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Fiche ELANBiz: Association Agreement EU-Central America

Why is the Association Agreement with Central America important for European businesses?

The Association Agreement between EU and Central America (EU-CAAA) is a region-to-region agreement that the Central American countries negotiated as a block, sharing the same vision and position. One of the objectives of the EU in its policy to Central America is to foster Central American regional integration and reduce barriers to intra-regional trade, thereby strengthening their competitiveness and ability to attract investment.

The creation of a progressive free trade between the European Union and Central America and a common market between the six countries of Central America is established through the Agreement. This will facilitate and give legal certainty to international transactions between operators of Member states of the EU.

The agreement opens new opportunities for European products to access the Central American market, which is estimated to save EU exporters about 87 million euros annually in customs duties at the end of the transitional period due to the withdrawal of tariffs¹. This tariff reduction will occur in the course of ten years after its entry into force in 2013 although in a disharmonized fashion among the various Central American countries.

The comprehensive trade pillar of the Agreement covers areas that go beyond those agreed in the multilateral trade framework, in particular regarding services, public procurement, intellectual property, trade and sustainable development and regional integration.

Which products can benefit from this Agreement?

Under this Agreement, the European Union is expected to free the market of import duties on 95% of the industrial products, virtually 100% on fishery products and a mixed system of quotas and reductions calendars will be used for agricultural products.

¹ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/>



On the other hand, the Central American countries also commit to reduce their tariffs on exported products and originating from the EU. This will occur for 70% of products directly (including industrial, agricultural and fishery products) and then the reductions based on tariff reduction schedules will increase within 10 years. For some agricultural products tariff quotas will also be increased progressively.

In agriculture, tariffs on key products for both regions will be largely eliminated, while some "sensitive areas" for local markets will be respected. For example, Central America ensures immediate free entry for wines, olives, olive oil, apples, cherries and grapes, but the following products from the EU will be excluded from free trade: meat (beef, pork, poultry), rice, vegetable oils, tomatoes, beans, onions, potatoes, corn and honey.

The EU eliminates tariffs for most dairy products, with some exceptions (milk powder, condensed milk and yogurt) for which duty-free quotas have been established for products coming from the EU. These quotas cover current business needs and will be increased yearly. In turn, Central America eliminates tariffs on some dairy products, such as evaporated and condensed milk products and grants duty-free powdered milk and mature cheeses limited quotas. These quotas correspond to the current trade volume and will grow each year. It should be noted that the unused quotas on a period by one country may be used by other countries in the region.

In the case of alcoholic beverages, Panama is a major importer of Europeans to the region of whiskeys, has granted free access starting the first day of the entry into force of the Agreement, while all other Central American countries will liberalize the market for whiskey after six years. The Central American market will be liberalized for vodka after 10 years and for beers after 15 years. EU exporters of wines and spirits can expect savings of € 6 million per year in customs duties². This, in turn, benefits consumers in CA that will be able to buy more affordable European products.

Other benefits for diverse sectors from Europe³:

- European exporters in the automotive and auto parts sectors will be exempted from paying up to € 31 million in annual tariffs after full implementation of the Agreement.
- The pharmaceutical industry will see significant annual savings of around € 8 million in taxes each year.

² [http://europa.eu/rapid/press-release MEMO-11-429_en.htm](http://europa.eu/rapid/press-release_MEMO-11-429_en.htm)

³ Fundamental aspects of the commercial pillar of the EU-CAAA:
http://www.eeas.europa.eu/delegations/nicaragua/documents/press_corner/news/20130204_brochure_pilar_comercial_es.pdf

- Chemical producers are expected to save € 10 million annually, once the Agreement enters into force in its entirety.
- The textile and clothing industry will save an estimated amount of € 4 million in annual taxes.

What tariffs apply to European products?

Under the EU-CAAA⁴, tariffs are eliminated either upon entry into force of the Agreement or progressively, with terms ranging from 5 to 15 years. Some products have been excluded from the tariff elimination process, thus those tariffs will remain unchanged.

It is important to point out that the EU-CAAA is a region-region agreement, in which there is a single list for tax exemption that all Central American countries should apply to imports from the EU (except for Panama, which has a separate list) . For certain products facing different tariffs in each Central American country (disharmonized tariffs), it was decided to use a system of "dragging", in which the rate of tariff reduction is determined by the "base rate CA" (the highest applied between the Central American countries).

The various modalities of tariff reduction are summarized below:

Table 1 Categories of tariff elimination of Central America in the EU-CAAA		
Category	Description	Year of tariff elimination
A	Free of tax since 01/10/2013	2013
C	The fee is reduced by one fifth per year	2017
C1	The fee is reduced by one sixth per year	2018

⁴ Consideration for importation from UE to Costa Rica:
<http://www.comex.go.cr/tratados/vigentes/aacue/consideraciones/Consideraciones%20para%20importar%20a%20CA%20en%20el%20marco%20del%20AACUE%202015-04-20.pdf>



D	The fee is reduced by one seventh per year	2019
E	The fee is reduced by one tenth per year	2022
E1	The tariff does not change the first five years and is reduced by one fifth within five years.	2022
E2	The fee is reduced by unequal fractions each year. For more information see Annex I from Chapter 1 of EU-CAAA, item (h), paragraph 3, Section A	2022
F	No change in tariff payable.	N.A
G	The fee is reduced one thirteenth year per year	2025
H	The fee is reduced one fifteenth per year	2027
Q Each quota has specific conditions.	Product can be imported free of duty for a limited amount (quota). There is an established procedure for assigning and using the quota found in Chapter II "Guidance for Administration of Quota in the EU-CAAA, Executive Decree 37875-COMEX.	See Appendix 1 of Annex I, Chapter 1

What is the “rule of origin” and what are the requirements for European products to take advantage of the Agreement?

