



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

Synthesis Report
Draft, October 2021

Prepared by BKP Economic Advisors

The views expressed in the report are those of the consultant, and do not present an official view of the European Commission.



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ACRONYMS

AEO	Authorised Economic Operator	LDC	Least Developed Country
BATIS	Balanced Trade in Services	LULUCF	Land use, land-use change and forestry
CEPAL	Comisión Económica para América Latina y el Caribe (UN Economic Commission for Latin America and the Caribbean)	MEAs	Multilateral Environmental Agreements
		MERCOSUR	Mercado Común del Sur
CGE	Computable General Equilibrium	MFN	Most-Favoured Nation
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora	MRA	Mutual Recognition Agreement
		MRL	Maximum Residue Limit
		MSME	Micro, Small, or Medium-sized Enterprise
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership	NGO	Non-Governmental Organisation
		OECD	Organisation for Economic Cooperation and Development
CSD	Civil Society Dialogue	OPC	Online Public Consultation
CSR	Corporate Social Responsibility	OR	Outermost Region
DAG	Domestic Advisory Group	PCDA	Political Cooperation and Dialogue Agreement
DG	Directorate-General		
DSM	Dispute Settlement Mechanism	RAPEX	Rapid Alert System for dangerous non-food products
EQ	Evaluation Question		
EU	European Union	RASFF	Rapid Alert System for Food and Feed
EUR	Euro	RBC	Responsible Business Conduct
FDI	Foreign Direct Investment	RoO	Rules of Origin
FTA	Free Trade Agreement	SDGs	Sustainable Development Goals
GDP	Gross Domestic Product	SIA	Sustainability Impact Assessment
GHG	Greenhouse gases	SME	Small or Medium-sized Enterprise
GIs	Geographical Indications	SPS	Sanitary and Phyto-Sanitary
GSP	Generalised Scheme of Preferences	TBT	Technical Barriers to Trade
GVC	Global Value Chain	ToR	Terms of Reference
HS	Harmonised System	TRACES	Trade Control & Expert System
ILO	International Labour Organisation	TRQ	Tariff Rate Quota
IPR	Intellectual Property Rights	TSD	Trade and Sustainable Development
JC	Judgement Criterion	USD	United States Dollar
LAIA	Latin American Integration Association	WTO	World Trade Organisation

1 INTRODUCTION

Since 2013, the European Union (EU) has a Trade Agreement with Colombia and Peru in place, 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.

The ex-post evaluation has been undertaken with the objective of analysing the economic, social and environmental, and human rights (including labour rights)¹ 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, the Directorate-General (DG) for Trade has awarded a contract for the “Ex post evaluation of the implementation of the Trade Agreement between the EU and its Member States and Colombia, Peru and Ecuador” to. The evaluation has been carried out by a consortium led by BKP Economic Advisors (BKP) with experts from both the EU and partner countries, over the period April 2020 to July 2021.

The **purpose** of the evaluation study is to support the European Commission in preparing a Staff Working Document which will analyse the impact of the implementation of the Agreement on sustainable development in its economic, social and environmental dimensions, as well as on human rights including labour rights. As such, the study fits into the increased focus of the EU on the implementation and enforcement of free trade agreements (FTAs) considering European interests, as well as the role of trade in promoting values of democracy, the rule of law, the defence of human rights, social and gender equity, and environmental protection and climate change action.

The **scope** of the evaluation can be delineated as follows: in terms of the *period covered*, it covers the whole implementation period of the Agreement since the start of provisional application (2013 for the EU, Colombia and Peru, 2017 for Ecuador) up to now, also comparing, where appropriate with a pre-Agreement period of five years (i.e. starting in 2008). *Geographically*, it primarily covers the Parties to the Agreement,² although some effects of the Agreement on selected third countries, such as developing countries and particularly least developed countries (LDCs), as well as some global effects (e.g. climate change) will also be covered. With regard to the *evaluation criteria*, effectiveness, impact, efficiency, coherence and relevance are considered; EU value added is not addressed because trade policy falls under the exclusive competence of the Union. Finally, as already mentioned, in terms of *types of effects* considered, the evaluation will cover economic, social, environmental and human rights (including labour rights) effects which the Agreement may have had either as a result of the changes in trade it has brought about, or through the implementation of the provisions of the Agreement text itself, notably the provisions in the Trade and Sustainable Development (TSD) Title.³

Although most data to be considered for the evaluation refers to the world pre-Covid-19, the pandemic has had an impact on the study. First, in terms of the evaluation implementation, it has affected the consultation activities that can be undertaken physically. Second, in substantive terms the pandemic has shaped priorities for

¹ Whenever this report refers to human rights, this includes labour rights.

² The Agreement’s impact is relatively more limited in the EU (simply due to the difference in size), and the implementation period in Ecuador has been relatively short so far.

³ Throughout the report, we refer to the “TSD Title” where we refer to Title IX of the Agreement, and to “TSD chapter” where we refer to TSD chapters generically/in other agreements.

stakeholders, which is to be taken into consideration in the interpretation of views and findings.

This synthesis report provides a summary of the evaluation findings, structured by evaluation questions, as well as conclusions and recommendations. It is structured as follows: sections 2 and 3 contextualise the evaluation by providing brief descriptions of the Trade Agreement, the evolution of trade between the Parties, as well as the economic, social, environmental and human rights context in the partner countries. Section 3.2 summarises the evaluation methodology. The main findings of the evaluation are presented in section 5, and section 6 provides the main conclusions and recommendations. The main evaluation report and its annexes provide the full set of evidence and the evaluation team's findings, as well as more detailed conclusions and recommendations.

2 BACKGROUND: THE EU-COLOMBIA/ECUADOR/PERU TRADE AGREEMENT

2.1 Agreement Negotiations

Negotiations between the EU and the Andean Community for a region-to-region Association Agreement, including political dialogue, cooperation and trade were launched in June 2007. The negotiations were however suspended in June 2008 after disagreements among Andean countries on approaches to a number of key trade issues. A new negotiating format was put in place offering a thematic and geographical split of these negotiations: (i) continued regional negotiations between the EU and the Andean Community as a whole on political dialogue and cooperation (an update of the Political Cooperation and Dialogue Agreement, PCDA, which at the time was awaiting final ratification) and (ii) "multi-party" trade negotiations between the EU and any member of the Andean Community willing to reach an ambitious, comprehensive and balanced trade agreement compatible with the World Trade Organisation (WTO). The latter started with three of the Andean Community countries – Colombia, Ecuador and Peru – in February 2009.

At the time of these negotiations, Colombia, Ecuador and Peru (as well as Bolivia) were benefitting from unilateral preferential access to the EU market under the EU's Generalised Scheme of Preferences (GSP), specifically the GSP+ arrangement. However, the three countries faced (unlike Bolivia) the prospect of losing GSP status as a result of the upcoming reform of the GSP: one of the objectives of the proposed reform was to focus the GSP preferences on the countries most in need and specifically, it was anticipated that countries "classified by the World Bank as a high-income or an upper-middle income country during three consecutive years immediately preceding the update of the list of beneficiary countries" would no longer be eligible to benefit from the scheme⁴. Based on this criterion – which was indeed included in the final version of the new GSP Regulation adopted in 2012⁵ – Colombia, Ecuador and Peru were expected to no longer be eligible for GSP references as of 2014. This meant that in the absence of a trade agreement with the EU, the three Andean countries were running the risk of losing preferential access to EU markets and facing Most Favoured Nation (MFN) tariffs instead.

The EU, Colombia and Peru reached an agreement on the key elements of a trade deal in March 2010 after nine negotiation rounds. The Agreement was then signed in June 2012

⁴ COM(2011)241, Proposal for a Regulation of the European Parliament and of the Council applying a scheme of generalised tariff preferences, 10.5.2011.

⁵ Regulation (EU) No. 978/2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008.

and has been provisionally applied with Peru since March 2013 and with Colombia since August 2013.⁶

Also in 2013, negotiations resumed with Ecuador for its accession to the Agreement and the negotiations were concluded in July 2014. The Protocol of Accession for Ecuador was signed in November 2016 and has been provisionally applied since 1 January 2017.

Full entry into force of the Agreement is pending ratification by all EU Member States, which is still ongoing.⁷

Pursuant to article 329 of the Agreement, Bolivia, as a member of the Andean Community, can also seek accession to the Agreement in the future; meanwhile, Bolivia benefits from unilateral preferential access to the EU market under the current GSP+ arrangement which is in place until the end of 2023.

2.2 Structure of the Agreement

The EU's Trade Agreement with Colombia, Peru and Ecuador is, together with the EU-Korea FTA, one of the first of a new generation of FTAs, characterised by their comprehensive nature and high level of ambition. The Agreement aims at opening markets for goods, services, investment and government procurement. The Agreement is not only about market access and tariff preferences: it also establishes a set of trade rules (e.g. on non-tariff barriers, competition, and intellectual property rights), which aim to go further than the commitments taken within the framework of the WTO.

The Agreement contains 14 titles, 14 annexes, and joint declarations by the Parties (Box 1; for summaries of the Titles, see Annex A to the main report).

The Agreement initially signed in June 2012 by the EU, Colombia and Peru was complemented in 2016 by a **Protocol of Accession of Ecuador to the EU-Colombia/Peru Trade Agreement**, which provided for the addition of specific provisions to take account of the accession of Ecuador⁸, but without modifying the overall structure of the Agreement, and for specific market access commitments between the EU and Ecuador.

Furthermore, the Agreement was amended through the "Additional Protocol to the Trade Agreement between the EU and its Member States, of the one part, and Colombia and Peru, of the other part, to take account of the accession of the Republic of Croatia to the EU," which was adopted in June 2016. This additional Protocol allowed Croatia to formally become part of the Agreement and provided for the amendment of several parts of the Agreement to account for the accession of Croatia (e.g. the Annexes related to trade in

⁶ By virtue of Article 3(1) of the Council Decision of 31 May 2012 on the signing and provisional application of the Agreement, the EU does not apply provisionally Articles 2 (Disarmament and non-proliferation of weapons of mass destruction), 202(1) (provisions on Intellectual Property Rights), 291 (administrative proceedings) and 292 (review and appeal) of the Agreement, pending the completion of the procedures for its conclusion.

⁷ Belgium has not yet ratified the Agreement; for details on the ratification status, see <https://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2011057>

⁸ E.g.: 1. Annotations to the Text of the Agreement; 2. Provisions related to Market Access for Goods (Tariff elimination schedule of the EU party for goods originating in Ecuador; Tariff elimination schedule of Ecuador for goods originating in the EU Party); Annotations to the Annex concerning the definition of the concept of "originating products" and methods for administrative cooperation; Provisions related to Market Access for Trade in Services (a. List of Commitments on Establishment (Commitments of the EU Party and of Ecuador); b. List of Commitments on Cross-Border Supply of Services (Commitments of the EU Party and of Ecuador); c. Reservations regarding Temporary Presence of Natural Persons for Business Purposes: Reservations on Key Personnel and Graduate Trainees (Commitments of the EU Party and of Ecuador); d. Reservations regarding Temporary Presence of Natural Persons for Business Purposes: Reservations on Contractual Services Suppliers and Independent Professionals (Commitments of the EU Party and of Ecuador); 5. Provisions related to Government Procurement (Commitments of the EU Party and of Ecuador).

services such as the lists of commitments on establishment and cross-border supply of services, of the reservations regarding the temporary presence of natural persons for business purposes, etc.). It has been applied with Peru since 1st May 2017.⁹

Box 1: Structure of the EU-Colombia/Peru/Ecuador Trade Agreement

- **Title I:** Initial provisions
- **Title II:** Institutional provisions
- **Title III:** Trade in goods
- **Title IV:** Trade in services, establishment and electronic commerce
- **Title V:** Current payments and movement of capital
- **Title VI:** Government procurement
- **Title VII:** Intellectual property
- **Title VIII:** Competition
- **Title IX:** Trade and sustainable development
- **Title X:** Transparency and administrative proceedings
- **Title XI:** General exceptions
- **Title XII:** Dispute settlement
- **Title XIII:** Technical assistance and trade-capacity building
- **Title XIV:** Final provisions
- **Annexes:**
 - Annex I: Tariff elimination schedules
 - Annex II: Concerning the definition of the concept of originating products and methods of administrative cooperation
 - Annex III: Special provisions on administrative cooperation
 - Annex IV: Agricultural safeguard measures
 - Annex V: Mutual assistance in customs matters
 - Annex VI: Sanitary and phytosanitary (SPS) measures
 - Annex VII: List of commitments on establishment
 - Annex VIII: List of commitments on cross-border supply of services
 - Annex IX: Reservations regarding temporary presence of natural persons for business purposes
 - Annex X: Enquiry points regarding trade in services, establishment and electronic commerce
 - Annex XI: Understanding concerning subparagraph (B) of the definition of 'services supplied in the exercise of governmental authority' as referred to in Article 152 of the Agreement.
 - Annex XII: Government procurement
 - Annex XIII List of geographical indications
 - Annex XIV: Mediation mechanism for non-tariff measures
- Joint Declarations by the Parties

2.3 Institutional set-up of the Agreement

Together, the Trade Committee and a number of specialised Sub-committees oversee the implementation of the Agreement.

The supervision and facilitation of the operation and further development of the Agreement – including the evaluation of results obtained from the application of the Agreement – is under the direct responsibility of the **Trade Committee**, which comprises representatives of the EU and representatives of each signatory Andean Country. The Committee also supervises the work of all specialised bodies (e.g. the Sub-committees) established under the Agreement. The decisions adopted by the Committee are binding upon the Parties, which are to take all necessary measures to implement them. The Trade Committee is scheduled to meet at least once a year.

The Agreement also established eight specialised Sub-committees: on Market Access; Agriculture; Customs, Trade Facilitation and Rules of Origin; Technical Obstacles to Trade; Sanitary and Phytosanitary Measures; Government Procurement; Intellectual Property; and Trade and Sustainable Development. More information on each of the Sub-committees is presented in Annex A of the main evaluation report.

⁹ OJ L 113, 29.4.2017, page 1

2.4 Operational context of the implementation of the Agreement

Since the application of the Agreement, a number of changes in the trade context have taken place, globally and for the Parties. These are important for the evaluation to keep in mind when assessing the impact (to the extent possible), coherence and relevance of the Agreement. Major changes directly relevant for the operation of the Agreement are as follows.

EU trade context

The EU's Trade Agreement with Colombia, Peru and Ecuador forms part of the EU's political and economic engagement with Latin America and is one of a number of trade deals concluded with countries in this region. The Agreement – together with the Association Agreement between the EU and Central America,¹⁰ which was also signed in 2012 and is provisionally applied since 2013 – marked the beginning of negotiations of further “new generation” FTAs with Latin American partners, such as:

- The relaunch in 2016 of the negotiations of an FTA between the EU and MERCOSUR States (Argentina, Brazil Paraguay and Uruguay), for which an agreement in principle was reached on the trade part on 28 June 2019.
- The negotiations on the modernisation of the EU-Mexico Global Agreement, which began in 2016 and for which an agreement in principle was reached on the trade part on 21 April 2018 and supplemented with the agreement on coverage of government procurement (sub-central) reached on 28 April 2020.
- The ongoing negotiations on the modernisation of the EU-Chile Association Agreement, which started in 2017.

At the overall policy level, the European Commission presented in October 2015 the new EU trade and investment strategy “Trade for All: Towards a more responsible trade and investment policy”,¹¹ which *inter alia* aimed at updating trade policy to take account of the new economic realities such as global value chains, the digital economy and the importance of services; touched upon the issues of competition, e-commerce, protecting innovation and regulatory cooperation; and announced a commitment to greater transparency in regards to trade negotiations as well as a commitment to using EU trade policy to promote sustainable development and human rights.

Most recently, following a review of the EU trade policy in 2020, on 18 February 2021 the European Commission launched its “Open, Sustainable and Assertive Trade Policy.”¹² Reflecting the concept of open strategic autonomy, this builds on the EU's openness to contribute to economic recovery through support for the green and digital transformations, as well as a renewed focus on strengthening multilateralism and reforming global trade rules to ensure that they are fair and sustainable. It also provides for reinforced rules to tackle competitive distortions.

