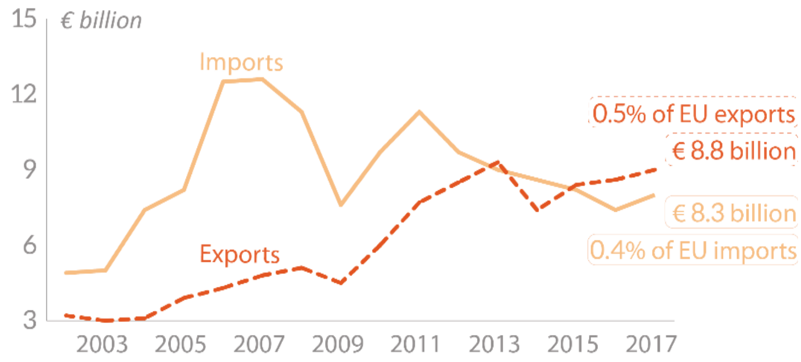
1.2.3. Modernisation of the EU-Chile association agreement

Chile, an OECD member, founding member of the Pacific Alliance, and an associate member of the Andean Community and Mercosur, has developed a broad web of free trade agreements that underpin its openness to foreign trade.[91]

EU-Chile relations were initially governed by the 1996 Framework Cooperation Agreement which was replaced by the 2002 EU-Chile Association Agreement (in force since 2005). The latter provides a comprehensive framework for the political, trade and cooperation aspects of bilateral relations, and also for political dialogue at different levels. The EU has also signed other agreements with Chile such as those on science and technology, and regional policy.

However, after 14 years in action, the trade pillar of the 2002 EU-Chile Association Agreement is partly outdated (obsolete rules of origin, incomplete non-tariff barriers and limited IPRs) on account of global trade policy developments. The preferential trade rules it contains have been superseded by the large number of ambitious and comprehensive FTAs Chile and the EU have meanwhile concluded with third countries. A 2017 study shows that an erosion of bilateral trade in relative terms has occurred in favour of third parties, such as China.[92]

Figure 37 – EU trade in goods with Chile



Source: Eurostat.

Against this backdrop and unfulfilled market access in agriculture, services and public procurement, at the 2013 EU-CELAC Summit in Santiago (Chile), the EU and Chile agreed to explore the agreement's modernisation.[93] This will be an opportunity to take account of the evolution of trade disciplines, recent developments in EU trade and investment policy as well as the conferral from Member States to the EU of the exclusive competence for FDI under the Lisbon Treaty. The association agreement's untapped potential is to be unlocked by upgrading existing trade preferences and adding new disciplines to the trade pillar, including a single set of rules on investment replacing the existing bilateral investment treaties (BIT) between Chile and various Member States. In an attempt to make EU trade policy more responsive to citizens' concerns, the Commission is also keen to have trade- and investment-related anti-corruption provisions included for the first time in the modernised trade pillar. A dedicated trade and gender equality chapter is another proposed novelty.[94]

A May 2017 European Commission impact assessment[95] estimated that 'in absolute values, the gains in real GDP for the EU in the long run would be €196 million in a conservative scenario

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[91] Information on Chile, Free Trade Agreements in Force, Foreign Trade Information System, OAS.

[92] Ex-ante study of a possible modernisation of the EU-Chile Association Agreement, Final report, Ecorys, February 2017.

[93] Public online consultation on a possible modernisation of the trade part of the EU-Chile Association Agreement, European Commission, DG Trade.

[94] Report on the implementation of the trade policy strategy Trade for All Delivering a Progressive Trade Policy to Harness Globalisation (COM(2017) 491), European Commission, May 2017, p. 10.

[95] European Commission impact assessment, SWD(2017) 173 final, 24 May 2017.

and €391 million in an ambitious one. Chile would accrue real GDP gains of €304 million and €592 million under the respective scenarios'.

In preparation for the Council's negotiating mandate, in September 2017 the European Parliament suggested[96] including separate chapters in the trade pillar to cover micro- and also small and medium-sized enterprises (SMEs), investment, TSD, and trade and gender equality. It also advocated the use of the new investment court system (ICS).[97] It backed the conclusion of two separate agreements distinguishing between a trade and investment deal under the EU's exclusive competence and a second one for issues where the EU and Member States share competences in accordance with the recent opinion of the Court of Justice of the European Union (CJEU) on the EU-Singapore Agreement.[98]

During the plenary session of September 2017, the European Parliament gave its consent to the conclusion of the (separate) EU-Chile agreement on trade in organic products, which is the first of its kind with a Latin American country.[99] Under this agreement, the EU and Chile mutually recognise the equivalence of their rules and controls on organic food production.