For exporting goods from the EU into Costa Rica under the preferential tariff arrangements of the Association Agreement between Central America and the European Union (EU-CAAA), the rule of origin must be determined. These rules ensure that only the European and Central American products benefit from preferential conditions in the Agreement. The provisions regarding rules of origin are listed in [Annex II](#) (about Definition of "Originating Products" and Methods of Administrative Cooperation) of Chapter 1 of EU-CAAA. Also, please find the specific rules of origin which must be met by each type of product to be considered as "originating" located in [Appendix 2](#) (List of processing or transformations that the non-originating materials should go through in order for the product to have the originating qualification).

A certificate indicating compliance with the rule of origin must be obtained as certificate EUR.1 which is issued by customs of each country member of the EU. However, this document may be replaced by an invoice declaration, which can be issued by either:

- An approved exporter, or
- By any exporter, verifying that the value of the shipment does not exceed 6,000 Euros.

The format of the invoice declaration and any additional relevant information is detailed in Annex II. The certificates EUR.1 is offered in each of the official languages of the EU.

What does the Agreement foresee regarding standardization, conformity assessment procedures and labelling?

The elimination of tariffs is a real benefit provided that technical regulations, norms and conformity assessment procedures do not become unnecessary barriers to trade. The Agreement will ensure greater transparency and better cooperation in the areas of "norms" and market surveillance. The agreed provisions go beyond the WTO Agreement on Technical Barriers to Trade (TBT). The requirements for permanent marking and labelling have been clarified. The Parties agree to cooperate in developing technical regulations, norms creation and establishment of conformity assessments. Yet more importantly, the parties will promote the development of harmonized norms and standards within each region in order to facilitate the free movement of goods.

What does the Agreement foresee on Sanitary and Phytosanitary Rules?

Regarding sanitary and phytosanitary (SPS) measures, the Agreement also goes beyond the requirements of the WTO Agreement on the key issues, such as the regionalization of animal diseases and pest areas, the transparency of SPS and the import requirements and procedures.

The agreement includes other useful tools for trade facilitation, such as the list of establishments according to origin of exports and a detail of the requirements and procedures for the imports of these products. Further improvements, for example, in the field of animal welfare have been agreed. This will help build capacities in the countries of Central America and, therefore, facilitate market access.

How does the Agreement benefit exports of services and investments?

The Agreement seeks to promote investment flows and trade in services between the Parties and regulate the treatment and market access that investors and service providers will receive when establishing investments or providing services in or from the territory of the Parties in predictable, secure and transparent conditions.

In Costa Rica the agreement offers investors opportunities both important parts in a wide range of areas, including manufacturing, service industries, energy production, etc.

The Association Agreement between the EU and Central America, Costa Rica provides good business opportunities for European companies, particularly in some sectors of privileged investment by the Costa Rican government:

- Services sector (Call Center, digital technologies, shared services and back office)
- Life sciences (biotechnology, medical devices, clinical trials)
- Green technology (wind and solar)
- Advanced Manufacturing (aerospace and electronics)
- Infrastructure (roads, ports and airports)

A key aspect of the agreement is its system of consultation at various levels, including the participation of civil society, allowing open discussion on specific trade issues in the context of the various chapters of the Agreement. It also creates a transparent, predictable and non-discriminatory environment for businesses and investors, and includes a bilateral dispute settlement mechanism.

What opportunities exist regarding public procurement?

The EU-Central America Trade Agreement (EU-CAAA) states that public procurement in this country should use open and transparent procedures, and guarantying European companies to compete on equal terms with local businesses. To this end, the Agreement includes a number of general principles that regulate key aspects of public procurement, such as tendering procedures, the use of electronic means, rules of origin, tender specifications, and indicated where it allows the direct contracting or execution of contracts.



Public procurement in Costa Rica under the EU-CAAA is regulated under the Title V, and Annex XVI, detailing the list of entities whose contracts must comply with the requirements of the Agreement.

The main text sets out general principles and scope of the Agreement while the Annex establishes the contracting entities referred to as well as the threshold for the value of the contracts on which the provisions are applied.

Links of interest

- **Text of the Agreement:**
<http://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=OJ:L:2012:346:FULL&from=EN>
http://www.comex.go.cr/tratados/vigentes/EU-CAAA/texto_tratado.aspx
- **Explanation of the text (in Spanish):**
[http://www.comex.go.cr/tratados/vigentes/EU-CAAA/Documento%20Explicativo%20final%20\(19-07-12\).pdf](http://www.comex.go.cr/tratados/vigentes/EU-CAAA/Documento%20Explicativo%20final%20(19-07-12).pdf)
- **Central-EU Trade Agreement (publication of the EU Delegation in Costa Rica) (in Spanish): :**
http://www.eeas.europa.eu/delegations/costa_rica/documents/eu_costa_rica/costa_rica_politicas-comerciales-de-la-union-europea_2013_es.pdf
- **Fundamentals of the Business Pillar of the EU-CAAA (in Spanish): :**
http://www.eeas.europa.eu/delegations/nicaragua/documents/press_comer/news/20130204_brochure_pilar_comercial_es.pdf
- **REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL: Annual Report on the Implementation of Part IV of the EU-Central America Association Agreement**
<http://data.consilium.europa.eu/doc/document/ST-7423-2015-INIT/en/pdf>

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