Trade context in Colombia, Peru and Ecuador

Besides being founding members of the Andean Community, Colombia, Peru and Ecuador are members of the Latin American Integration Association (LAIA), under which framework

¹⁰ The Association Agreement includes a trade pillar, which not only covers tariff elimination but also areas such as government procurement, services, investment and sustainable development. The Central American countries are: Panama, Guatemala, Costa Rica, El Salvador, Honduras, and Nicaragua.

¹¹ COM(2015)497 of 14 October 2015.

¹² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Trade Policy Review – An Open, Sustainable and Assertive Trade Policy, COM(2021) 66 final, 18 February 2021.

they have signed several partial scope agreements with members¹³ and non-member partners.

In addition, Colombia and Peru (together with Mexico and Chile) in June 2012 signed a Framework Agreement establishing a common area for political and trade integration and cooperation, known as the Pacific Alliance. The Trade Protocol of the Pacific Alliance,¹⁴ which constitutes an FTA, was signed in 2014 and entered into force in May 2016. As far as trade is concerned, the Pacific Alliance seeks a higher degree of integration in comparison with the bilateral agreements that already exists among its member countries. Under this framework, negotiations began in 2017 on a free trade agreement with Australia, Canada, New Zealand and Singapore, which are candidates for associate membership of the Pacific Alliance. In July 2018, the Republic of Korea was admitted as a new candidate Associate State, and Ecuador expressed its interest in becoming an Associate State. Ecuador is progressing towards becoming an Associated country and subsequently full member. The negotiation of a trade agreement with Mexico – a prerequisite for association – is underway and the negotiations of a trade agreement with Chile have been concluded. On 25 September 2019, a Joint Declaration on a partnership between the States Parties to the Framework Agreement of the Pacific Alliance and the EU was adopted, and its implementation is ongoing.

Political dialogue between the Parties

In June 2016, a Joint Proposal for the conclusion of a new Political Dialogue and Cooperation Agreement (PDCA) between the EU and the Andean Community was adopted.¹⁵ It replaced the 2003 Proposal for a PDCA,¹⁶ which was withdrawn.¹⁷ The new PDCA – which has not been ratified so far – aims at institutionalising and strengthening the political dialogue between the Parties and at broadening cooperation to include new areas such as human rights, conflict prevention, migration as well as the fight against drugs and terrorism. Special emphasis is placed on cooperation in support of the regional integration process in the Andean Community.

At the bilateral level, the EU holds a High-Level Political Dialogue on an annual basis with each of the three Andean countries, which allows officials to exchange ideas to strengthen and deepen bilateral relations and develop a political and cooperation agenda. In the case of Colombia, a specific Dialogue on Human Rights between the EU and the Government was established in 2009 (new Terms of Reference for the dialogue were adopted in September 2012). In addition, a “Memorandum of Understanding on an Agenda of enhanced political and sectoral dialogue and cooperation for the next decade” was signed in September 2021, identifying five priorities for bilateral relations: the successful implementation of the peace agreement, the environment and climate change agenda, the economic and social agenda, migration issues (notably in relation to refugees from Venezuela), and cooperation on global and foreign policy issues.¹⁸ With Peru, a specific dialogue on human rights was established in 2014 within the framework of the Memorandum of Understanding of 29 October 2009 on the Establishment of a Mechanism of Bilateral Consultations. Finally, a first EU-Ecuador Human Rights Dialogue took place in July 2020.

¹³ The LAIA member countries are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Venezuela and Uruguay.

¹⁴ *Protocolo Adicional al Acuerdo Marco de la Alianza del Pacífico.*

¹⁵ JOIN(2016) 4 final. Joint proposal for a Council decision on the conclusion of a Political Dialogue and Cooperation Agreement between the European Community and its Member States, of the one part, and the Andean Community and its Member Countries (Bolivia, Colombia, Ecuador, Peru and Venezuela), of the other part.

¹⁶ COM(2003) 695.

¹⁷ https://ec.europa.eu/info/sites/info/files/cwp_2018_annex_iv_en.pdf.

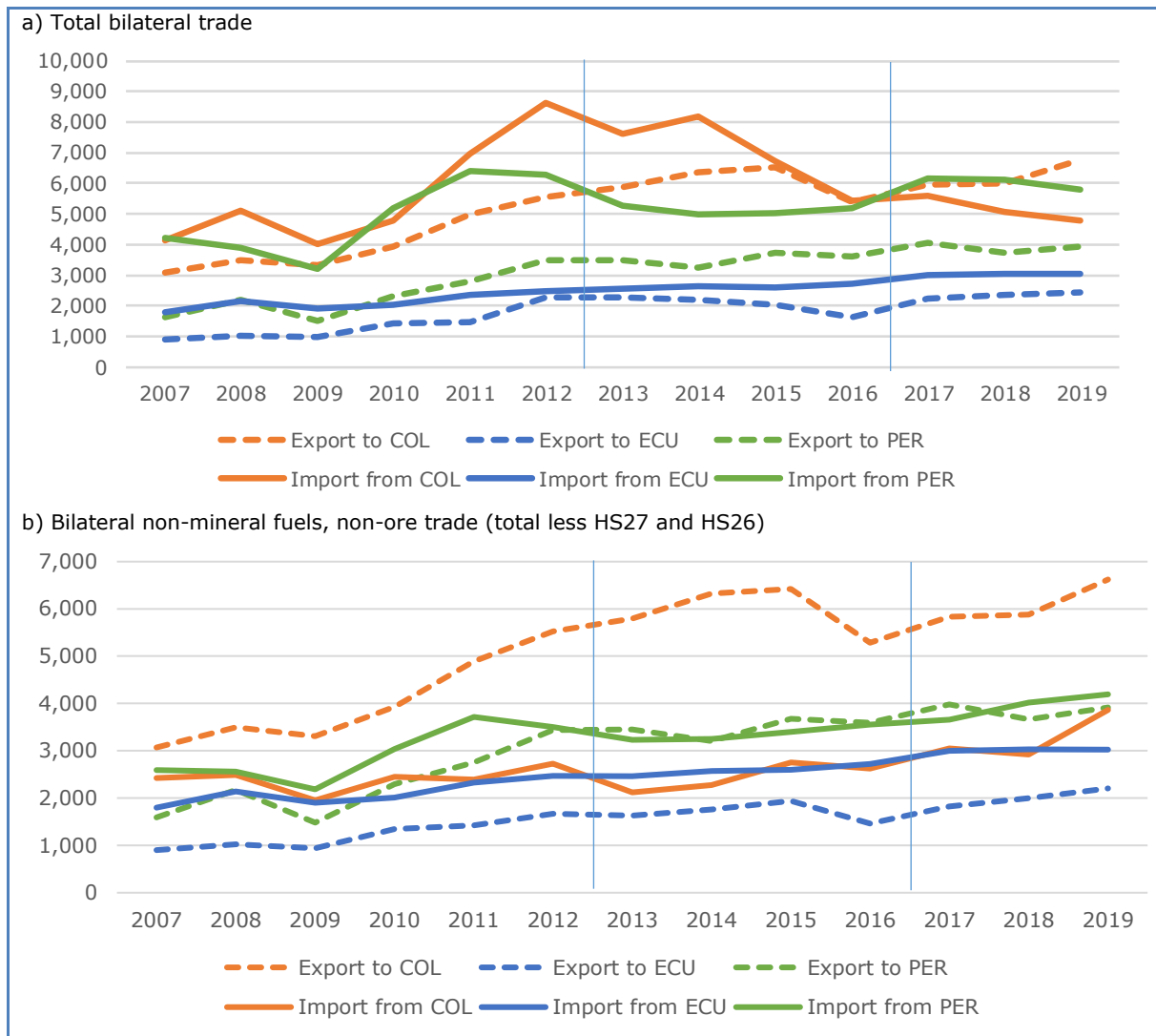
¹⁸ https://eeas.europa.eu/headquarters/headquarters-homepage/104446/node/104446_en

3 STATE OF PLAY: TRADE BETWEEN THE PARTIES BEFORE AND SINCE THE AGREEMENT

3.1 Trade in Goods

Figure 1 shows the development of bilateral merchandise trade between the EU28 and the three partner countries over the evaluation period (2007 to 2019). For the interpretation of the trade data, it is important to keep in mind that the Andean partners were EU GSP+ beneficiaries prior to the Agreement's entry into force, and that, therefore, a considerable share of their exports already benefitted from duty-free access to the EU market.

Figure 1: EU28 bilateral trade with partner countries, 2007-2019 (€ million)



Source: Authors' calculations based on COMEXT database.

EU28 imports from partner countries

EU28 imports from Colombia performed unevenly over time (Figure 1a). They roughly doubled from €4 billion in 2007 to about €8 billion in 2012 to 2014, and since have dropped to €4.8 billion in 2019. EU imports from Peru also initially increased strongly, from €4.2 billion in 2007 to more than €6 billion in 2011 and 2012, and since have fluctuated between €5 billion and €6 billion. Imports from Ecuador increased almost steadily from 2007 to 2017 (with the exception of the global financial crisis year 2008), from €1.8 billion to €3 billion, and since then have remained constant at that level until 2019.

However, values of total bilateral trade are affected by the large share of mineral fuels (primarily coal) in Colombia's exports to the EU28, ranging from about 40% to 70% during most of the period considered until 2018 and then dropping to about 20% in 2019, and the extreme fluctuations in the world coal price. Similarly, a significant share of Peru's exports to the EU consists of copper ores (ranging from 23% to 39% in total bilateral export value), also affected by the world market price. Therefore, Figure 1b presents the trade performance excluding mineral fuels (HS chapter 27) and ores (HS chapter 26). This shows much more stable exports from Colombia to the EU over the period 2007 to 2013, shifting between €2.0 billion and €2.7 billion, and an almost steady increase of Colombia's exports to the EU since 2013, from €2.1 billion to €3.9 billion in 2019. Similarly, non-ore imports from Peru steadily increased from €3.2 billion in 2013 to €4.2 billion in 2019.

The most important EU imports by sector from the partner countries were as follows:

- For *Colombia*, the sectoral composition of exports to the EU in value terms has been influenced to a large extent by changes in the price of coal. Thus, in 2013 coal accounted for 73% of Colombian exports to the EU, followed by fruits (11%) and coffee (5%). In 2019, fruits accounted for 26% of the country's total exports to the EU, followed by mineral fuels (22%), precious minerals (15%) and coffee (12%). In absolute terms, exports of coal and related products declined sharply from €5.5 billion to €922 million (an average annual decrease by 23% over the period since the start of application of the Agreement), while fruit and coffee exports increased at a relatively modest rate of 4.0% and 3.5%, respectively (and not at all since 2017 and 2014, respectively). The fastest growing sectors during the Agreement period were precious minerals (35.2% on average per year, especially in 2018 and 2019), animal and plant oils, in particular palm oil, (23.3% growth, although stagnation since 2017), and sugars and sugar confectionaries (19.9%). Declining exports, in addition to coal, included iron and steel (average of -21.5% per year), raw hides and skins (-12.8%), preparations of meat and fish (-4.3%) as well as fish and crustaceans (-1.4%).
- The sectoral composition of EU imports from *Peru* has changed considerably over the period 2007 to 2019. In the pre-Agreement period, they were dominated by ores (ch. 26; accounting for €2 billion in 2012, or a third of total EU imports from Peru in 2012 and 2013) and rapidly increasing imports of mineral fuels (ch. 27, reaching €0.7 billion in 2012, 12% of total imports from Peru). Since 2013, imports of fruit (ch. 08) have grown fastest, at an average of almost 19% per year, and became, for the first time, the largest import commodity from Peru in 2019 (€1.4 billion, 24% of total imports from Peru), surpassing ores (€1.3 billion, 23%). Other chapters showing consistent import growth are cocoa (ch. 18), fish and crustaceans (ch. 03), zinc (ch. 79), vegetables (ch. 07) and prepared fruit and vegetables (ch. 20). Conversely, exports of ores (ch. 26), copper (ch. 74), mineral fuels (ch. 27), and coffee (ch. 09) performed unevenly since the entry into force of the Agreement, with a decreasing tendency. Overall, there has been a clear trend away from extractives towards more agricultural and processed agricultural products.
- The most important EU imports from *Ecuador* are agricultural and fishery products: All of the ten largest imports at HS chapter level are from the agriculture, fisheries and forestry sector. The most important commodities are fruit (ch. 08, accounting for about 30% of all imports from Ecuador), preparations of fish (ch. 16; 23%), and fish and crustaceans (ch. 03; 22%), followed by cut flowers (ch. 06; 7%) and cocoa (ch. 18; 6%). Changes in the sectoral composition of EU imports from Ecuador since the entry into force of the Agreement have been limited, but it has to be kept in mind that the Agreement's implementation started only in 2017. However, in terms of growth rates, it is noteworthy that preparations of fish expanded rapidly, whereas imports of unprocessed fish and crustaceans from Ecuador stagnated. As a result, the value of fish preparation imports from Ecuador exceeded the value of non-processed fishery products in 2019 for the first time (€702 million vs. €670 million). The other HS

chapters to show (continued) growth are fruit and cut flowers. Conversely, imports of food preparations (ch. 20 and 21) declined most.

EU28 exports to partner countries

The EU's (non-mineral fuels) exports to Colombia steadily increased from 2007 to 2015, before dropping sharply in 2016 and then resuming the previous growth trend (Figure 1b). Exports to Peru during the Agreement period continued the generally positive trend of the pre-Agreement period, albeit at a slower rate. Exports to Ecuador increased steadily until 2015 before dropping sharply in 2016, during Ecuador's recession year, and then resumed a growth path from 2017 onwards. However, the post-Agreement growth rate for exports to Ecuador is much higher than pre-Agreement growth.

The most important EU exports to the partner countries by sector were as follows:

- Although EU machinery exports to *Colombia* remain the most important sector in value terms, their growth during the Agreement period has been slow and uneven: exports in 2012, just before the start of application, stood at €1.16 billion, almost the same as in 2019. Accordingly, the average growth per year during the post-Agreement period was 0.4%, lower than the average 2.8%, and leading to a decrease in the sector's share in overall EU exports to Colombia from 19% in 2013 (22% over the period 2007 to 2012) to 18% in 2019. Similar declines in relative importance were registered by exports of electrical machinery (ch. 85) and aircraft (ch. 88). The latter were particularly high from 2009 to 2014, reaching almost €0.9 billion, but have since then decreased to less than €0.3 billion. Accordingly, their share in EU exports to Colombia dropped from 12% in 2013 to 4% in 2019. Exports of electrical machinery also reached their peak in 2014, at €463 million, and have since declined to about €350 million per year (5% of total exports to Colombia in 2019). A more dynamic export performance was shown by pharmaceuticals (ch. 30), which continued their positive pre-Agreement trend consistently over time, reaching €918 million in 2019, or 14% of the total (up from 12% in 2013, and 9% during 2007-2012). Other sectors among the top 10 exports with an above-average growth since the Agreement entered into force are vehicles (ch. 87), plastics (ch. 39), paper and paper articles (ch. 48), and optical and miscellaneous equipment (ch. 90). Among the smaller export sectors, mineral fuels (ch. 27), beverages (ch. 22), essential oils (ch. 33), various processed food products (ch. 19, 20 and 21), animal feed (ch. 23) and dairy products (ch. 04) were among the ones showing particularly high growth rates.
- The EU's top five exports to *Peru* are the same as those to Colombia, although in a slightly different order. Machinery (ch. 84) leads, and has a higher share than in Colombia (or Ecuador), accounting for about 30% of total EU exports to the country – although the share has decreased somewhat, from 33% in 2007-2012 to 28% in the post-Agreement period. The other four leading sectors are electrical machinery (ch. 85), vehicles (ch. 87), pharmaceutical products (ch. 30), and optical and other equipment (ch. 90), each accounting for 5% to 10% of EU exports to Peru. The best performing sectors (in terms of export growth) since the Agreement has been applied were, among the top ten sectors, rail transport equipment (ch. 86; average annual growth of 22%), pharmaceutical products (12%), and miscellaneous chemical products (10%). Among the smaller export sectors, various types of processed food (ch. 20, with 20% average annual growth over the period 2012-2019; ch. 21, 15%; ch. 19, 13%) were among the fastest growing exports. Conversely, exports of the top three sectors – machinery, electrical machinery and vehicles – all decreased from 2012 to 2019.
- The sector composition of EU exports to *Ecuador* is similar to Colombia and Peru: machinery exports (ch. 84) have consistently been most important, accounting for about 20% of total exports, but have been mostly flat since 2012. Other important

exports, like to the other two Andean partner countries, are pharmaceuticals (ch. 30), vehicles (ch. 87) and electrical machinery (ch. 85). An important difference compared to Colombia and Peru are the notable exports of mineral fuels (ch. 27) to Ecuador, in fact the second most important sector after machinery – but highly volatile in line with the world market price fluctuations. High growth rates since the Agreement has been applied were registered, among the large export sectors, by rail transport equipment (ch. 86; 190% per year over 2016-2019), vehicles (53%), fish and crustaceans (ch. 03; 35%), and paper (ch. 48; 30%) – although it must be kept in mind that these rates are inflated by the fact that 2016 was a recession year in Ecuador during which imports across most sectors had dropped. Conversely, electrical machinery, pharmaceuticals, machinery and mineral fuels underperformed during the post-Agreement period. Some smaller export sectors to Ecuador also showed high growth rates since the Agreement entered into force in 2017, including beverages (ch. 22; 104% average annual growth 2016-2019), ships and boats (ch. 89; 109%, but highly volatile given the large value of individual transactions), ceramic products (ch. 69; 39%), fruit and vegetable preparations (ch. 20; 35%), apparel (ch. 62; 27%), and animal feed (ch. 23; 25%).