The Foreign Affairs Council of 13 November 2017 approved the mandate for the Commission's negotiations of a modernised EU-Chile Association Agreement set to enhance existing cooperation on political, security and trade matters. On 22 January 2018, the Council decided for the first time ever to make public the entire negotiating guidelines covering political dialogue, cooperation and trade aspects.[100]

A first round of talks was held in Brussels on 16 November 2017. The second round took place in Santiago from 15 to 19 January 2018[101] and the third negotiation round in Brussels from 28 May to 1 June 2018. By June 2018, the Commission had published 18 negotiating text proposals.[102] A sustainability impact assessment considering economic, social, human rights implications with quantitative and qualitative approaches is being prepared: an inception report was already published on 29 June 2018 and will be followed by an interim report in September 2018.[103] The final report is expected for January 2019. On 29 May 2018, the Commission organised a civil society dialogue on the modernisation of the EU-Chile AA in Brussels and on 4 July 2018 a civil society dialogue meeting which discussed the aforementioned inception report.[104]

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96 G. Grieger, Modernising EU-Chile trade relations, EPRS, European Parliament, September 2017.

97 L. Puccio and R. Harte, From arbitration to the investment court system (ICS): The evolution of CETA rules, EPRS, European Parliament, June 2017.

98 L. Puccio, CJEU Opinion on the EU-Singapore Agreement, EPRS, European Parliament, May 2017; CJEU Opinion 2/15 of 16 May 2017.

99 MEPs weigh in to revamp EU-Chile trade deal, European Parliament, press release, 14 September 2017.

100 EU-Chile association agreement: negotiating directives made public, Council of the European Union, 22 January 2018.

101 Report on the 2nd round of negotiations, European Commission, 15-19 January 2018; Report on the 3rd round of negotiations, European Commission, 28 May to 1 June 2018. For further developments please see the EPRS legislative train schedule.

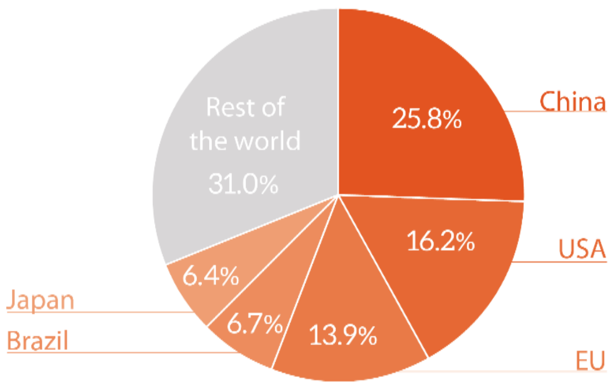
102 EU-Chile trade talks: Commission releases its proposals and reports about progress, European Commission, 6 February 2018.

103 Sustainability Impact Assessment in Support of the Negotiations for the Modernisation of the Trade Part of the Association Agreement with Chile, Inception Report, BKP Development Research & Consulting, 29 June 2018.

104 Civil society dialogue. EU-Chile trade negotiations, European Commission, Brussels, 29 May 2018.

Figure 38 – Chile: top 5 trade partners

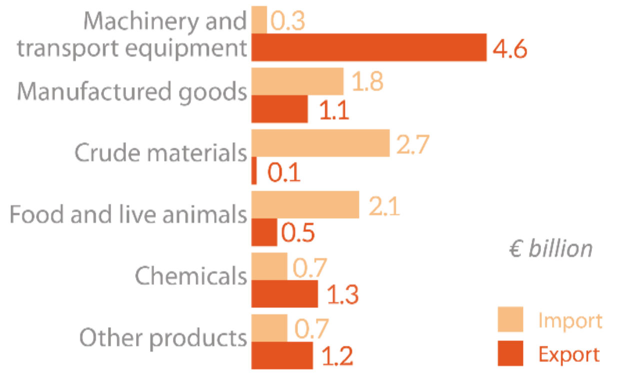
Trade in goods (exports plus imports) (2017)



Source: IMF.

