



Ex post evaluation of the implementation of the Trade Agreement between the EU and its Member States and Colombia, Peru and Ecuador

Final Report

January 2022

Executive Summary

Prepared by BKP Economic Advisors

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EXECUTIVE SUMMARY

1. Since 2013, the European Union (EU) has a Trade Agreement with Colombia and Peru, which Ecuador joined in 2017. The Agreement gradually opens up markets on both sides and increases the stability and predictability of the trade and investment environment. It is also one of the first “new generation” trade agreements of the EU, characterised by its comprehensive scope that covers, in addition to liberalisation of trade in goods and services, investment, government procurement, competition, intellectual property rights, as well as trade and sustainable development issues.

2. After several years of implementation, an ex post evaluation is undertaken with the objective of analysing the economic, social and environmental, and human rights (including labour rights) impacts of the implementation of the Agreement and, ultimately, of determining whether there is a need to improve its implementation. To support the European Commission’s own evaluation of the Agreement, an evaluation study has been commissioned to a consortium led by BKP Economic Advisors. This final report provides the findings of the evaluation as well as conclusions and recommendations in Volume I, additional evidence and background information in Volume II, and a number of case studies in Volume III. Responses to the evaluation questions are presented in the separate synthesis report. The evaluation methodology was described in detail in the evaluation inception report.

Evaluation findings and conclusions

3. **The Agreement has been moderately effective with regard to the achievement of operational objectives.** *Tariff liberalisation* has taken place as planned, and has led to more *trade in goods* – both bilaterally and globally – than would have been the case in the absence of the Agreement. Nevertheless, the magnitude of the goods trade increase has been limited; this is also a consequence of the previously existing preferential market access for the Andean partner countries to the EU market under the GSP+ arrangement. Customs and trade facilitation, as well as other non-tariff instruments have not been used by the Parties as a substitute for tariffs. Although a number of issues have been raised by the Parties over the years, these typically concern very specific products with a limited potential impact on bilateral trade.

4. It is difficult to measure the effectiveness of the Agreement in facilitating *trade in services* and *bilateral investment*. In these areas, commitments made by the Parties lock in current levels of openness, and they have also played a limited role in the implementation of the Agreement. The opening of *government procurement* markets also has not led to increased participation of suppliers and providers from the respective other Party.

5. Progress has been made in the registration and enforcement of Geographical Indications (*GIs*), although this has been sometimes slow, and room for improvement remains regarding enforcement. The Agreement’s provisions on *competition* also constitute a sound legal basis for cooperation and consultations between the European Commission and the Andean partner countries’ competition authorities.

6. No formal *disputes* have been initiated, and about half of the identified disagreements between the Parties have been solved by the (sub-)committees established. This indicates that by and large the approach taken by the Parties works. The fact that formal disputes are “outsourced” to the World Trade Organisation (WTO) however indicates a high reluctance by the Parties to make use of the formal dispute settlement provisions provided by the Agreement.

7. A tangible impact of the implementation of the *Trade and Sustainable Development (TSD) Title* can be identified in areas where assistance projects have been implemented or

where the EU was able to take own actions. In other areas, dialogue with the EU or civil society views provided as part of the TSD Title implementation might have contributed to actions taken as one of several factors. Overall, dialogue under the TSD Title has encouraged the continuation of certain activities or prevented worsening of the situation in the Andean partner countries, but it is difficult to identify concrete actions or changes which could be attributed to the Agreement as the main influencing factor.

8. Finally, *technical assistance* and support has been provided, at varying degrees, in relation to different areas covered by the Agreement, and has overall been effective in addressing a number of weaknesses in the Andean partner countries. But some stakeholders disagree on whether the technical assistance provided has been sufficient.

9. The **impact of the Agreement overall is assessed as positive, although relatively limited**. In *economic* terms, it has led to a small increase in gross domestic product (GDP) in all Parties and globally. Generally, sectors in which the Parties have comparative advantage are the ones that have benefited – in the Andean partner countries, agriculture and food products, but also some (mostly light) industries; and in the EU industrial sectors, led by machinery and the automotive sector. Because of this strengthening of sectors with existing comparative advantage, the Agreement has so far had a limited effect on export diversification in the Andean countries at a wider scale – although diversification within the primary (i.e., a shift from extractives to agriculture) and within the agriculture sector has been observed. Likewise, diversification of exporters has taken place, including an increase in exporting micro, small and medium-sized enterprises (MSMEs). Public revenues have not palpably been affected in any of the Parties except for Colombia, where foregone revenues amount to about 1% of total government revenues.