Bilateral trade balances

In terms of bilateral trade balances, the EU28 has had consistent although fluctuating trade deficits with Ecuador and Peru since 2007 (with limited differences between total and non-mineral fuels trade, due to the relatively limited share of mineral fuels trade with these two countries). Regarding trade with Colombia, the EU had a trade deficit until 2016 with respect to total trade, and a rapidly increasing surplus since – in effect, the EU28 moved from a trade deficit of €-3.0 billion in 2012 to a trade surplus of €2.0 billion in 2019. However, the bilateral trade balance between the EU and Colombia is significantly impacted by the high share of coal in Colombia's exports to the EU and, because of this, coal price developments. Looking at non-mineral fuels trade only, the EU28 has had a consistent trade surplus with Colombia, which steadily increased from €0.6 billion in 2007 to €4.0 billion in 2014, before dropping again and stabilising at €2.8 billion to €2.9 billion since 2016.

3.2 Trade in Services

Trade in services accounts for a substantial share of the commercial relations between the EU and the three partner countries, accounting for between 20% and 40% of combined goods and services trade. The importance varies across the three bilateral relationships, and by direction of trade: Colombia's services exports to the EU amount to between 40% and 45% of Colombia's overall (i.e. combined goods and services) exports to the EU since 2013. Conversely, Ecuador's services exports to the EU are comparatively least important in the overall commercial relationship, at about 20% since 2015. Generally, shares have remained constant over time, with the exception of Peruvian services exports to the EU, whose share has increased from 15% in 2011 to 30% in 2019.¹⁹

Services exports to the EU28 from Colombia and Peru show an upward trend over the whole period, both reaching an all-time high in 2019 (USD 2.5 billion for Peru, USD 2.0 billion for Colombia), compared to USD 1.1 billion for both countries in 2007. Colombian exports to the EU stagnated between 2013 and 2016 but then increased substantially until 2018/2019. For Peru, services exports to the EU increased at a slow pace until 2014 (to USD 1.5 billion) but then increased more steeply until 2019. Ecuador's services exports to the EU remained flat at USD 500 million from 2007 to 2014, then increased to above USD 700 million in 2015 and 2016, and further to about USD 850 million in 2018 and 2019 (after a drop in 2017). The post-Agreement period thus started with a decline in services

¹⁹ Services trade data reported here are based on the WTO-OECD Balanced Trade in Services (BaTIS) database released in January 2021, which provides bilateral services trade data by sector until 2019 (Liberatore and Wettstein 2021).

exports. Thereafter, exports returned to the growth path already initiated in 2015, two years prior to the Agreement's start of application.

The EU constitutes an important market for Andean partner countries' services exports: in 2019, between 20% (Colombia) and 30% (Ecuador and Peru) of total services exports were to the EU – these shares are higher than for goods trade. The largest three services export sectors to the EU by any of the Andean partner countries are travel, transport, and other business services.

EU services exports show a long-term upward trend for exports to Colombia (from USD 2 billion in 2007 to USD 3.5 billion in 2019) and Peru (from USD 1.4 billion in 2007 to USD 2.3 billion in 2019, and constant exports to Ecuador (at around USD 1 billion).

4 METHOD

The evaluation provides responses to a number of **evaluation questions** (Box 1), which were established – starting from a list provided in the evaluation ToR – based on the intervention logic for the Agreement, as presented in the inception report.

As the evaluation questions are broad, they were operationalised in an **evaluation framework**, which provides, for each evaluation question, the judgement criteria, the analysis needed to substantiate findings and conclusions made, and the sources through which data and information has been obtained. The evaluation framework also links evaluation questions and judgement criteria to the analytical tasks to be performed according to the ToR. The full evaluation framework was provided in the inception report.

Box 1: Evaluation questions

Effectiveness/Impact

- EQ 1A: To what extent have the operational objectives as laid down in Article 4 of the Agreement been achieved?
- EQ 1B: What has been the impact of the Agreement?
- EQ 2: What are the factors influencing (either positively or negatively) the achievement of the Agreement's objectives?
- EQ 3: Has the Agreement had unintended (positive or negative) consequences, and if so, which ones?

Efficiency

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

Coherence

- EQ 7: To what extent has the Agreement been coherent with the EU's trade and development policies and, in particular, with the EU's commitment to sustainable development in trade policies as a contribution attainment of the SDGs?

Relevance

- EQ 8: To what extent do the provisions of the Agreement continue to be relevant in order to address the current trade needs and issues of the EU, Colombia, Peru and Ecuador?

In addition, to answer the evaluation questions, the analysis covers four **impact dimensions** of the Agreement and its implementation, i.e. economic, social, environmental and human rights impacts. In addition, the evaluation covers a fifth dimension, i.e. a review of the implementation of the Agreement itself and the institutions and procedures established under it.

For each of the impact dimensions, the evaluation's **principal methodological approach** has been to determine the Agreement's effect by comparing the actual situation with the Agreement in place with a hypothetical counterfactual situation of the world where the

Agreement would not be in place. However, the degree varies to which this methodological approach can be applied: for some economic effects (and non-economic effects directly derived therefrom, such as employment effects), the use of an economic model guarantees such a comparison of two states of the world with the only difference between them being the presence of the Agreement – i.e. the effects of the Agreement are isolated from any other factor that in reality also comes into play. For other impacts, the evaluation has resorted to descriptive statistical analyses and qualitative assessments based on data and information obtained from a variety of sources, among them consultations of stakeholders being highly important.

The main **source** for assessing the trade and economic effects of the Agreement has been the economic model simulation prepared by the European Commission, which in turn is based on official trade and economic statistics. These data were complemented with official economic and trade data from the partner countries, which also constituted the basis for the quantitative analysis of the Agreement's social effects. Sources for the qualitative analysis were existing studies, official documents and position papers, both official and prepared by interested parties and stakeholders. All sources used are provided in the main evaluation report and its annexes.

In addition, contributions received from more than 140 stakeholders (not counting participants in the workshops and respondents to the online surveys) – including the European Commission and its Member States, other EU institutions, the governments, authorities and agencies of the three partner countries, business organisations and individual businesses, civil society organisations, academia, individual citizens, and representatives of international and regional organisations – in a comprehensive **consultation process** were an extremely important source of information.²⁰ Consultation activities took place through five “pillars”, each with different target groups and communication channels used: First, all stakeholders in the database (some 1,100 organisations and individuals) as well as the interested public at large were kept informed about the evaluation, its progress, activities, outputs and findings, through an evaluation website, email newsletters, and Twitter. Second, for all stakeholders, an online public consultation (OPC) was open from 13 January 2021 to 06 May 2021, receiving 70 responses. Third, targeted consultation tools – in particular workshops in the partner countries, an online survey for businesses (including SMEs) in the EU and partner countries, and interviews and meetings with stakeholders in the EU and partner countries – constituted a key instrument for obtaining in-depth information and views on the Agreement for a diverse set of stakeholders. Fourth, discussions with EU civil society were organised in the framework of DG Trade's civil society dialogue (CSD) meetings. Finally, additional meetings with EU institutions took place in the context of Steering Committee meetings (involving the various services of the European Commission) and interviews.

Despite the broad approach and solid methodological underpinnings of the evaluation, a number of **limitations** need to be noted. First, due to the covid-19 pandemic, most consultation activities had to be implemented online. Some interviews could take place physically between local team members and stakeholders, but a visit of the core evaluation team to the Andean partner countries was not possible. Although the outreach in partner countries to stakeholders in rural areas was possible, thanks to relatively good internet connectivity, physical visits would have been preferable to assess actual effects on the ground. Second, some limitations in data availability and reliability required the substitution of quantitative by qualitative analysis, and in some cases prevented a definitive assessment of causality between the Agreement and observed developments. Third, a general methodical issue limiting the degree of independence of the evaluation stems from the fact that the economic modelling is undertaken by the European

²⁰ More information about the consultations is presented in the consultation reports presented as separate annexes to each of the reports prepared as part of the evaluation.

Commission DG Trade instead of by the evaluation team. Last but not least, the covid-19 pandemic has not only affected the consultation activities but also the findings, because, first, data related to 2020 are distorted by the effects of the pandemic, and second, the pandemic has also shaped perceptions of stakeholders and their views regarding recent economic and social performance in the Parties, and their underlying reasons. Despite these issues, however, the evaluation team is confident that the evaluation findings, conclusions and recommendations are valid and robust.

5 ANALYSIS AND ANSWERS TO THE EVALUATION QUESTIONS

5.1 Effectiveness: Achievement of the Agreement's Operational Objectives (EQ 1A)

Evaluation question 1A – “To what extent have the operational objectives as laid down in Article 4 of the Agreement been achieved?” – is the core question for assessing the Agreement's effectiveness. It has been assessed on the basis of several judgement criteria addressing the various operational objectives mentioned in the Agreement text. The extent to which these have been achieved is summarised in the following sections.

5.1.1 Implementation of Tariff Liberalisation (JC 1A.1)²¹

All Parties have been implementing their tariff liberalisation schedules in line with the Agreement provisions, and transition periods for most products are now completed. Stakeholders interviewed by the evaluation team, including trading companies, confirmed that the utilisation of preferential tariffs poses no problems for trade between the Parties.

In line with this, the CGE model simulation results show that the Agreement has led to increases in all bilateral trade flows between the Parties, in both directions. For Peru and Ecuador, exports to the EU28 increased more, both in absolute (USD) and relative (percentage) terms, than imports from the EU. For Colombia, the opposite is true: the EU's exports to the country increased by close to USD 3.9 billion (26.3%) – the largest change by far among any of the bilateral trade relations covered by the Agreement –, while its exports increased by USD 268 million (3.9%). In relative terms, apart from EU exports to Colombia, the Agreement had the largest impact on EU-Ecuador trade, with Ecuador's exports to the EU being 18.7% higher than they would have been without the Agreement, and the EU's exports to Ecuador being 12.6% higher.

The model simulations also show a positive impact of the Agreement for all Parties overall exports. The effect is however small, partly due to the fact that the Andean countries enjoyed GSP+ preferences prior to the application of the Agreement. Although trade diversion takes place, trade creation is stronger. Sectorally, impacts are more varied: generally, sectors where a Party has a comparative advantage (such as machinery, equipment and vehicles in the EU; fruit and vegetables as well as food products in the Andean partner countries) have benefited from the Agreement through increased exports, and vice versa.

5.1.2 Facilitation of Trade in Goods (JC 1A.2)²²

Overall, although some irritants have been raised by the Parties over time in the bilateral meetings between the Parties, as well as been raised by some stakeholders, non-tariff measures have not constituted a major burden for trade between the Parties and, crucially, they have not – except possibly for certain goods – been erected as a substitute for tariff

²¹ See section 6.1 of the main evaluation report.

²² See sections 6.1.5, 6.1.6, 6.5, 6.6 and 6.8.1 of the main evaluation report.

liberalisation. At the same time, more progress could have been made in some areas to further facilitate bilateral trade. For instance, burdensome import procedures remain a difficulty for importers of pharma products and alcoholic beverages in Colombia.

Noncompliance with **rules of origin (RoO)** by traders has not been a problem in the implementation of the Agreement. Likewise, based on feedback by stakeholders, customs authorities by all Parties do not use origin verification as a non-tariff barrier. While occasionally issues arise in relation to origin certificates, these are normally addressed at a technical level and are not understood to be applied with a protectionist purpose. The same is true, overall, regarding the rules of origin themselves, i.e. the conditions established for conferring origin. Nevertheless, three aspects where room for improvement might exist are:

- *Rules on direct transport between the Parties:* According to the Agreement, preferences only apply to products which are transported directly between the Parties. To facilitate exports by companies with regional distribution centres (e.g. in Panama), the EU suggested that deconsolidation of shipments be considered acceptable under a change to the Agreement; this view was also supported in the evaluation consultations by members of the partner countries' business community. Representatives of the Andean countries are however concerned that there could be difficulties for the proper control and verification of eligibility of deconsolidated goods for preferential access, and that they could be shipped from ports other than the territory of the EU.
- *Digital movement certificates:* To simplify paperwork, the Andean partner countries have suggested at the latest (2020) meeting of the Customs Sub-committee to contemplate using digital certificates of origin. This is already being done on a temporary basis in response to the Covid-19 pandemic, provided that after the crisis period is over an authentic EUR.1 certificate is presented upon request. The EU considers that this is not possible under the Agreement and favours the use of self-certification under the approved exporter schemes foreseen in the Agreement. While the evaluation team makes no judgement on the feasibility of permanent use of digital certificates, we do consider that more efforts regarding the facilitation of bilateral trade are called for.
- *Approved exporter status:* The Agreement provides for the possibility of approving exporters that make frequent shipments of products under this Agreement for the use of invoice declarations instead of certificates of origin, which facilitates trade for such approved exporters. However, based on consultations, awareness for the approved exporter status among businesses in the Andean partner countries appears to be low.

The Agreement also encourages the Parties to promote the implementation of the **Authorised Economic Operator (AEO)** concept to facilitate trade between the Parties for trusted traders. So far, however, Colombia and Peru have used AEO schemes in a limited way, and Ecuador has not yet established an AEO scheme.

Tariff rate quotas (TRQs) have been partly effective both in opening up the Parties' markets for the products covered and in limiting the increase in imports: not for all product categories covered by TRQs have exports started or increased. In the case of Andean exporters, some stakeholders have pointed out that the preferences offered under TRQs have not been sufficient to kick-start exports and that more assistance to domestic producers is required to make them export-ready. Regarding the administration of TRQs, stakeholders consulted had no complaints about practices in Colombia, Peru and the EU and its Member States. For Ecuador, the management of TRQs especially in the dairy sector in combination with non-automatic import licensing and the criteria applied for the granting of licenses has been a recurrent issue in the meetings of the Sub-committee on Agriculture (most recently in 2020). EU stakeholders claim that the current practice does not comply with the Agreement's first-come, first-served principle, violates WTO rules, lacks

transparency and creates uncertainty as to whether and when the importers will be able to use the applicable preference and may entail possible discrimination between different importers. Delays in issuing licenses pose particular problems for perishable products. Although Ecuador's Ministry of Agriculture has made some changes to the management of quotas in response to demands made by the EU,²³ the EU states that the system still remains cumbersome and makes especially exports of perishable goods difficult. Low (albeit slowly increasing) quota fill rates for dairy products support this argument.

Agricultural safeguards have not been applied, and based on the research undertaken, there would have been no justification for them.

Sanitary and phytosanitary (SPS) measures do not appear to have created an undue barrier to bilateral exports of products concerned by such measures, as the observed strong increase in exports of some such products by all Parties, as well as the estimated positive impact of the Agreement on trade in agricultural and food products generally shows.