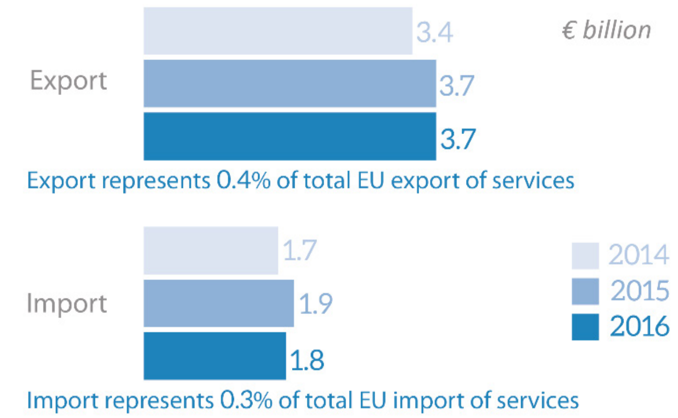
Figure 39 – Main trade products

EU trade in goods with Chile (2017)



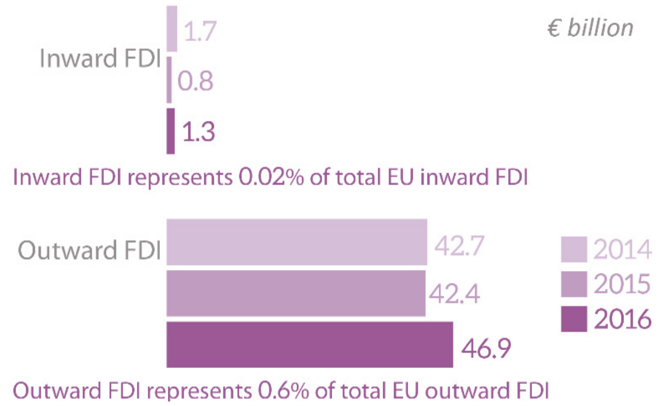
Source: Eurostat.

Figure 40 – EU trade in services with Chile



Source: Eurostat.

Figure 41 – EU FDI stocks with Chile



Source: Eurostat.

2. Comparative overview of existing EU agreements governing trade relations with sub-regional groupings and individual countries in Latin America and the Caribbean

The EU has a wide range of agreements governing trade relations with Latin America and the Caribbean. These include:

- a multi-party free trade agreement with three countries of the Andean Community (Colombia, Ecuador and Peru);
- two agreements with sub-regional groupings (Cariforum and Central America);
- agreements with Mercosur and its individual members that could be replaced with an agreement with Mercosur;
- bilateral agreements with Mexico and Chile (both currently in the process of being modernised) as well as a new agreement with Cuba.

These agreements differ considerably in terms of coverage and methodology depending on the time at which they were concluded and the backdrop to the negotiations.[105]

2.1. Different negotiation methodologies

Each of the negotiations have proceeded along their own paths according to the particular circumstances of each case.

The ongoing EU-Mercosur negotiations build on an existing legal framework that dates back to the 1990s. At that time, the EU first concluded bilateral framework agreements for cooperation with Argentina, Paraguay, Uruguay and Brazil followed by an interregional framework cooperation agreement with Mercosur. These agreements, in particular the latter, were considered interim stages in the process towards the conclusion of a fully fledged EU-Mercosur agreement governing trade relations. As described in Section 1.2.1, the negotiations for this agreement have proven to be very complicated and have even been suspended at various times. The latest attempt, through a re-launch in 2010, has the added benefit, however, that it is now immediately able to tackle the majority of trade issues in a modern and comprehensive way. This is in contrast to the EU's existing agreements with Mexico and Chile that are now considered outdated and therefore require modernisation.

The procedure to conclude the negotiations on the trade pillar of the EU-Mexico Global Agreement was rather unique, in the sense that this pillar was not concluded at once (like most agreements) but instead in different stages as a 'living agreement'. First, in December 1997, the Global Agreement was concluded as a general framework agreement that laid down the basis for further negotiations on liberalising trade. This agreement came into force in November 2000. At the same time as the Global Agreement, in December 1997, an interim agreement on trade and trade-related aspects ('Interim Agreement'),[106] which was derived from the Global Agreement, was also signed. It entered into force in July 1998, well before the Global Agreement. Together, the Interim Agreement and the trade part of the Global Agreement constituted the trade pillar of the Global Agreement.