10. Among the *social* impacts, sectoral employment shifts follow the economic changes. In the EU, effects are negligible; in the Andean partner countries, the strongest positive effects are in the vegetable, fruits and nuts sector, as well as other agri-food sectors, and contractions in a number of industrial sectors. The impact on welfare and poverty, as well as for consumers, is estimated as positive, but rather limited. The same is true for the impact on women, also aided by support programmes, although the gender gap has hardly been affected by the Agreement. In terms of working conditions and labour rights, although the Andean partner country governments have taken measures to improve job quality, also supported by EU funded projects, issues remain in terms of labour inspection, trade union operation, and special labour regimes for selected (agricultural) sectors. Finally, corporate social responsibility (CSR) practices have expanded, a positive trend which was supported by increased trade between the Andean countries and the EU taking place as a result of the Agreement.

11. The *environmental* impact of the Agreement overall is found to be very small, following from the small economic impacts, and mixed. The impact of tariff reductions on global greenhouse gas (GHG) emissions is slightly positive. Overall effects on biodiversity are marginal, but with some likely negative local/regional effects from increased production of specific products such as avocados in Peru and shrimp in Ecuador. No effect on deforestation is found in Ecuador and Peru, and a small contribution to deforestation arising from agricultural activity in Colombia (about 0.5% of total deforestation arising from agricultural activity in the country). Other environmental effects are marginal.

12. The impact of the Agreement on the *human rights* situation in the Andean partner countries likewise has been limited, and no impact could be determined in the EU. An initial screening of human rights effects indicated that only the right to freedom of assembly and association, incl. the right to join and form trade unions, children's rights (including impacts on child labour), and the right to water could potentially be affected palpably by the Agreement. For the first two, we find potential mixed but overall small effects of the Agreement, caused both by the sectoral economic effects and by the implementation of the TSD Title. For the right to water, no significant impact of the Agreement could be

proven in the in-depth analysis, although we cannot exclude the fact that increased production of certain water-intensive/water polluting goods could have had a minor contribution to already existing water stress in certain regions.

13. The Agreement's **efficiency in relation to the objectives is evaluated as high**: preference utilisation is high, trade diversion in line with other free trade agreements (FTAs) – and alternative trade policy instruments were either not available for the EU, would arguably have caused larger distortions or been less targeted.

14. The *institutional efficiency is assessed as mixed*: The Trade Committee and the sub-committees have played their roles as forums for exchange of information and views, but performance with regard to the resolution of trade irritants between the Parties has been mixed, in particular when different interpretations of the Agreement were concerned. Dialogue with civil society representatives, notably dialogue with advisory groups or domestic mechanisms would benefit from better opportunities to contribute to discussions of the Parties by sharing results of the monitoring activities, submitting proposals (e.g., for cooperation activities) and raising concerns. Insufficient follow-up to civil society recommendations by the Parties is another shortcoming – unlike some other EU FTAs, the Agreement does not include a commitment by the parties to follow-up to civil society views. Domestic Advisory Groups (DAGs)/domestic consultative groups have also performed unevenly across the Parties, primarily as a result of differences in the availability of resources and capacities.

15. **Coherence of the Agreement with the EU's overall trade policy, with the EU's commitment to the Sustainable Development Goals (SDGs) and the Decent Work agenda, and with the EU's environmental policies at the time of its signing was high**. At that time, for example the inclusion of the TSD Title reflected the prevailing policies and strategies regarding sustainable development. In terms of its effects and impact *the Agreement is also moderately coherent with environmental policy objectives and the EU's commitment to the SDGs and Decent Work agenda, but its positive contributions in these areas are also small. In addition, in some areas the coherence of the Agreement with the EU's environmental policy objectives, which have evolved substantially, has been reduced*: for example, some deforestation has taken place in Colombia because of expanded agricultural production triggered by the Agreement's tariff liberalisation. (Although the extent and severity of this is limited, in the interest of policy coherence, even these observed small developments call for continued monitoring of mitigation measures).