At the same time, it is clear that disagreements between the Parties on certain issues as well as concerns over the trade impacts of regulatory changes on SPS measures prevail. These issues are discussed yearly in the SPS Sub-Committee meetings with continuous follow-up between the Parties. Although views about the effectiveness of these discussions vary across stakeholders, we note that a number of issues were solved under the mechanism. Other issues have remained on the agenda for extensive periods of time without much progress being evident; the application of SDT regarding maximum residue limits (MRLs) is one such issue. Nevertheless, we consider that collaboration on SPS measures on the whole has been effective so far. Furthermore, the very presence of the SPS Sub-Committee allows the Parties to directly discuss issues related to SPS measures, including regulatory changes being planned, in a more detailed way than would be the case in a WTO context, which would be the alternative in the absence of the Agreement. This in itself constitutes a benefit of the Agreement. Finally, technical assistance plays a particularly important role in the area of SPS issues due to the highly technical nature not only of substantive SPS aspects but also the monitoring, tracing and reporting systems to be used; this is addressed in section 5.1.7.

With regard to **technical barriers to trade (TBT)**, although interviewed EU stakeholders mentioned in the Andean countries these sometimes seemed to be driven by sensitivities against import increases, most stakeholders (in the EU and partner countries) also confirmed that TBT issues do not constitute a major concern for them or affect trade with the respective Partner. Nevertheless, TBT issues are an area of frequent discussions between the Parties. A number of the issues discussed relate to planned changes in technical regulations (such as the potential tightening of requirements in the EU in the context of the European Green Deal²⁴ or the Farm to Fork strategy²⁵) rather than ex-post reviews of existing regulations or their implementation. This is an indication that cooperation between the Parties on TBT matters is functioning. In this context, we also note that discussions in the relevant Sub-committees, as well as follow-up discussions have

²³ In a recent letter, the Ecuadorian Ministry of Trade stated the intention to bring the TRQ system and non-automatic import licensing in line with the Agreement and WTO rules.

²⁴ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. The European Green Deal, COM/2019/640 final, 11 December 2019; for more information, see https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en.

²⁵ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system, COM(2020) 381 final, 20 May 2020; for more information and documents, see https://ec.europa.eu/food/farm2fork_en.

been reasonably effective in addressing a number of the issues raised; although some other issues have been on the agenda for several years without any apparent progress.

Assessing the effect of TBT as an impediment to bilateral trade is difficult because many of the issues that are discussed refer to planned regulatory initiatives or very specific products. However, taking the example of palm oil exports, one of the products often mentioned in bilateral discussions – e.g. in relation to the labelling of “palm oil free” products in Europe – the role of TBTs seems limited: palm oil is the Colombian product with the largest export increase since the start of application of the Agreement, which would seem to indicate that the EU’s measures do not constitute a TBT.

5.1.3 Facilitation of Trade in Services and Investment (JC 1A.3-5)²⁶

Trade in services accounts for a substantial share of the commercial relations between the EU and the three partner countries, accounting for between 20% and 40% of combined goods and services trade. Generally, these shares have remained constant over time, with the exception of Peruvian services exports to the EU, whose share has increased from 15% in 2011 to 30% in 2019. The stability of service export shares in total export shares indicate that the Agreement has not disproportionately liberalised goods trade at the expense of services trade or vice versa. At the same time, apart from Peru, bilateral services trade between the partners and the EU as a share in the partners’ overall services trade has not increased over time. As the Agreement does not provide for an actual opening up of services sectors but has rather improved the level of “binding”, no major impact of the Agreement on services trade between the Parties was to be expected.

Services trade has so far played a limited role also in the implementation of the Agreement. For example, no Subcommittee on services trade is foreseen in the Agreement (Article 15(1)), nor has one been established by the Trade Committee (under Article 15(4)). The discussion of issues related to trade in services in the Sub-committee on Market Access has been limited. Similarly, no mutual recognition agreements (MRAs) for services suppliers (under Article 129) have been concluded: a corresponding request made by Colombia in 2015 does not seem to have been successful.²⁷ On the positive side, no complaints by stakeholders on the implementation of commitments made by the Parties regarding trade in services could be identified either.

In addition to the increased predictability and security for investors brought about by the Agreement in the different chapters regulating trade, the Agreement also includes specific provisions on **investment** in Chapter 2 of Title IV. However, the commitments made do not refer to an actual liberalisation of investment and the Agreement thus does not commit the Parties to any changes in the applied regulatory framework for investment.

In line with this, investment trends before and after the start of application of the Agreement are not markedly different, and the share of bilateral investments in total FDI has not changed (in either direction). Major changes in the sectoral composition of EU investment in line with the identified changes in trade patterns also have not been observed, with the possible exception of EU investment in Ecuador.

Interviewed stakeholders considered that the Agreement’s impact on EU investment in the Andean partner countries was negligible. First, it was mentioned that the Agreement did not liberalise investment in the sense of actually opening up sectors for EU investment. Rather, much like in services, the Agreement increases the legal certainty for investors against future policy reversal. While this has some benefits, some stakeholders consider that it does not provide a sufficient incentive for engaging in new or expanding existing

²⁶ See sections 6.3 and 6.4 of the main evaluation report.

²⁷ See minutes of the 2015 meeting of the Sub-committee on Market Access.

foreign direct investment (FDI). Second, by reducing or removing barriers to trade between the Parties, the incentive for FDI aimed at the host country's domestic market is reduced: rather than setting up local production facilities the Agreement makes it comparatively more profitable to export. Third, the economic structure in at least some of the Andean partner countries – characterised by a large concentration on extractives – reduces the potential for FDI particularly for smaller companies, simply because the size of the non-extractives economy is small.

5.1.4 Implementation of Trade-Related Issues (JC 1A.6-8)²⁸

The Agreement addresses a number of other policy areas impacting on trade between the Parties. Among these the evaluation considers the implementation of provisions on government procurement, intellectual property rights including geographical indications, competition, and e-commerce.

The implementation of the Agreement's **Government Procurement** Title has been one of the most difficult areas, with the most important and longstanding issue being the disagreement between the EU and Colombia on the Agreement's coverage of procurement entities. More also can still be done in the area of transparency and facilitation of access of the respective other Party's companies to government procurement markets. For example, EU stakeholders in Colombia consulted for the evaluation considered that the costs of participation, including due to excessive information and documentation requirements, were high. Regarding transparency, only Ecuador currently provides easily accessible information about upcoming tenders covered by the Agreement,²⁹ and the complexity of e-procurement systems in itself constitutes a barrier to access government procurement opportunities. Also, the thresholds established under the Agreement for EU participation in Colombia's central level government procurement are higher than those in Colombia's FTAs with some of the EU's main competitors (e.g. the USA).

As a result of the remaining barriers but also because of the complexities of procurement systems and the need for intimate knowledge of procuring entities, the participation of suppliers or service providers in the respective other Party's government procurement markets has remained limited throughout the Agreement period (as far as data are available). This indicates that the Agreement has not been effective in opening up these markets.

Title VII of the Agreement addresses **intellectual property rights (IPR)** in detail, both regarding substantive aspects and enforcement by the Parties. Two elements in this area are of particular importance for the evaluation. First, during the negotiations concerns were raised about the potential negative impact of extended *patent protection* periods on the availability of affordable medicines in the Andean partner countries. Second, of particular importance for the EU are the provisions on *geographical indications (GIs)*. Other issues contained in the Agreement and discussed in the annual meetings of the Sub-committee on Intellectual Property, such as trademark protection, counterfeiting and other IPR infringements, do not appear to be substantively affecting trade between the Parties.

Patent protection: The SIA had noted that the Agreement's impact on public health could be negative if patent protection was extended under the Agreement: "Overprotection of intellectual property in the pharmaceutical sector would result in a reduction in public health standards, particularly for the poor" (Development Solutions, CEPR, and University of Manchester 2009, 94 & 121). However, the evaluation team could not find any indication that this has happened. In Ecuador, the actual impact of the IPR provisions was quite

²⁸ See sections 6.7 and 6.8 of the main evaluation report.

²⁹ However, the size of Ecuador's government procurement market is limited, and decreased over time due to the budgetary constraints which the government has been facing. As a result, it attracts limited interest by EU companies; this was confirmed in interviews held with representatives of EU business interests in Ecuador.

limited, as the final Agreement only provides for limited patent extension and the majority of essential medicines are off-patent.³⁰ Effects in the other countries could also not be identified.

Geographical indications: The number GIs protected under the Agreement varies considerably across the Parties. Of the 117 EU GIs listed in the Agreement, all are fully protected in Colombia, 106 in Peru (10 did not obtain protection for various reasons, such as alleged genericness or conflict with existing trademarks), and in Ecuador there is still one GI to be protected for the initial list to be completed. Conversely, the Andean partners sought protection of their GIs in the EU to a more limited by also varying extent: In the Agreement, between one and three GIs are included in Annex XIII. Subsequently, Colombia achieved protection of nine additional GIs in 2019 and two more in February 2021, and has additional requests in process; Peru has six requests in process (since October 2017), and Ecuador four (since 2018 and 2019). Stakeholders in the partner countries noted that the GI approval process in the EU was extremely slow – the approval of the Colombian GIs approved in 2019 took six years, with another four still in process.

EU stakeholders stated that an explanation for the different approaches to embracing GIs across the partner countries stems from the international competition between the GI approach (favoured by the EU) and the trademark approach (promoted by the USA). With both the EU and the USA being important partners for the three countries, it is not easy for them to decide which approach to favour. It was noted by the stakeholders, however, that Colombia and Peru have started to see the benefits of the GI approach, as also witnessed by the increasing requests for protection of their GIs in the EU, and thus stepped up their efforts to protect EU GIs in turn. But Andean stakeholders also saw some shortcomings in the treatment of GIs under the Agreement, including that partner country GIs registered in the EU under the Agreement did not provide the right to use the label for protected GIs, which was considered to constitute a discriminatory treatment, as was the exclusion of GIs protected under the Agreement from the European Commission's official, publicly available, *eAmbrosia* GI register.³¹ At the same time, it should be noted that the Agreement does not provide for an equal treatment between GIs registered under the Agreement and GIs directly registered in the EU. Finally, regarding the scope of GI protection, the Colombian Government is interested in advancing protection in the EU of non-agricultural GIs and considers that the lack of EU legislation and protection for such products detracts from the advantages for IP offered by the Agreement.³²

In terms of enforcement, the Andean partner countries do not actively monitor ex officio the respect of protected GIs in the market, unlike the EU (such active monitoring is not a requirement in the Agreement). The EU Delegations engage in some monitoring, and important GIs are also monitored by the rightsholders. Several infringements (such as "feta" cheese in all three partner countries) were detected, and stakeholders noted that the national administrations are slow to address these issues, particularly in Colombia. At the same time, some issues also appear to exist in the EU, e.g. with respect to requests

³⁰ It should also be noted that other factors, such as domestic health and pricing policies, distribution channels, etc. play important roles in the availability of affordable medicines.

³¹ See <https://ec.europa.eu/info/food-farming-fisheries/food-safety-and-quality/certification/quality-labels/geographical-indications-register/#>; the database only lists GIs registered in the EU (from the three partner countries, the two only listed ones are Pisco and Café de Colombia), but not those protected under the Agreement. Only the GI database maintained by the EU Intellectual Property Network, coordinated by EUIPO, also includes GIs protected under trade agreements; see <https://www.tmdn.org/qiview/>.

³² A proposal for a regulation for EU-wide protection of geographical indications for non-agricultural products was published in 2020, and a public consultation in 2021 showed that a large majority of respondents see the need for an EU-wide initiative to improve the protection of geographical names or indications for non-agricultural products; see https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12778-Geographical-indication-protection-at-EU-level-for-non-agricultural-products/public-consultation_en.

from third parties for registration of trademarks using the denomination “Café de Colombia,” as raised in the 2020 Sub-committee meeting.

Information about the value of bilateral trade in products covered by GIs is not available, nor are any statistics available about the frequency or scale of infringements. A recent study of the value of EU GI covered exports to non-EU countries shows however a sizeable value of EUR 16.9 billion in 2017 (AND International 2019, 18). In any case, the EU considers GIs in the context of consumer protection – also recognising that many of the products protected by them are niche products – rather than export promotion.

The Agreement’s provisions on **competition** cover the establishment of general principles, cooperation and transparency through exchange of information and consultations, and technical assistance. They also establish the obligation on the Parties to have competition laws and authorities in place, and of applying competition laws in a transparent, timely and non-discriminatory manner, respecting the principle of due process and the rights of defence. Competition matters are excluded from the Agreement’s dispute settlement provisions, and no Sub-committee has been established to discuss competition matters; rather, notifications, cooperation and consultations take place directly between the Parties’ competition authorities. All Parties fulfil – already since before the start of application of the Agreement – the requirement of having competition laws and authorities, and laws being in line with the implementation principles established in the Agreement.

Overall, we conclude that the competition title in the Agreement constitutes a sound legal basis for cooperation and consultations between the European Commission and the Andean partner countries’ competition authorities. Although cooperation would likely take place also in the absence of the Agreement (or the competition title in the Agreement), the provisions facilitate consultations and exchange of information, and have in at least some cases also been formally quoted to request information from and dialogue with another Party’s competition authority.

The Agreement also includes provisions on **e-commerce** in Chapter 6 of Title IV. However, the Chapter seems to have played a very limited role in the Agreement’s implementation, except for the use of digital movement certificates during the covid-19 period. Minutes of the Trade Committee and Sub-committee meetings³³ do not refer to e-commerce, and stakeholders interviewed have also not provided any views on this chapter. Statistics on bilateral trade between the Parties using e-commerce are not available.

5.1.5 Use of the Dispute Settlement Mechanism (JC 1A.9)³⁴

The Agreement provides for separate dispute settlement mechanisms (DSM). Title XII (Articles 301-311) covers the general DSM (complemented by Annex XIV, which details a specific mediation mechanism for non-tariff measures) while Articles 283-285 provide for a dedicated DSM for issues arising in relation to the TSD Title.

No formal disputes under the **overall DSM** have been initiated. This could indicate that, even where different views on certain issues cannot be reconciled, the Parties do not consider them to be sufficiently trade disruptive as to initiate a formal dispute. At the same time, it appears that the effectiveness with which some irritants raised by the Parties in the Trade Committee and respective Sub-committees are resolved could be improved. Some issues have been discussed over several years; one example is the disagreement between the EU and Peru over taxation of Pisco, which so far has been on the agenda in each annual meeting since 2014. This shows the willingness of the Parties to maintain the discussions open despite sometimes limited progress, rather than to resolve the issues in

³³ There is no dedicated Sub-committee on E-commerce (nor one for the whole of Title IV, Services, Establishment and E-commerce).

³⁴ See chapter 10 of the main evaluation report.

a dispute. One consideration is that the issues addressed often refer to domestic policies which can best be solved through consensus.

But the reluctance to initiate a formal dispute may also prolong discussions. Although the EU has occasionally indicated that a formal dispute might be initiated,³⁵ this has not yet been done. Instead, the Parties have resorted to the WTO DSM whenever formal disputes were invoked. Thus, the EU initiated WTO disputes against Colombia regarding the latter's treatment of imported spirits (DS502) and anti-dumping measures on frozen potatoes (DS591). Similarly, some of the more difficult SPS and TBT issues (notably related to palm oil) were also raised at the WTO – although initiated by third countries against the EU, with Andean partner countries (Colombia and Ecuador) registered as Third Parties in the dispute.

Formally, the **TSD DSM** has also not been triggered since the start of application of the Agreement. However, the Commission has engaged in a dialogue with Peru and Ecuador further to civil society complaints in the two countries:

- Peru: In July 2018, in a letter to the Peruvian Minister for Trade, the Commission expressed concerns over the implementation of the TSD Title, referring to a number of issues signalled in the civil society complaint, including the respect for freedom of association and the right to collective bargaining, the need to eliminate child labour and informality, to strengthen enforcement and capacity of labour inspection, to preserve levels of environmental protection, and to engage in dialogue with civil society about TSD. This was followed by an EU mission to Peru in October 2018 and a bilateral discussion at the annual meeting of the TSD Sub-committee in Quito in December 2018. Based on discussions between the Parties, Peru presented existing and planned policies to address the identified challenges, and committed to engage actively in a civil society dialogue on TSD issues.
- Ecuador: At the Sub-Committee meetings in 2019 and 2020, the Commission referred to the need to address restrictions in the establishment and functioning of trade unions, including in the banana sector.