At the time of signing, however, both agreements set only broad objectives with respect to specific trade disciplines. A Joint Council was therefore created to implement these objectives through detailed decisions. This Joint Council was composed of the Members of the Council of the EU and Members of the European Commission, on the one hand, and members of the Government of Mexico, on the other. It was also assisted by a joint committee, effectively to continue negotiations on implementing rules. Within this institutional set-up, several rounds of negotiation were held from November 1998 onwards to develop the trade pillar of the

[105] For an overview, see Annex 1. Since the EU-Cuba PDCA is not as ambitious in the area of trade as the other agreements, it will not be included in the analysis in this Section.

[106] Interim Agreement on trade and trade related aspects, 13 August 1998.

Global Agreement. The resulting decisions of the EU-Mexico Joint Council (partially) liberalised trade in goods in July 2000 (Decision No 2/2000)[107] and trade in services in March 2001 (Decision No 2/2001).[108] The reason for this particular approach was the entry into force of NAFTA in 1994; the EU quickly needed to conclude an agreement with Mexico so as not to lose ground in the emerging Mexican market. From the Mexican point of view, strong dependence on the US market also made it necessary to reach out to other partners and start a diversification process (in addition to the EU, Mexico concluded FTAs in those years with Chile, the EFTA countries, Israel, Japan and Uruguay).[109] Moving forward to the present day, it will again be interesting to see how the EU's present efforts to modernise its trade relations with Mexico (and capitalise on economic opportunities in that market) will play out in the light of a renegotiated NAFTA (at least between Mexico and the USA).

The structure of the EU's trade agreement with Peru and Colombia (with Ecuador joining later) also derives from the particular circumstances of its negotiation. The negotiations were first started as a regional agreement between the EU and the Andean Community. However, Ecuador and Bolivia dropped out of the negotiations, which then continued bilaterally with Peru and Colombia. The result was the conclusion of an umbrella trade agreement with distinct schedules for Peru and Colombia. Ecuador subsequently successfully negotiated its accession to the trade agreement in response to fear of losing its status as a GSP beneficiary. The EU-Cariforum negotiations had a strong focus on development. This objective translated into differentiated schedules for Cariforum members in order to account for their specific development needs. Some differential treatment was also introduced in the EU's agreement with Central America.

Flexibility to adjust to various partners' needs has accordingly been a particular trait of the EU trade negotiation approach with Latin American countries in contrast to the USA, which relied more on the NAFTA model.

2.2. Differences in content between 'older' and 'newer' generation agreements

The earliest bilateral and interregional EU-Mercosur agreements are naturally the least advanced in terms of content as they date from the 1990s and were intended to act as an interim stage in the process towards a fully fledged interregional agreement. Subsequent agreements with trade pillars concluded in the early 2000s, namely with Mexico and Chile, also reflect, from a content point of view, the time of their conclusion and differ significantly from later agreements. For example, issues such as regulatory cooperation and TSD provisions are much less developed in the former than those found in the latter. While the EU-Mexico and EU-Chile agreements already have WTO+ provisions for TBT and SPS provisions, including regulatory cooperation frameworks (as well as provisions establishing cooperation to achieve mutual recognition), such rules are more advanced in later agreements. For example, in the EU's agreement with Colombia, Ecuador and Peru, the TBT chapter includes an obligation to use international standards[110] unless those are ineffective or insufficient for achieving legitimate objectives. They also include a series of commitments regarding, among other things, marking and labelling standards, transparency requirements, conformity assessments, and exchange of information on standards.

TSD provisions form an important part of more recent agreements. Reflecting its developmental aim, the Cariforum EPA, for example, begins with a partnership on sustainable development and a clear commitment that the agreement should be applied in conformity

[107] Decision No 2/2000 of the EC-Mexico Joint Council of 23 March 2000.

[108] Decision No 2/2001 of the EU-Mexico Joint Council of 27 February 2001.

[109] SICE: Countries: Mexico: Trade Policy Documents, Foreign Trade Information System, OAS.