16. In terms of *coherence with EU trade policy objectives and priorities, the Agreement does not conflict with the new priorities (and there is thus no incoherence), but neither does it actively promote them*: Issues such as the development of GVCs, services trade, digital trade and e-commerce, or the green and digital transformation if at all covered in the Agreement are mostly limited to general statements and soft language. They have also not played an important role in the implementation of the Agreement, nor have they been strengthened as a result of the Agreement's implementation. There is thus a lack of "positive coherence" with these new issues.

17. Our conclusion regarding **the Agreement's relevance for the Parties' trade needs and issues** is mixed, and is closely related to the evaluation of coherence: The Agreement has been and remains relevant in the sense of providing a basis for fostering bilateral trade, and trade and development of the Parties more broadly. However, the new challenges, needs and issues that have arisen both for the EU and the Andean partner countries since the signing of the Agreement require heightened attention. The Agreement itself, its implementation and its results address these issues in a limited way.

Main recommendations

18. Main **recommendations to further enhance the implementation of the**

Agreement are:

- The Parties could consider, in the respective committees under the Agreement, further measures to facilitate trade, including the promotion of the approved exporter scheme, the potential expanded use of digital documents, the necessity of the direct transport requirement to ensure eligibility for preferences, and measures to facilitate e-commerce.
- An increased focus on ways to develop bilateral trade in services and investment is recommended, e.g. by establishing a dedicated sub-committee.
- Consideration should be given to strengthening the strategic role of the Trade Committee as a decision-making and problem-solving body; also, greater preparedness to use the formal dispute settlement mechanisms in the case of protracted disagreements should be considered.
- The role of the TSD Sub-committee in addressing areas of concern could be enhanced by developing road maps outlining actions to be taken by the Party in the area of concern, with related timelines, outputs, and responsible institutions.
- To foster the cooperation between the Parties and civil society, we recommend: (1) strengthened domestic dialogue between the Government and civil society, including consultations before the TSD Sub-committee meetings; and (2) dedicated meetings between all Parties' members of the TSD Sub-committee with all advisory groups or domestic mechanisms as part of the joint annual meeting (or similar mechanism).
- Further cooperation and technical/financial assistance is recommended (1) in technical areas (such as SPS or government procurement systems), (2) to further develop the productive capacity of MSMEs to become involved in value chains and exports, (3) to promote the environmental and social sustainability of the Agreement (e.g., labour inspection, labour formalisation, respect for labour standards and health and safety at work), and (4) to the non-EU DAGs/domestic consultative mechanisms.
- Better systems to collect and monitor trade-related social/labour data disaggregated by sector and gender should be introduced.

19. Main recommendations regarding the impact, coherence and relevance of the Agreement are:

- In addition to creating conditions for new jobs, sufficient attention needs to be paid to their quality. The work will need to ensure that conditions already foreseen in the legislation are implemented in practice and enforced by labour inspection. Also, measures to avoid that the Agreement contributes to deforestation should be taken. In addition, it is recommended to support stricter initiatives to lower land use, land-use change and forestry (LULUCF) emissions. Cooperation under the Agreement should be used to contribute to the creation of deforestation free agriculture and agricultural value chains, including through support for improving forest management and due diligence and controls in the forestry sector. To address these issues, the TSD Sub-committee could seek to set concrete targets so that progress towards these targets can be monitored and reflected upon.
- Some of the current trade issues – such as digital trade or the consequences of the European Green Deal and Farm to Fork strategy for trade – are not addressed substantively in the Agreement. The scope of the Agreement and the institutions established under the Agreement do however provide a framework for discussing and addressing them in the implementation of the Agreement. Nevertheless, if a common understanding between the Parties develops on the benefits of addressing these issues more explicitly as part of the Agreement, a modernisation of the Agreement could be contemplated, also to strengthen provisions for the sustainability and inclusivity of bilateral trade.

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