Interviewed DAG members and stakeholders criticised a number of elements of the TSD DSM. First, they were not satisfied with the level of follow-up by the Parties to civil society conclusions and recommendations, which in their view would provide early warnings highlighting concerns over a situation in the Parties to the Agreement and therefore, if addressed timely, could avoid the need to invoke the DSM. Second, there was a feeling that the Commission's position and engagement with Ecuador was not affirmative enough; rather, following the example of Canada, the USA or the European Parliament (and its human rights roadmap for Colombia), a roadmap should have been set up with actions to take, timelines and responsible institutions. Third, some stakeholders were of the view that the Commission should generally be more active in its engagement with partner countries and build on lessons learned from the dispute with Korea. This would include a more active use of the existing dispute settlement mechanism, but also other forms of cooperation and dialogue and technical assistance. Finally, some stakeholders expressed a preference for a sanction-based dispute settlement to be applicable also to the TSD Title. In this context, we note that the Commission has, e.g. in relations with Peru, followed a focused approach, agreeing on a set of actions to be taken by Peru, as well as organising technical workshops and exchanges of good practice. However, reporting on these activities and their results could have been clearer and more precise. Based on this lesson, we recommend that the Commission enhance communication with a broader audience about the outcomes of TSD discussions, in particular concrete decisions and actions, including the link between discussions held and follow-up cooperation activities. The same recommendation would

³⁵ E.g. in the context of tax treatment of Pisco in Peru, at the 2016 meeting of the Sub-committee on Agriculture.

apply to sharing information on the ongoing and completed EU assistance initiatives that are aimed at addressing shortcomings in areas relevant for the TSD Title. Their list could for example be included in the TSD meeting reports. Finally, regarding the views of some stakeholders related to the inclusion of a sanction-based dispute settlement mechanism under the TSD Title, we note that interviews were held mostly in October 2020, i.e., before the announcement of the TSD complaint system and before the outcomes of the dispute settlement procedure with Korea, which may have had some impact on stakeholder perceptions. In this context, it is also worth mentioning that the EU's review of the implementation of TSD chapters launched in 2020 will bring an overview of good practices and recommendations for the EU in the implementation of various aspects of TSD chapters, including management of the institutional mechanism, follow-up, engagement with stakeholders and dispute settlement mechanism.

5.1.6 Implementation of the Trade and Sustainable Development Title (JC 1A.10)³⁶

The inclusion of commitments on TSD is a feature of the new generation of trade agreements signed by the EU. In the Agreement, TSD is addressed in Title IX (the "TSD Title"), which includes commitments to effectively implement core labour standards, as contained in the ILO Fundamental Conventions, and eight key MEAs (Articles 269 and 270). In addition, the Title includes also specific substantive provisions in relation to various thematic areas such as: biodiversity; sustainable forest management; illegal fishing; climate change issues; non-discrimination in working conditions, including those of legally employed migrant workers (Articles 272-276). In procedural terms, the Agreement establishes a regular dialogue with civil society (see section 5.3.2), as well as a dedicated dispute settlement mechanism, already addressed in section 5.1.5. Here, we summarise the evaluation findings regarding the implementation of core labour standards and MEAs; complementary information about the Agreement's effects regarding social, labour and environmental governance is provided in sections 5.2.2 to 5.2.4.

In the TSD Sub-Committee meetings, all Parties reported progress in the **implementation of core labour standards**.³⁷ The effectiveness of the Agreement's TSD Title in this respect is difficult to assess, as a causal nexus is difficult to prove. Respect for and promotion of core labour standards has been a standing topic in the work of the TSD Sub-committee, but stakeholders have different views on its effectiveness. Our findings regarding each of the core labour standards are as follows:

- The Parties have taken steps to reduce the incidence of *child labour* and thus to come closer to meeting the commitment of Article 269 of the TSD Title and SDG No. 8.7 (i.e., "Take immediate and effective measures to secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.") For example, in Colombia, the number of working children in the age group of 5-17 years has decreased from 13% in 2011 to 4.9% in 2020, and in absolute terms from 787,000 in 2007 to 523,000 in 2020 (DANE, 2021, DANE, 2001-2018). Progress has also been achieved in Peru: According to household survey data provided by the Government of Peru, the rate of child labour for children of 5-17 years of age decreased from 31.7% in 2012 to 25.3% in 2020. Child labour has also been addressed in sectors involved in trade with the EU, including by means of EU funded assistance projects.
- The Parties have also taken steps to combat *forced labour* and trafficking in human beings to meet the commitment of Article 269 of the TSD Title and SDG No. 8.7 ("Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking.") However, given the difficulties to estimate the real scale of forced

³⁶ See section 7.7 of the main evaluation report.

³⁷ Other topics frequently discussed at TSD meetings included informal economy and labour inspection.

labour and trafficking in human beings, it is also difficult to estimate the progress achieved – although some indication is provided by the increasing number of detected cases. Moreover, information about the profiles of vulnerable workers and the potential scale of the problem has been collected in dedicated campaigns, e.g. in Colombia in 2021. On the other hand, as in the case of Peru, insufficient funding and administrative capacity pose challenges in implementation of the policy and legislative framework in this area. Therefore, the efforts will need to continue, incl. addressing root causes of forced labour and trafficking, such as poverty, low skills levels, or migration from neighbouring countries. In this context, the EU has implemented projects, such as strengthening the capacity of civil society organisations to work with local authorities on law enforcement in areas related to forced labour, such as illegal timber logging and trafficking.

- On *freedom of association*, although the number of homicides of trade unionists decreased from 53 in 2010 to 13 in 2019, and the total number of cases of violence against trade union members from 723 in 2011 to 123 in 2019³⁸ in Colombia, the lack of security remains an issue. Other problems that have been raised by the ILO and OECD persist, including high level of impunity, continuous practice of negotiating collective pacts with non-unionised workers, or the lack of progress in respecting the right to strike. In Peru, one particular problem relates to the contract regimes and fixed-term contracts in non-traditional exports and agriculture, which make the establishment, joining and operation of trade unions more difficult, given a high rate of temporary jobs under these regimes: the high rotation of workers and risk of non-renewal of a contract may impede trade union activity.³⁹ In Ecuador, problems concern legal restrictions for trade union establishment and membership, as well as contract regimes in the banana sector, also extended to other sectors. While some of these issues in Peru and Ecuador have been raised by the Commission (and the ILO), follow-up by the respective governments has been limited. One can therefore conclude that over the analysed period, the Andean Parties did not sufficiently improve their record in this area. However, the number of labour inspectors in Colombia and Peru has increased, and both governments have taken other steps as well to strengthen the capacity of inspection services.
- With regard to *non-discrimination at work*, the Parties have taken steps to improve e.g., the situation of women and disabled persons on the labour market, however, challenges persist. While the participation rate increased in the EU, Colombia and slightly in Ecuador, it decreased in Peru. The gender-based wage gap decreased in Colombia and Ecuador, while it remained the same in Peru and the EU. The situation of disabled persons, indigenous peoples and youth on the labour market remains challenging with higher rates of unemployment or inadequate employment among youth than among the rest of the working age population, and high poverty rates among disabled persons and indigenous peoples compared to the rest of the society.

As mentioned above, in Article 270, the Parties commit to the **effective implementation of several MEAs**. Although all Parties indeed reported progress in this regard since the start of application of the Agreement, it is difficult to identify the exact amount of added value of the Agreement on the Parties' ratification or implementation of MEAs.

Some examples for the discussion of environmental issues in the TSD Sub-Committee are: At the 2016 joint meeting of the domestic civil society mechanisms, civil society representatives stressed the importance for Colombia to ratify the Paris Agreement and the Minamata Convention. Colombia signed the Paris Agreement in April 2016 and ratified it in July 2018. The Minamata Convention was signed by Colombia in October 2013 and

³⁸ Written contribution by civil society organisations Oidhaco and catapa.

³⁹ The legislation was amended in 2019-2020 but it remains to be seen if this will facilitate trade union operation.

ratified in August 2019. At the joint meeting in 2017, they expressed satisfaction that Peru and Ecuador have ratified both. However, civil society representatives expressed their concerns about lowered environmental protection levels and altered environmental management systems due to changes in legislation, which aim to promote investments in Peru and Colombia. Especially in Peru, the procedures with respect to environmental certification of investment projects have been modified. Moreover, increased flexibility in access to land and territories of indigenous peoples, negatively affecting the collective rights of indigenous peoples, has been reported.

It is clear that the TSD Title has established a baseline for environmental performance. Besides, it created a platform for civil society and stakeholders to flag concerns about the implementation of environmental components of the Agreement. This platform enabled stakeholders to voice their concerns e.g. on environmental legislation in Peru. In addition, it also facilitated discussions between the EU and the Andean countries. These discussions opened another door for the EU to raise concerns on environmental legislation in Peru, fishing legislation in Ecuador and the implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) in all Andean countries. All in all, considering the limited scope of the TSD Title as well as the limited number of concrete actions and their corresponding impacts, the impact of the TSD Title on environmental performance is assessed as marginally positive.

Overall, the analysis suggests that a direct and tangible impact of the Agreement's TSD Title can be identified in areas where assistance projects have been implemented (e.g., in CSR practices, elimination of child labour or strengthening labour inspection capacity) or where the EU side was able to take own actions, such as impact assessment/ex-post evaluation or launch an initiative approved by other Parties, e.g., on transparency. In other areas, such as the ratification and implementation of international conventions or upholding levels of protection, dialogue with the EU or civil society views provided as part of the TSD Title implementation could have contributed to actions taken as one of several factors. In areas where progress has been achieved in the Andean countries, such as elimination of child labour, actions started prior to the Agreement- and have continued; therefore, dialogue with the EU might have encouraged their continuation but cannot be considered as the decisive factor. Also, formalisation of work in some sectors in Colombia, such as sugar cane, and a higher respect for trade unions are due to the 2011 Labour Action Plan under the trade agreement with the US. Therefore, as in the case of child labour, dialogue with the EU under the TSD Title is likely to have contributed, as one factor among several ones, to sustain efforts or to prevent any worsening of the situation. Attributing a concrete magnitude to the effect of the Agreement is hardly possible. As indicated above, the Agreement's impact is likely to have been strongest in specific circumstances, e.g. in a specific sector (such as coffee or flowers) or geographic area, where assistance projects have been implemented. In these instances, the causal link between the projects and outcomes is clearer.

5.1.7 Implementation of Technical Assistance and Strengthening of Trade Capacities (JC 1A.11)⁴⁰

The Agreement includes a specific Title on technical assistance and trade-capacity building (Title XIII). Under this title, the Parties agree to strengthen cooperation that contributes to the implementation of this Agreement and making the most of it, e.g. initiatives aimed at: improving trade and investment opportunities, fostering competitiveness and innovation, as well as the modernisation of production, trade facilitation and the transfer of technology; promoting the development of MSMEs, using trade as a tool for reducing poverty; promoting fair and equitable trade, facilitating access to the benefits of the

⁴⁰ The main evaluation report addresses technical assistance provided transversally in the respective substantive sections in chapters 6-10.

Agreement for all production sectors, the weakest in particular; strengthening commercial and institutional capacities; and addressing the needs of cooperation identified in other parts of the Agreement.

Stakeholders noted that both market access commitments, collaboration and technical assistance especially in the more technical areas – such as SPS, TBT, IPR, government procurement – as well as for SMEs are complementary, with each of these three elements being crucial for the success of the Agreement.

Indeed, technical and financial support has been provided, at varying degrees, in relation to different areas covered by the Agreement. For example, the EU has provided technical assistance to enhance the (export) competitiveness of MSMEs in the Andean partner countries and foster bilateral trade. Also, some trade adjustment support – e.g. for the dairy sector in Colombia – has been provided, as well as assistance in relation to labour issues (e.g. elimination of child labour and strengthening labour inspection) and uptake of CSR practices. A significant amount of technical assistance has also been provided to the Andean partner countries in relation to SPS issues, as well as, more limited – generally participation in trainings and seminars – IPR, competition and other matters. Conversely, assistance in some other areas, such as government procurement, has been limited.

Views on the sufficiency of the technical assistance provided vary. For example, stakeholders in the Andean countries have pointed to the need for further assistance both for MSMEs and in technical areas that rely on sophisticated management systems in the EU, such as TRACES or RASFF. Conversely, EU stakeholders stated that ample assistance was already available.

5.2 Impact of the Agreement (EQ 1B)

Going beyond the effectiveness of the Agreement in terms of achieving operation objectives, evaluation question 1B, “What has been the impact of the Agreement?” addresses the wider impact of the Agreement across the four main impact dimensions: economic, social, environmental, and human rights situation. The following sections summarise the main evaluation findings for each of the impact dimensions (sections 5.2.1 to 5.2.4), and also present the findings regarding the external factors which have influenced effectiveness and impact of the Agreement (EQ 2, section 5.2.5), as well as unintended effects of the Agreement (EQ 3, section 5.2.6).

5.2.1 Economic Impact (JC 1B.1 & 1B.5)⁴¹

As noted above (section 5.1.1), based on the CGE simulations the Agreement has led to limited increases in overall trade by all Parties. These changes in trade flows caused by the Agreement have also led to changes in other economic domains.

The reduction in barriers to trade between the Parties caused by the Agreement is equal to a reduction in market distortions and therefore allows for resources to be allocated more efficiently. As a result, the economic effect of the Agreement on *global gross domestic product (GDP)* is positive, estimated at USD 728 million (comparing world GDP in 2020 with the Agreement with world GDP in 2020 without the Agreement).

All of the four Parties to the Agreement have benefited from an increase in their GDP, although the impact is modest. In absolute terms, in 2020, EU GDP (measured at initial market prices) is higher by USD 1.3 billion than it would have been without the Agreement. Gains for Colombia and Peru are USD 42 million and USD 49 million respectively, and Ecuador's gains USD 128 million. In percentage terms, the impact is strongest for Ecuador,

⁴¹ See sections 6.2 and 6.10-6.14 of the main evaluation report.

with GDP being 0.16% in 2020 as a result of the Agreement, whereas Colombia, Peru and the EU register marginal GDP gains (at 0.01% and 0.03%).

The Agreement's impacts on **sectoral production/output** are the result of the combined effects on total exports and total imports (as well as domestic demand). The main effects are as follows:

- In the *EU*, most manufacturing sectors benefit from Agreement – output increases by up to USD 1.2 billion in the vehicles sector (driven by stronger exports to the partners and overall), although in relative terms the increases are modest, not exceeding 0.1% compared to the absence of the Agreement. In contrast, two sectors are estimated to register sizable declines in output, vegetables and fruit (USD –279 million), and other food products (USD –422 million); again, in percentage terms these declines are limited (-0.22% in the case of fruit and vegetables, and -0.06% for other food products). The impact on other good sectors is modest. Most services sectors are calculated to register marginal gains resulting from higher domestic demand in response to the small increase in GDP.

The EU's tariff concessions for *banana* imports from the Andean partner countries led to an increase in bilateral trade in bananas in 2019/2020 (compared to the situation that would have prevailed without the concessions), ranging from a 9% export increase for bananas from Peru to almost 16% for Colombia. Banana production in the three countries also increased as a result of the Agreement, by 1.7% in Ecuador, 3.9% in Colombia, and 4.5% in Peru. Globally, the reduction in EU protection levels led to an increase in welfare. On the other hand, EU banana producers were impacted negatively, with an output decrease between 0.5% and 0.8%, and a loss in producer surplus of about USD 1 million. Tariffs were not suspended under the banana stabilisation mechanism. This was not needed in the case of Colombia and Ecuador, whose exports remained below the established triggers for suspensions. For Peru, although triggers were exceeded, given the low absolute value and market share of EU banana imports from Peru, any damage to the EU banana industry and/or disruption of the EU banana market was limited, and therefore the Commission's decision not to apply the suspension of tariff preferences is considered appropriate.