[110] Article 76 of the EU-Colombia, Ecuador and Peru Trade Agreement.

with sustainable development principles.[111] Specific titles were also dedicated to TSD issues in the EU agreement with Colombia, Ecuador and Peru as well as in the agreement with Central America. In contrast, in the existing EU-Chile and EU-Mexico agreements, there are no specific chapters dedicated to sustainable development, although this issue was partly covered by political dialogues.[112] The ongoing modernisation negotiations, however, are in both cases expected to lead to comprehensive TSD chapters[113] (and in the case of Chile perhaps also to a novel chapter on trade and gender equality)[114].

The IPR-provisions in the EU-Chile and EU-Mexico agreements are also less developed than the trade-related aspects of intellectual property rights plus (TRIPS+) provisions included in the EU's more recent agreements. When geographical indications (GIs) were introduced in the EU-Chile and EU-Mexico agreements, they focused essentially on wines and spirits. GI provisions in other agreements, however, have encompassed food too, such as in the EU-Central America agreement and the EU-Colombia-Ecuador-Peru trade agreement. Moreover, in the EU-Cariforum agreement, a *rendez-vous* clause[115] was included to allow the countries to establish a domestic regulatory framework for geographical indications before negotiating an agreement on GIs. Again, the ongoing modernisations of the trade pillars of the agreements with Chile and Mexico are likely to result in state-of-the-art IPR-provisions that cover a significant number of GIs.[116]

In contrast to the Euro-Mediterranean association agreements, which merely confirmed General Agreement on Trade in Services (GATS) commitments in services, the EU-Mexico and EU-Chile agreement incorporate some GATS+ features. However, more recently negotiated agreements have gone further in ensuring GATS+ commitments and have further developed the areas of regulatory issues to be tackled under the services provisions (including data protection provisions).

Finally, none of the EU's existing agreements with Latin American and Caribbean states include investment protection provisions; these provisions are instead in some instances covered by BITs with individual EU Member States. This will likely change following the successful negotiation of modernised trade pillars with Chile and Mexico.[117]

2.3. Further deepening and widening of EU-LAC trade agreements

The above comparative analysis itself shows the relevance of the modernisations launched by the Commission as regards the EU-Mexico and EU-Chile agreements in order to align them to its new 'Trade for All' agenda. There is at the same a geopolitical rationale for these modernisations. The trade pillar of the EU-Mexico Global Agreement was already less advanced

[111] See Part 1 and in particular Article 3 of the EU-Cariforum EPA.

[112] For the evolution of EU TSD chapters, see: Krisztina Binder and Laura Puccio, Trade and sustainable development chapters in CETA, EPRS, European Parliament, January 2017.

[113] For the text of the TSD chapter that was part of the 'agreement in principle' between the EU and Mexico, see: European Commission, Modernisation of the Trade part of the EU-Mexico Global Agreement: Trade and Sustainable Development, April 2018.

[114] European Commission, EU proposal: Draft provisions on Trade and Gender Equality in the context of the Modernisation of the EU-Chile Association Agreement, 22 June 2018.

[115] Article 145 of the EU-Cariforum EPA.

[116] According to the Commission, 340 GIs will be protected under the modernised EU-Mexico agreement. See: European Commission, EU-Mexico trade agreement. Factsheet – Overview, 28 May 2018.

[117] For the text of the Investment chapter that was part of the 'agreement in principle' between the EU and Mexico, see: European Commission, Modernisation of the Trade part of the EU-Mexico Global Agreement: Investment, April 2018.

than NAFTA[118] (not to mentioned the expected renegotiated NAFTA) and the successful conclusion of a TPP-11 (without the USA),[119] to which both Chile and Mexico are party, would widen the gap further. Moreover, it is in the EU's interests to align the EU-Mexico Global Agreement to the more comprehensive and recent EU-Canada CETA,[120] as that would not least establish a certain degree of homogeny for parties covered by both agreements.

Finally, the successful conclusion of an agreement with Mercosur would ensure that the EU has comprehensive agreements governing trade relations with almost all Latin American countries (except Bolivia, Cuba[121] and Venezuela). As pointed out before, the EU has in recent decades lost market share in Latin America, owing in particular to the rise of China (and Asia more generally).[122] Many Latin American countries are at the same time still highly dependent on the US market and are therefore vulnerable to possible spill-overs from changes in US trade policies.[123] In addition, LAC countries are recovering from a regional recession in 2016,[124] which comes on top of the negative effects of the last global slowdown which affected Latin America particularly harshly.[125] Latin American countries (and in particular Mercosur members) are also less open to trade[126] compared with other emerging market regions.[127] The existing EU-LAC agreements governing trade relations and ongoing negotiations therefore provide an opportunity for both sides to strengthen their trade ties in a rapidly changing international environment.