- In *Colombia*, the pattern across sectors is more mixed. Some sectors in which exports have increased as a result of the Agreement also have seen total imports increase, so that the net effect on outputs depends on the balance. Thus, output of the basic pharmaceuticals, machinery and equipment, metal products, and miscellaneous manufactures sectors are estimated to decrease (by up to USD 40 million or 1.2%, in the case of basic pharmaceuticals) despite increases in total exports, because total imports have increased even more. For other sectors, the net effect on output is positive, because the export increase overcompensates the import increase, or imports decline. This is the case most strongly for chemicals (+USD 136 million or 0.9%), other food products (+USD 48 million or 0.4%) and fruit and vegetables (USD +46 million or 0.9%). Most services sectors are estimated to benefit as a result of the overall positive economic impact of the Agreement.
- In *Peru*, output increases resulting from the Agreement are relatively widely dispersed across sectors. The leading benefactors in terms of total export increases, other food products and chemical products, are also the two sectors seeing the largest positive output change: USD +226 million or 1.9% for other food products, and USD +558 million or 1.6% for chemical products. Fruit and vegetables, and vegetable oils and fats also register output increases of around 1% as a result of the Agreement. At the other end of the spectrum, miscellaneous metals (USD -147 million or -0.7%) and basic pharmaceuticals (USD -16 million or -0.9%) are the sectors with the largest estimated contractions. Other manufacturing sectors are also estimated to contract somewhat, at between 0.2% and 0.4% due to the Agreement, mostly as a result of increasing total imports which are not mirrored by corresponding export increases.

- For *Ecuador*, the positive impacts of the Agreement are most concentrated on a limited number of sectors, whereas a higher number of sectors experiences modest contractions in output. Among the benefactors, the most important ones are other food products (USD +179 million or 4.1%), construction services (USD +113 million/0.7%) and fruit and vegetables (USD +27 million/0.8%). Conversely, the sector registering the largest decline in output is motor vehicles (USD -40 million or -4.2%). Other sectors estimated to register output declines of 1% to 2% include various manufacturing and some agricultural sectors; the declines are primarily explained by import increases which outweigh export increases.

Although the Agreement does not explicitly include the **diversification of trade** between the Parties among its objectives, such diversification is important considering the prevailing trade patterns, which are characterised by high concentration of exports at least of the three Andean partner countries, both in terms of products exported and companies exporting. And indeed, during the consultations Andean country governments confirmed the importance of export diversification as an objective of the Agreement. The analysis shows that trade between the Parties today is clearly more diversified than at the time the Agreement started to be applied: more products are being traded and more exporters are involved, both in the EU and the Andean partner countries. The level of export concentration has evolved more unevenly, with a decline being most pronounced for the EU and Peru but little change in Colombia (if coal exports are excluded) and Ecuador. The Agreement's impact on this overall positive evolution seems to be limited however, judging from a longer-time trend analysis: most of the positive developments were already evident prior to the start of application of the Agreement, and in most instances actually slowed down since then.

Based on the analysis undertaken, the Agreement appears to have encouraged **MSMEs** to engage in bilateral trade between the Parties. This primarily seems to be a consequence of the tariff preferences in combination with the (relatively) efficient operation of customs, including the use of invoice declarations on origin, as well as of technical assistance that has been provided to MSMEs, helping them to start exporting. Stakeholders, both from the public and private sectors, considered that the impact of the Agreement on MSMEs has been positive, as it had created many opportunities for expanded sales either as direct exporters or as suppliers to exporters. At the same time, they were of the view that the positive potential of the Agreement from MSMEs is still not fully utilised – while many MSMEs are interested in exporting to the EU, fewer are actually capable of doing so. Stakeholders therefore highlighted the importance of providing assistance to businesses, including in such matters as compliance with SPS requirements.

Due to the application of preferential tariffs, the Agreement has had an impact on **public revenues** in the EU and the partner countries. Based on calculations undertaken by the evaluation team, comparing the situation in 2020 with and without the Agreement, the *EU* foregoes tariff revenues of USD 424 million (EUR 354 million), equivalent to about 1.6% of total tariff revenues. Among the partner countries, the impact is strongest for *Colombia*, estimated at USD 771 million in foregone tariff revenues, of which about one third resulting from diversion of imports. This is equivalent to 58% of trade taxes collected in 2019, or 1.2% of total 2019 government revenues. The indirect positive impact on revenues from the GDP growth caused by the Agreement is negligible in Colombia. The high impact can be explained by relatively high Colombian MFN tariffs on goods for which the EU is an important supplier, such as motor vehicles, machinery, chemicals and pharmaceuticals. For *Peru* and *Ecuador*, the revenue impact is modest: tariff revenues are lower by USD 44 million for Peru and USD 28 million for Ecuador, equivalent to 0.1% of the respective total government revenues in 2019. Due to the relatively strong GDP impact of the Agreement in Ecuador, the indirect effect there overcompensates the duty revenue loss, and the overall effect of the Agreement is a marginal revenue increase of USD 29 million or 0.1%.

The evaluation also addresses Agreement impacts on the **EU Outermost Regions (OR)** as well as on developing and Least Developed Countries (LDCs). Regarding the former, with the potential exception of processed food and meat and fish preparations from the Azores, and the stress caused by increased sugar imports from the Andean partners for Guadeloupe and especially La Réunion, no negative impact of the Agreement on OR exports and sectors is found. With regard to sugar, although La Réunion and Guadeloupe have largely been able to compete with increasing sugar imports from the Andean countries and the shift towards speciality sugar trade, the fact that further import increases within the established quotas are possible, as well as the high dependence of the two ORs (in particular La Réunion) on the sugar sector in combination with the existing competitive disadvantages (small size, location) call for a close observation of further trade trends.

Finally, the impact of the Agreement on **LDCs** and Asian **developing countries** has been negligible, both at the economy-wide and sector levels (except for a marginally negative impact on motor vehicles in Asian developing countries). For MENA countries, the macroeconomic impact is also negligible, but some sectors are estimated to register small negative effects on exports and output of up to 0.1% (for motor vehicles and basic pharmaceutical products, machinery, metal products, electronics, transport equipment, apparel, and metals).

5.2.2 Social Impact (JC 1B.2 & 1B.5)⁴²

The Agreement's social impact is assessed across a number of areas and indicators, comprising employment, consumer welfare and poverty effects; impacts on the informal economy; on women; on labour standards and working conditions; and corporate social responsibility (CSR)/responsible business conduct (RBC).

Overall, the estimated effects of the Agreement on **employment** across sectors follow the pattern of trade impacts and are most positive in the Andean countries in the fruits, vegetables, and nuts sector, and in fisheries, notably in Ecuador. In industry, sectors such as food products, chemical products or textiles (the latter in Colombia and Peru) are also estimated as beneficiaries of the Agreement. On the other hand, sectors such as motor vehicles, machinery, and equipment record decreases in employment in the Andean countries, with the effects being most pronounced in Ecuador. However, some stakeholders admit that imports of machinery from the EU contribute to increased competitiveness of certain sectors (such as food products) in the Andean countries and support exports in these as well. In the EU, employment effects are very limited or negligible in relative terms for most sectors. The strongest impact is estimated for the sector of vegetables, fruits, and nuts, with a decline of -0.2% (compared to the situation without the Agreement).

The Agreement is likely to have contributed to an increase in overall **welfare** and **poverty** reduction, although it is not possible to draw very precise conclusions based on available data. While the overall effects are likely to be limited, it is to note that thanks to the Agreement and exports to the EU, jobs have been created in the Andean countries mainly in agriculture, in rural areas which had poverty levels much higher than in urban areas and where the labour participation rate was lower than in urban areas (e.g. in Colombia). Therefore, additional jobs and income opportunities may have benefitted people who previously had been inactive or had incomes not satisfying their needs, thus contributing to poverty reduction. However, as noted by stakeholders in consultations for the evaluation, there are groups, such as small agricultural producers (family farming) or small producers in the dairy sector, who may not have benefitted from the Agreement on equal terms with bigger enterprises or who may have been negatively affected by increased import competition. Moreover, low job quality, including wage levels in agriculture and

⁴² See chapter 7 of the main evaluation report.

among sub-contracted workers in palm oil or mining sectors, reduces positive welfare effects resulting from increased trade.

The effects of the Agreement for **consumers** are evaluated as rather positive, with the overall increase in availability, accessibility and diversity of goods and services thanks to the reduction of tariffs and non-tariff barriers. Moreover, the safety of traded products also seems to be improving, if measured by the number of notifications in the EU Rapid Alert System for Food and Feed (RASFF), and under the EU Rapid Exchange of Information System (RAPEX) for non-food products.

Findings from the analysis suggest that sectors that contribute most to exports from Colombia and Peru to the EU are in departments that had lower levels of **informality** already prior to the Agreement's entry into force and reduced them further in the analysed period. According to the literature and data, these departments have a more diversified economy, are more competitive, better connected to the world and more exposed to international trade than the rest of the country. In addition, the analysis of the types of jobs created since the start of application of the Agreement in selected exporting sectors in Colombia and Peru (agriculture, agro-industry and mining in Peru, and banana, palm oil sector and mining in Colombia) suggests that the Agreement may have contributed to the creation or maintenance of formal jobs in these sectors – although their quality may require improvement. This is especially the case in mining and the palm oil sector (where many workers are sub-contracted, enjoying fewer rights than direct employees) in Colombia and Peru, as well as in agriculture in Peru more broadly, where only recent legislative changes have brought about improvements of rights of workers covered by the special regime. In Ecuador, the results are less clear, as there is no clear pattern between the export impact of the Agreement and provincial informality levels. Moreover, informality levels in Ecuador seem to be strongly linked to the macroeconomic situation and have been increasing since 2014 due to the economic slowdown.

The impact of the Agreement on **women** as workers, entrepreneurs, and traders – and hence its contribution to the attainment of SDG 5 (gender equality) – has been evaluated primarily on the basis of the differential effects of the Agreement's economic impacts. On this basis, estimates of the economic modelling suggest that for the 70%-75% of women in Colombia and Peru and a large proportion of women in Ecuador employed in services sectors, the effects of the Agreement will be very limited or even negligible. Some positive impacts for jobs in wholesale and retail trade have benefited women, while less positive effects e.g. in the hospitality sector are likely to have been cushioned by the overall growth of the sector over time (at least until before the covid-19 pandemic). Impacts for female workers in agriculture and manufacturing are likely to be mixed and varying across sub-sectors, with the overall effects for women being smaller than for men. The shares of women in sectors benefitting from exports to the EU vary from 7% (banana sector) to 64% (flower sector) in Colombia and are more equal in some sectors in Peru (e.g., 52% in blueberries and 61.5% in the textile and garment sector) and Ecuador (51% in the flower sector). Jobs created or preserved thanks to the Agreement, notably in rural areas, are likely to have contributed (even if in a limited way) to gender equality in cases where they opened income generation opportunities for women. However, as many of these jobs are in low-skills and low-pay categories, they have not changed the overall disadvantaged position of women in the labour market.

Findings related to female entrepreneurship are similar, with limited impacts found for the majority of women-led enterprises (as they operate in services sectors), and mixed ones for those in industry and agriculture, with actual effects depending on the sub-sector. The Andean countries and the EU have taken measures to support female entrepreneurs and traders, which has contributed to economic and social development, poverty reduction and women's economic empowerment. However, there continue to be challenges that disproportionately affect women entrepreneurs. These arise both due to the sectors of activity and the firm size: Women businesses are often small and operate in sectors with

low profitability (e.g., some services sectors) or where high entry barriers or regulatory barriers in international trade increase costs of presence in the market or impede international activity (e.g., food products, textiles, and garments). Women also more often than men have reduced possibilities to benefit from professional networks, advice, and training, although the situation has been improving, both due to legislative initiatives (such as the Colombian Law on Entrepreneurship adopted in 2020) and to support programmes for women entrepreneurs – such as the Peruvian programmes “Mujer Produce” (woman produces) and “Ella exporta” (she exports) –, some of which have received support from the EU.

To determine to what extent the Agreement may have contributed to attaining SDG 8 (sustainable development and full and productive employment and decent work for all, including respect for ILO core labour standards), its influence on the observance of **labour standards and working conditions** in the Andean partner countries has been evaluated:

- In *Colombia*, the government has taken actions to address some challenges related to working conditions. This includes strengthening the capacity of labour inspection services, an increase of the minimum wage or implementation of projects with the ILO (with funding provided by the EU) to address health and safety at work questions in certain sectors (e.g. in the coffee supply chain). The EU also provides assistance for sustainability and decent work in the coffee supply chain focused on ensuring fair working conditions, elimination of child labour, addressing informality, and respect for human rights. The Agreement has contributed to this by providing a forum for discussion about working conditions and a framework for assistance projects, including on labour inspection in rural areas. On the other hand, several challenges remain to be addressed, incl. a further strengthening of labour inspection and improvement of working conditions in sectors exporting to the EU, including health and safety at work, minimum wages, working times, and social security coverage.
- In *Peru*, the government has also taken steps to improve job quality, e.g. through changes in the special regime in agriculture, strengthening capacity and extending the network of labour inspection, or extension of the health care insurance and social security coverage over a larger share of workers. Moreover, projects with the ILO have been implemented focusing on improved respect for health and safety at work conditions in some sectors, such as construction and the agro-exporting industry. However, job quality, including in sectors exporting to the EU, remains a challenge that should be addressed through effective implementation and enforcement of the existing legislation and equalising workers’ rights in sectors covered by special regimes with those under the general labour regime. Moreover, technical assistance projects with the EU, the ILO and Latin American countries should continue aiming at strengthening capacity of labour inspection, labour formalisation and respect for labour standards and health and safety at work.
- In *Ecuador*, job quality has been closely related to the macroeconomic situation in the country and changes in its trade environment. Thus, the fall of global oil prices followed by the economic slowdown in Ecuador had an impact on adequate employment rates, wage levels and public revenues, including the ability to hire labour inspectors. Other factors negatively impacting working conditions mentioned by stakeholders include price setting policies by European supermarkets (e.g. for bananas), which according to the stakeholders limited possibilities to improve working and living conditions. Actions taken by the Ecuadorean government, such as an extension of the social security coverage, brought about a positive change. The new legislation establishing a special labour regime for the banana sector, agriculture and agro-industry is viewed controversially: critics claim that it has lowered levels of labour protection, while the government argues that it aims at formalising working relations in the covered sectors. Against this background, the Agreement appears to have played a limited role for labour rights and working conditions in the country: through the creation of additional export

opportunities it has led to job creation, but with a lesser influence on working conditions and incomes of workers and small producers. Unlike in Colombia and Peru, the policy dialogue under the TSD Title did not bring about tangible results in Ecuador, which in turn triggered a decision of the Ecuadorean trade unions to withdraw from the DAG.

Finally, in Article 271 of the Agreement, the Parties agree to promote best business practices related to **CSR** and to encourage development and use of flexible, voluntary, and incentive-based mechanisms that can contribute to coherence between trade practices and objectives of sustainable development. Indeed, the Andean partner countries have pursued domestic policies encouraging the application of CSR practices, and these efforts have been supported by the EU through assistance projects and dialogue under the TSD Title, as well as by expectations of EU consumers that products are free from child labour and that other labour or environmental standards are observed. An example of intergovernmental dialogue under the TSD Title and recommendations from civil society is the contribution by civil society representatives from the EU and the Andean partner countries to the annual joint meeting under the TSD Title in Lima in 2017, which emphasised the role that the National Action Plan on Business and Human Rights adopted in Colombia could play in encouraging respect for human rights by enterprises. It is also probable that trade with the EU, notably exports in the flower sector, vegetables, fruits and nuts, and textiles have contributed to a broader trend of promoting CSR practices, respect for human rights and labour and environmental standards through customers' expectations. Moreover, in replies to the business survey conducted for the evaluation, around one third of enterprises said they had strengthened their CSR practices as a result of the operation of the Agreement, and equally around one third stated that they had strengthened their corporate policies for human rights, labour or environmental standards.

5.2.3 Environmental Impact (JC 1B.3 & 1B.5)⁴³

To evaluate the Agreement's impact on the environment, based on two rounds of impact screening and scoping, priority areas for environmental impacts (both positive and negative) were identified. Given that economic effects triggering any potential follow-on environmental impact are only found in the Andean partner countries, the environmental impact assessment also concentrates on the partner countries. The identified priority areas are, in general: the potential impact on climate change; the potential impact on biodiversity and on sustainable agricultural production, through land conversion resulting from production changes of various horticulture sectors; and the potential impact on the improvement and effective implementation of environmental standards in the Parties (addressed in section 5.1.6 above). In addition, country-specific issues relate to the potential impact of increased output in (and imports of) transport equipment on air pollution in Colombia, the potential impact of industrial waste on pollution in Peru, and the potential impact of increased production in the fishing (e.g., shrimps) sector in Ecuador.

The impacts of the Agreement on **climate change** in 2020 have been assessed by combining the following effects: changes in gross global Greenhouse Gas (GHG) emissions caused by changes in output due to the tariff liberalisation under the Agreement; changes in GHG emissions arising from land use, land use changes and forestry (LULUCF) in the Andean partner countries, and the potential impacts of the Agreement on governance and standards relevant for climate change. Based on these analyses, the net quantified impact of the Agreement is a small decrease in global GHG emissions, as shown in Table 1 (but a number of effects are not incorporated in the analysis).

⁴³ See chapter 8 of the main evaluation report.

Table 1: Estimated changes in GHG emissions caused by tariff cuts under the Agreement, 2020 (in Mtonne CO₂-eq.)

Country/region	Gross GHG emissions	Agricultural LULUCF emissions	Other LULUCF emissions
Colombia	0.03	0.41	Unknown
Ecuador	-0.00	-0.04	Unknown
Peru	0.05	-0.05	Unknown
EU28	0.35	Unknown	Unknown
RoW	-1.17	Unknown	Unknown
World	-0.74	Unknown	Unknown

Source: Trinomics, based on EDGAR, GTAP, PRIMAP and IVM

These findings can be explained as follows.

- First, the Agreement's tariff reduction-induced output changes are estimated to have resulted in higher gross GHG emissions in Colombia (+0.03 Mtonne CO₂-eq. in 2020) and Peru (+0.05) as well as in the EU (+0.35), but in lower gross GHG emissions in the rest of the world (-1.17), with a net result of an estimated overall marginal decrease in gross GHG emissions globally (-0.74). The increase in the Andean countries and in the EU is predominately driven by the positive impact of tariff reduction on production in the petroleum and chemical, utilities, and transport sectors. The decrease in the Rest of the World (RoW) is driven by decreases in output in the petroleum and chemical and utilities sectors. The increase in GHG emissions in the Parties to the Agreement is lower than the reduction in GHG emissions in the RoW because of differences in emission intensities (GHG emissions per unit of product) in the EU and the RoW. For example, an item produced in the EU may be produced with lower GHG emissions than the same item in a different country. If production shifts to the EU from that country, net GHG emissions reduce.
- Roughly a third of GHG emissions in the Andean countries are LULUCF emissions, which are excluded in statistics on gross GHG emissions. With respect to LULUCF emissions, it is estimated that the changes in agricultural sector outputs caused by the Agreement's tariff reductions increased LULUCF emissions in Colombia (+0.41 Mtonne CO₂-eq. in 2020), and reduced LULUCF emissions in Ecuador (-0.04) and Peru (-0.05). The impact of the Agreement's tariff reductions in other countries and the impact of tariff reductions on LULUCF emissions in other sectors have not been evaluated; the CGE modelling results suggest, however, that these impacts are marginal.
- With respect to governance and standards related to climate change, all Parties made significant progress since the start of application of the Agreement by signing and ratifying the Paris Agreement. National policies have also been designed to transpose the Paris Agreement commitments into concrete policies. Yet, it is very unlikely that the EU-Andean Trade Agreement influenced these development (although the TSD Title did create a platform through which the importance of ratification was voiced by stakeholders).

The impact of the Agreement on **biodiversity and natural resources** is analysed by considering the potential effects of tariff cuts on land use change and permanent deforestation in the Andean countries, the Agreement's effects on sustainability of governance related to natural resources, and two case studies on shrimp production in Ecuador and avocado production in Peru. Given the specific focus, the biodiversity impact analysis does not provide findings on the environmental impact of other (mono)crops traded between the EU and the Andean countries (such as asparagus) which have not been studied in detail.

We find that the Agreement had a very small negative impact on biodiversity and natural resources. This overall finding is composed of the following: First, the Agreement had a small impact on permanent *deforestation* in Colombia resulting from the expansion of commercial agriculture. For Ecuador and Peru, there is no evidence that deforestation

driven by agriculture is linked to the Agreement. The tariff reduction-induced output change showed a positive *net* change on cropland area for Colombia, and a negative *net* tariff reduction-induced output change on cropland area for Ecuador and Peru (considering *all* crops produced). There is thus no evidence to conclude that the tariff reduction-induced output change in the agricultural sector resulted in permanent deforestation in Ecuador and Peru. For Colombia, it is estimated that the increase in cropland area resulted in 3,500 to 4,000 hectares of land being permanently deforested, corresponding to roughly 0.5% of total deforestation driven by commercial agriculture observed over the period of the Agreement. It is unlikely that this deforestation occurred in the most (biodiverse) intact areas in Colombia.

Second, the impact of the Agreement on environmental issues related to avocado production in Peru and shrimp production in Ecuador seems to be slightly negative: the production of these products intensified the pre-existing environmental pressures in and around the production areas, such as water availability and quality issues in Peru and mangrove deforestation and water pollution in Ecuador. However, due to limitations in economic modelling, causality cannot be proven for both cases. More specifically:

- Although the CGE modelling shows no positive impact of the Agreement on Ecuador's (broadly defined) fishery exports to the EU, given the preference margin for *shrimps* of 12% granted by the Agreement and considering the increase in Ecuadorian shrimp exports to the EU since the application of the Agreement (from 95,000 tonnes in 2016 to 106,000 tonnes in 2019), it is likely that the Agreement contributed to output growth in the shrimp sector – although exports to the EU only account for about 20%-25% of Ecuador's total shrimp exports, and export China increased even more. It is also likely that pre-existing biodiversity and climate pressures related to shrimp farming, such as degradation and deforestation of mangroves areas,⁴⁴ water pollution, and CO₂ emissions, are intensified by the increased production. In addition, the new Organic Code of the Environment is regarded as an environmental setback as the shrimp sector benefits from an exemption regarding the prohibition of expansion of productive activities in mangrove areas. On the other hand, 90% of shrimp exports to the EU is certified, which may mitigate negative effects.
- It is very likely that growth in *avocado* production in Peru has been supported by the Agreement. The economic modelling shows that the Agreement led to an increase in output of the broader vegetables, fruits and nuts sector, to which avocados belong. In addition, Peru's avocado exports to the EU increased sharply between 2012 and 2019, from about 60,000 tonnes to more than 180,000 tonnes. As such, it is probable that the Agreement indirectly intensified the environmental pressures induced by e.g., agrochemical use and the expansion of avocado farms into e.g., dry forest area. In Peru, water scarcity and the related negative consequences for terrestrial and aquatic ecosystems and biodiversity appear to be the most important environmental consequence of avocado production, irrespective of the Agreement. In all regions studied, water stress is a present threat to the economic feasibility of avocado production (especially for small farm holders) and the environment. Case study 9 in Volume III provides the details.

Third, the TSD Title has had a marginal positive impact on biodiversity and natural resources of the partner countries as the meetings of the TSD Sub-committee proved to be a relevant platform to flag and discuss environmental issues related to biodiversity and natural resources, for example related to CITES for all Andean Countries and Unreported and Unregulated Fishing in the case of Ecuador. Aside from flagging environmental concerns in TSD meetings, it is unlikely that the Agreement contributed to the effective

⁴⁴ Although the total area of mangrove forest in Ecuador shows a small increase from 2006 onward, it has been reported that shrimp farms expanded into protected mangrove area, covering a total of 9,332 hectares between 2010 and 2018.

implementation of MEAs or national policies and legislation to protect and restore the countries' biodiversity and natural resources.

With respect to other environmental impact areas, it is estimated that the Agreement had a small negative impact on **water availability and quality** in Colombia, mostly caused by increased agricultural production, although increased demand for sustainable products may have mitigated a proportion of the negative effects. In Ecuador and Peru, the impact of the Agreement on water is estimated to be marginally positive, as tariff reductions seem to have benefitted agricultural sectors with lower water footprints more than agricultural sectors with higher water footprints overall (based on the CGE results). Yet, within certain regions growing specific crops, negative water availability impacts may have resulted from the Agreement, as noted above for avocados in Peru.

Only qualitative research has been undertaken to assess the Agreement's impact on air quality. On this basis, the impact of the Agreement on **air quality** seems most substantial in Colombia, as the sectors that benefitted from tariff-reduced output changes are those that have been directly related with air pollution historically. This link is less strong in Ecuador and Peru. Additional research would be required to evaluate the exact (causal) effect.

For **waste management**, the main effects of the Agreement are likely related to the improvement of the environmental framework in Colombia (e.g., the ban on single-use plastics), Ecuador and Peru. In all three Andean countries, the promotion of circular economy practices in key sectors, including agriculture, have led to certain improvements with regards to waste management (e.g., the EU-Peru initiative to reduce plastic waste in the agricultural sector). However, the direct link between these developments and the Agreement remains unclear. As such, the Agreement's impact on waste management is regarded as marginal. Aside of waste management, the Agreement indirectly contributed to waste generation resulting from increase in production. This impact has not been evaluated in detail.

5.2.4 Human Rights Impact (JC 1B.4 & 1B.5)⁴⁵

Starting with a comprehensive screening of human rights that could have been potentially impacted on by the Agreement's implementation – either channelled through its economic impact or arising directly from the provisions in the Agreement – three human rights were selected for an in-depth evaluation. These are 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. For other human rights, the initial screening and scoping analysis showed that the Agreement could have had only very minor effects, and these were therefore not analysed further. Similarly, no effects on the human rights situation in the EU could be determined, and the detailed analysis therefore focused on the three Andean partner countries.

Article 269(3)(a) of the Agreement reaffirms the obligations of the Parties regarding **freedom of association** as laid down in the ILO Fundamental Conventions No. 87 and No. 98, which cover freedom of association, the right to organise and collective bargaining and form core labour standards to promote decent terms and conditions of work and balance between workers and employers in the workplace. In addition, Article 277 includes commitments of the Parties not to lower the existing levels of protection with respect to labour rights, referring to both the legal framework and implementation of the existing laws. We find potential mixed but overall small effects of the Agreement on the right to freedom of assembly and association, incl. the right to join and form trade unions in the

⁴⁵ See chapter 9 of the main evaluation report.

Andean partner countries. These effects were caused both by the sectoral economic effects and by the implementation of the TSD Title.

The situation of trade unions in *Colombia* over the last decade was mainly shaped by the security situation in the country, the Labour Action Plan adopted with the US, political dialogue with the EU, and macroeconomic developments which influenced the creation of formal jobs on the one hand and preserved structures with sub-contracted workers in some sectors (e.g., in mining) on the other, to cut costs in international competition. Colombia witnessed a high level of violence against human rights defenders and trade union activists. There has been a general decrease in murder and attack rates against trade unionists,⁴⁶ but the number of cases remains high; multiple violations of the right to freedom of association have been recorded by the ILO as well as the EU, in particular with respect to collective agreements with non-unionised workers.

The Agreement is likely to have had some impact on these developments. With regard to the economic impact channel, a number of mostly industrial sectors (basic pharmaceuticals, metal products, machinery, motor vehicles, and miscellaneous manufactures) have been exposed to more competitive pressure to cut costs, which could have put pressure against forming trade unions – but this effect seems to have been small. Overall, in all sectors of the economy the number of collective agreements has increased which suggests that factors other than the Agreement were more important. On the positive side, assistance projects (e.g., mining free from mercury) and capacity building (also by EU Member States and European trade unions), dialogue under the TSD Title between the European Commission and partner country governments, and civil society engagement have had positive, but rather limited effects (see section 5.1.6 above). Last, but by no means least, the Agreement served as a lever to support the political dialogue between the EU and Colombia.

In *Peru*, multiple violations have been recorded by the ILO and the EU with respect to freedom of association.⁴⁷ Some stakeholders report that increased competition linked to the Agreement has recorded a number of violations, in particular, the practice of temporary contracts which made it more difficult for the workers to organise.

The economic analysis shows that agricultural sectors in Peru have grown due to the Agreement. That means that more employment and economic opportunities have been created. However, overall, the number of people working on temporary contracts in agricultural sector has increased, which implies that job creation has mainly occurred in short-term and not long-term contracts (Maldonado Mujica 2020). It is difficult to establish a link between this practice and the Agreement, especially taking into account the long history of anti-trade union climate in Peru (Orbie, Putte, and Martens 2017), but by creating favourable conditions to trade and encouraging economic activity in these sectors, the Agreement may have contributed indirectly to preserving the special regimes.⁴⁸ It remains to be seen if the latest legislative changes of 2019 and 2020 will bring about any changes with respect to special regimes. In any case, discussions under the TSD Title related to the effective implementation of the ILO fundamental conventions, including on freedom of association and collective bargaining, kept attention of the Parties focused on the need to seek improvements, notably further to civil society complaints. In 2017 and 2020, the EU organised workshops in cooperation with Peru on labour conflict management.

Over the past decade, *Ecuador* has made progress with respect to the protection of the right to peaceful assembly. Nevertheless, in the period 2012 to 2019, six complaints were

⁴⁶ Based on data from Escuela Nacional Sindical: <https://www.ens.org.co/>

⁴⁷ ILO recorded multiple complaint procedures on freedom of association cases, 13 of them are active, see https://www.ilo.org/dyn/normlex/en/f?p=1000:20060:0:FIND:NO:20060:P20060_COUNTRY_ID,P20060_COMPLAINT_STATU_ID:102805,1495810

⁴⁸ See also social analysis.

submitted to the ILO on freedom of association. Trade union activity in Ecuador is low, due to national regulations on the formation of trade unions (minimum 30 workers per enterprise) and due to the high level of informality.

While issues with trade unions were present in Ecuador before the start of application of the Agreement, some stakeholders consider that the situation has deteriorated since the start of the Agreement (Daza et al. 2020). Some have reported that increased competition linked to the Agreement has led to a number of violations in the banana sector and agriculture, and that the TSD Title has failed to provide a safeguard against these negative developments. Nevertheless, the economic analysis shows that the vegetable, fruits, and nuts sector (which includes bananas) has grown as a result of the Agreement, so competition in the sector has not worsened. On the other hand, three Ministerial Orders in 2017 and 2018 introduced special regimes for temporary contracts in the banana sector, agriculture and agro-industry, which have been the subject of fierce discussions regarding their effect on the stability of working relations, conditions for trade union operation and collective bargaining in the sector. Despite the timing of the Ministerial Orders and the start of application of the Agreement for Ecuador, no causal link between the practice of special regimes and the level of informality and the Agreement can be established, considering the pre-existing pressures in Ecuador. Within the cooperation under the TSD Title, the EU has been keeping a dialogue with the Ecuadorian authorities on the need to address issues regarding freedom of association; as this is still ongoing, it is too early to assess its effectiveness (see section 5.1.6 above).

With respect to **children's rights** (including impacts on **child labour**), Article 269(3)(c) of the Agreement includes commitments of the Parties regarding effective implementation of the already ratified ILO fundamental conventions No. 138 (on minimum age) and 182 (on worst forms of child labour), which includes the abolition of child labour.

The child labour incidence in all three Andean countries is often related to rural areas, poverty and informal economic activities. However, the governments have taken many initiatives, including in cooperation with the private sector, international organisations, the EU, NGOs, and other countries from Latin America to prevent and eliminate child labour through awareness raising campaigns, providing jobs for adult household members, improving labour inspection's capacity, encouraging better school attendance, and promoting certification schemes. In this context, the Agreement may have contributed to reduced child labour incidence through creating job opportunities for adults, mainly in agriculture, but also in textiles, garment, and mining sectors.

Examples of some of the sectors analysed in the evaluation, such as rice, cotton, sugar cane and banana cultivation in Colombia suggest that the availability of formal jobs for adults, ideally with overall high formality levels in the sector, as well as trade union presence with high membership rates among workers (like in the banana sector) support elimination of child labour. Hence, the importance of job quality and social dialogue.