[118] Evaluation of the implementation of the EU-Mexico FTA and an assessment of the possible modernisation of this agreement, Report of the Stakeholder Consultation Workshop, 9 July 2015, ECORYS.

[119] Also known as 'Comprehensive and Progressive Agreement for the Trans-Pacific Partnership'.

[120] EU-Canada Comprehensive Economic and Trade Agreement, European Commission, DG Trade.

[121] As mentioned before, the new EU-Cuba PDCA is not very ambitious in the area of trade.

[122] G. Grieger, EU-Latin America relations, EPRS, European Parliament, March 2014.

[123] Regional economic outlook – Western Hemisphere: A tale of two adjustments, IMF, May 2017.

[124] Regional economic outlook – Western Hemisphere: A tale of two adjustments, IMF, May 2017.

[125] Latin American and the Caribbean – Trade trend estimates 2016, IDB, 2015 (1Q).

[126] Regional economic outlook – Western Hemisphere adjusting under pressure, IMF, October 2015.

[127] International trade and market access data, World Trade Organization.

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Annex 1:
Overview of EU trade relations with sub-regional groupings and individual countries in Latin America and the Caribbean

The EU has a wide range of agreements governing trade relations with sub-regional groupings and individual countries in Latin America and the Caribbean. Table 2 provides an overview.

Table 2 – Overview of main EU-LAC agreements governing trade relations

Trade partner(s)	Agreement containing a trade pillar / Trade agreement	Year of entry into force	(Related) political agreement
Argentina	Framework Agreement for trade and economic cooperation between the EU and Argentina	1990	N/A
Paraguay	Framework Agreement for cooperation between the EU and Paraguay	1992	N/A
Uruguay	Framework Agreement for cooperation between the EU and Uruguay	1994	N/A
Brazil	Framework Agreement for cooperation between the EU and Brazil	1995	N/A
Mercosur	Interregional Framework Cooperation Agreement between the EU and Mercosur	1999	N/A
Mexico	Economic Partnership, Political Coordination and Cooperation Agreement between the EU and Mexico (also known as the 'Global Agreement')	2000	N/A
Chile	Association Agreement between the EU and Chile	2003	N/A
Cariforum	Economic and Partnership Agreement between Cariforum and the EU	2008 (except Haiti)	Cotonou Agreement
Central America	EU-Central America Association Agreement	2013	N/A
Andean Community (Peru, Colombia, Ecuador)	Trade Agreement between the EU and Colombia and Peru + Protocol of Accession to the Trade Agreement to take account of the accession of Ecuador)	Provisional application: Peru, Colombia (2013), Ecuador (2017)	Joint Declaration political dialogue (1996); to be replaced by the Political Dialogue and Cooperation Agreement (2003, not yet in force)
Cuba	Political Dialogue and Cooperation Agreement	Provisional application (2017)	N/A

Source: EPRS.

Collectively, the 33 countries forming the Community of Latin American and Caribbean States (CELAC) are the EU's fifth largest trading partner. On trade, the EU has fully fledged agreements with two Latin American groupings (Cariforum and the Central America group), a multiparty trade agreement with three countries of the Andean Community (Colombia, Ecuador, and Peru), and agreements with Mexico and Chile that are in the process of being modernised. A new agreement with Cuba has been provisionally applied since November 2017, although its trade provisions are not as comprehensive as those of some of the other agreements. The EU's ongoing long-standing negotiations with Mercosur on an association agreement build on existing bilateral and inter-regional framework agreements with both Mercosur and its individual members.

The EU's agreements governing trade relations with Latin American and Caribbean subgroupings and individual countries differ considerably in terms of coverage and methodology, depending on the time at which they were concluded and the backdrop to the negotiations. The EU now aims to modernise the trade pillars of its agreements with Mexico (an 'agreement in principle' was reached in April 2018) and Chile (ongoing negotiations) in order to align them to the current standards of EU FTAs. In addition, the EU and Mercosur intend to finish their negotiations on a comprehensive agreement governing trade relations before the end of 2018. If they succeed, the EU would have comprehensive agreements governing trade relations with nearly all of Latin America and the Caribbean (with the exception of Bolivia, Cuba and Venezuela).

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