Based on the results of the economic analysis, literature review and stakeholder consultations no significant impact of the Agreement on the **right to water** could be detected. The baseline analysis indicates that all Andean countries have faced water pressure prior to the application of the Agreement due to various factors, including the climate characteristics of certain areas and regions, a fairly low percentage of the rural population with access to safe drinking water facilities (especially in Peru), and water pollution/pressure caused by business activities.

Despite these initial conditions of stress, key indicators related to water have all continued a (slightly) positive trend for Colombia, Peru and Ecuador over the evaluation period (from 2007 to 2017), indicating no significant disruption since the start of the Agreement's provisional application. Nevertheless, several stakeholders from all three partner countries stated that they perceived the situation to have deteriorated over the last few years, in

particular regarding the impact of various business activities on the enjoyment of the right to water by specific communities. However, as also mentioned by the stakeholders, the causal link between the Agreement and the right to water is not straightforward. It is also not possible to distinguish the impact of the Agreement from the vulnerable situation that existed prior to the Agreement's start of application. But we do not exclude the fact that increased production of certain water-intensive/water polluting goods could have had a minor (proportionate to numbers reported in the economic analysis, varying from 0.03% to 2.1%) contribution to the already existing problems.

5.2.5 Influencing Factors for the Achievement of the Agreement's Objectives (EQ 2)⁴⁹

While the analysis of the Agreement's effectiveness (EQ 1A) and impact (EQ 1B) have already provided explanations for the level of achievement, under evaluation question 2 – "What are the factors influencing (either positively or negatively) the achievement of the Agreement's objectives?" – a more focussed analysis is provided. We distinguish between factors influencing the achievement of operational objectives and those affecting impact achievement.

Regarding **factors influencing the achievement of operational objectives**, the expansion of trade in goods between the Parties has been facilitated by the fact that implementing authorities and agencies are relatively advanced; thus, the implementation of tariff changes, RoO and paperwork related to SPS and TBT has not faced any major impediments. For the administration issues regarding TRQs in Ecuador, capacity constraints were mentioned as a factor by Ecuador's government (although not all stakeholders agreed).

Bilateral trade in services and investment have not progressed as much. Influencing factors for this include the absence of actual liberalisation commitments in the Agreement, as well as the absence of a dedicated Sub-committee, and a generally low level of activity regarding the promotion of services trade. For example, no MRAs have been concluded.

The relatively limited progress in opening government procurement markets was influenced, in Colombia, by the lack of clarity (respectively disagreements between the EU and Colombia) regarding the coverage of the Agreement and, generally, by the relatively high complexity of government procurement systems and the associated obligations for (potential) bidders in terms of registration and documentation requirements. In some countries (e.g. Ecuador), the shrinking size of the government procurement market has also acted as a disincentive.

With regard to **factors influencing the achievement of impact**, i.e. the Agreement's contribution to sustainable economic growth through the increase in trade between and of the Parties, the implementation of the Agreement has taken place mostly in an adverse global trade environment: the slow-down of globalisation, increasing protectionist tendencies by an increasing number of countries, the retreat of global value chains (GVCs) all had a subduing effect on trade at a global level that also affected trading activities by the Parties even before covid-19 became a global pandemic in early 2020.

Another factor limiting the positive economic impact of the Agreement have been productive capacity constraints, in particular by MSMEs in the Andean partner countries and especially when compared to the high standards and consumer expectations in the EU. These have made it difficult for them to enter into the EU market. At the same time, more dynamic market developments in other parts of the world (especially China) and the conclusion of trade agreements by the Parties (in the case of the Andean partners, the USA

⁴⁹ The main evaluation report addresses influencing factors as part of the causal analysis in the respective substantive sections in chapters 6-10.

or the CPTPP; in the case of the EU, a range of FTAs concluded since 2013) have diluted the positive effects brought about by the Agreement.

In terms of social impacts, one factor influencing developments in the Andean countries has been the arrival of a high number of migrant workers from Venezuela in the last few years, putting pressure on receiving communities and public services, and influencing the situation on the local labour markets.

5.2.6 Unintended Effects of the Agreement (EQ 3)⁵⁰

Evaluation question 3 is whether “the Agreement [has] had unintended (positive or negative) consequences, and if so, which ones?” A broad range of such unintended effects had been identified at the negotiation stage, in particularly in the 2009 EU-Andean Trade Sustainability Impact Assessment (SIA) (Development Solutions, CEPR, and University of Manchester 2009), mostly relating to undesired social and environmental effects of increased output and sectoral production shifts.

However, the effects anticipated in the SIA have not all been confirmed in the evaluation. In particular, because the overall magnitude of the Agreement’s economic impact has been more limited than originally expected, the “significant environmental and social challenges” (p. 124) identified in the SIA in effect tended to be rather small (and mixed), as indicated in Table 2.

Table 2: Effects anticipated in the SIA vs. effects identified in the ex post evaluation

2009 SIA findings	Ex post evaluation findings	Evaluation findings compared to SIA findings
Impacts in the EU		
Overall: no significant impacts “No change in EU27 GDP and the impact on EU trade flows is negligible”	Overall: no significant impacts In relative terms, marginal (positive) changes in EU GDP and EU trade flows	Same finding Same finding
EU investment in partner countries: “European firms may also benefit from improved opportunities in some parts of the services sector but these positive impacts are not expected to be significant”	Negligible impact on EU investment in partner countries, including in services sector	No impact found compared to (marginal) positive impact in SIA
Economic impacts in the Andean partner countries		
Agriculture and agricultural processed goods sector: only horticulture (edible fruits, nuts and vegetables) is expected to increase production across all Andean countries	Increase in output in all 3 partner countries for horticulture (vegetables, fruits, nuts) and other food products (incl. processed food)	More positive impact found: benefits for Andean countries in more agricultural sub-sectors.
Forestry and fisheries : mixed results with both increases and decreases in output according to individual countries	Forestry: marginal impacts in all 3 partner countries; fishery: (small) positive impacts in Ecuador and Peru, no impact in Colombia	More positive impact found: no decrease in forestry and fishery production in any partner country
Primary mining is estimated to increase production	Marginal changes in mining activity – positive and negative	No impact on mining found - no preferences under Agreement
Output of light industrial goods (textiles, clothing, and leather goods) will generally increase	Mixed effects across sub-sectors and countries: mostly small gains in Colombia; decreases in Ecuador; mixed effects in Peru	More nuanced impacts, ranging from decreases in output for certain sub-sectors and countries to increases in other sectors and countries
Output of heavy-industrial goods will increase <i>on average</i>	Mostly small decreases	Less positive impact than expected in SIA
Decreases in the output of the financial, insurance, business and recreation services	Small but mixed effects	More nuanced impacts, ranging from decreases in output for certain sub-sectors and

⁵⁰ The main evaluation report addresses unintended effects in the respective substantive sections in chapters 6-10. The comparison with findings in the SIA is provided in chapter 11 of the main evaluation report.

2009 SIA findings	Ex post evaluation findings	Evaluation findings compared to SIA findings
Output in the utilities, construction, distribution and communication sub-sectors are predicted to increase	Small but mixed effects	countries to increases in other sectors and countries More nuanced impacts, ranging from decreases in output for certain sub-sectors and countries to increases in other sectors and countries
Investment agreement is expected to have a positive impact on inbound capital flow and employment	Investment provisions in the Agreement have not impacted investment levels	No notable positive impact found
Potential benefits of government procurement are positive	Hardly and changes in government procurement	No notable positive impact found
Social and environmental impacts in the Andean partner countries	Overall very limited impact, with some positive and some negative effects	Rather than significant negative impact, small and mixed impacts are found
Overall: significant environmental and social challenges		
Potential for positive impacts of banana sector expansion (Colombia, Ecuador) and other agricultural commodities in Peru and Bolivia on household incomes and poverty reduction depends on local re-investment of large foreign companies	Increased employment in the banana and other agricultural sub-sectors has not always gone hand-in hand with improved working conditions. The Agreement's influence on working conditions and incomes of workers and small producers (through the TSD Title) is likely to have been rather limited. Re-investments do not seem to have been relevant.	SIA expectation confirmed, but different explanation.
In the large-scale formal mining sector, the restrictions on workers' rights will restrain any significant increase in real wages or improvement in working conditions. Additional negative social impacts of further expansion of mining and hydrocarbons in rural territories of the four Andean countries might arise from the local and national conflicts that have emerged in the last five years. The mining sector is a key source of water pollution (acid water with high metal content) which gives rise to health problems for local communities. Key sources of pollution are discharges from mining activities, industrial and agricultural processing and agricultural runoffs.	No impact, because the Agreement has not impacted output of mining	Absence of the expected significant negative social and environmental impact.
Increased market access for processed timber products can be expected to add to existing deforestation trends. Illegal logging is a significant contributor to this problem.	Overall small effects. Small negative impact in Colombia on water and air quality; marginal effects in Ecuador and Peru. Localised/regional negative effects e.g. from avocado output increase.	Lower negative impacts than anticipated
Expansion of production and trade in agricultural and agricultural processed products that results will have potentially adverse biodiversity impacts. In particular, any additional pressure on the rate of deforestation represents an immediate threat to biodiversity. Similarly, the conversion of pristine habitats and natural resources to agricultural production and mining would also have significant negative implications for biodiversity	No impact, because the Agreement has not impacted output of forestry sector	Absence of the expected significant negative environmental impact.
Loss of biodiversity and environmental deterioration will potentially cause adverse impacts for vulnerable groups whose livelihoods and food security depend on traditional	Small impact on permanent deforestation in Colombia resulting from the expansion of commercial agriculture. It is unlikely that this deforestation occurred in the most (biodiverse) intact areas in Colombia. For Ecuador and Peru, there is no evidence that deforestation driven by agriculture is linked to the Agreement.	Lower negative impacts than anticipated
	Problems are mostly related to mining; no impact of the Agreement found	Lower negative impacts than anticipated

2009 SIA findings	Ex post evaluation findings	Evaluation findings compared to SIA findings
agricultural production, especially indigenous people		
Changes within the industrial sector, with some industries expected to increase production and others to experience a decline, will give rise to short to medium term adjustment costs , including unemployment and decline in household incomes.	Sectoral employment shifts in Colombia and Peru are limited; employment contraction in Ecuador up to 4.3% in the automotive sector, with gains of up to 3.9% in food processing.	More limited trade adjustment effects than anticipated in Colombia and Peru; effect as expected in Ecuador
Improvements in pollution control due to improved access to environmental goods and services	No impact from liberalisation found; limited positive impact from TSD Title implementation.	Lower positive impact than anticipated
Decline in indirect tax revenues and an overall fall in total government revenue. This could lead to a fall in social expenditure , for example on education and health, with negative consequences for vulnerable households and poverty groups	No impact in Ecuador and Peru, and decrease in government revenue in Colombia of about 1.2%. This may have limited the availability of funds for social expenditure, depending on the prioritisation made by the government	No negative impact as anticipated in Ecuador and Peru. Impact in Colombia largely as anticipated.
Liberalisation of infrastructural services is expected to improve the quality of services supplied, but improvements in access and affordability of basic services for the poor will depend on effective regulation.	No impact as no liberalisation of infrastructural services has taken place.	No actual impact compared to the anticipated mixed impact

Source: Development Solutions, CEPR, and University of Manchester (2009); own preparation.

5.3 Efficiency of the Agreement

The evaluation of the Agreement's efficiency considers both the degree to which the Agreement's preferences have been used, also comparing it to other types of trade measures (EQ 4, section 5.3.1), and the ration between costs and benefits of the implementation of the Agreement, including the performance of the institutional mechanisms for the operation and monitoring of the Agreement (EQ 5 and 6, section 5.3.2).

5.3.1 Efficiency of the Agreement regarding the Achievement of Objectives (EQ 4)⁵¹

Evaluation question 4 – "To what extent has the Agreement been efficient with respect to achieving its objectives?" – seeks to determine the extent by which the Agreement has been used by traders, and whether if there could have been other, less costly, mechanisms or instruments to achieve the same results. Indicators used are the level of utilisation of the preferences provided by the Agreement (including of TRQs), and the extent of trade diversion caused by it.

Preference utilisation in the EU by Andean exports has been high for all partner countries. On average over the period since the start of application of the Agreement, utilisation rates were about 97% for Colombia and Peru, and 98% for Ecuador. Preference utilisation of EU exports to the Andean countries were lower, ranging (in 2018, the last year for which data are available) from 56% in Peru to 68% in Ecuador and 72% in Colombia. A recent study of EU preference utilisation under the EU trade agreements with Latin American countries (Illescas et al. 2021) identified a range of reasons for the comparatively limited use of preferences granted to imports from the EU in the Latin American partner countries. These include:

- Zero MFN tariffs or low preference margins;
- Use of tariff exemption regimes (in Colombia and Ecuador);

⁵¹ See sections 6.1.2, 6.1.4 and 6.1.5 of the main evaluation report.

- Lack of knowledge about the existence of preferences or their use;
- Prior knowledge that goods do not comply with RoO;
- Lack of sufficient and timely documentation to support origin; and
- Non-issuance of the certificate of origin by the EU exporter, either because of carelessness or because the exporter knows that the product does not originate in the EU.

The relative importance of these various factors could not be established; in any case, the only actionable factor is the limited awareness or knowledge about RoO and their use.⁵²

Overall, preference utilisation has performed rather satisfactorily over the Agreement's implementation period. It should also be noted that preference utilisation of EU exports to the Andean partner countries has improved over time (in 2014, it was 42% in Peru, and 56% in Colombia). Concerning preference utilisation of partner country exports to the EU, we note that this is (slightly) higher than both utilisation under the GSP prior to the start of the Agreement and also (slightly) higher than preference utilisation by Bolivia under the GSP+. For TRQs, a similar finding has been reported in section 5.1.2 above: high utilisation by Andean partner country exports for those products where they are competitive, and lower but increasing utilisation by EU exports to the Andean partners. We note that the progress in EU exports using preferences and TRQs could have been faster – and these issues have been on the agenda of the Agreement's Trade Committee and sub-committee meetings. But at the same time, it needs to be acknowledged that the magnitude of adjustment is higher on the Andean partner side, which opened up their markets for EU exports for the first time under the Agreement.

A general disadvantage of FTAs is that the increase in bilateral trade covered by the agreement comes at the cost of **trade diversion**: Because of the tariff preferences provided, any FTA makes trade between the parties relatively more profitable for traders than trade with third countries. A part of the additional trade between the parties is therefore diverted from trade with non-parties (trade diversion), while another part is genuine creation of trade which would have not taken place in the absence of the FTA (trade creation). The higher the degree of trade diversion caused by the Agreement, the more distortive and hence less efficient it becomes. At the same time, many of the Agreement's non-tariff provisions apply horizontally (to all countries) and therefore do not lead to any trade diversion but only trade creation.

At an aggregated level, the Agreement mostly shows a common pattern: for the three Andean partners together, exports to the EU in 2020 are higher by USD 1.5 billion than they would have been without the Agreement, but their total exports to the world are only USD 947 million higher; i.e. exports worth USD 560 million (or 37% of intra-Agreement exports created) were diverted from third country markets to the EU. Similarly, the Agreement created USD 4.3 billion worth of EU exports to the three partners in 2020, but USD 1.6 billion of these (37%) were exports diverted from EU third country markets, so that the net export creation effect for the EU was USD 2.7 billion. Compared with other FTAs, these levels of trade diversion are normal.

From an import perspective, the economic simulation results appear less straightforward: For example, EU imports from countries not participating in the Agreement *increased*, contrary to intuition, by USD 1 billion. Similarly, imports by Ecuador and Peru from third country also increased (by USD 19 million and 127 million, respectively). For the EU, increases in imports from third countries are mostly concentrated in sectors where the three Andean partners have limited competitiveness, i.e. machinery, equipment, and vehicles, and where the simulations therefore predict only limited increases in exports in

⁵² In this context, we note that the online RoO Self-Assessment tool (ROSA) is now available as part of the EU's Access2Markets solution; see <https://trade.ec.europa.eu/access-to-markets/en/content/presenting-rosa>.

absolute terms. With EU exports in these sectors increasing, this creates a demand push in the EU for these sectors, which are satisfied with imports from third country sources. The same applies, *mutatis mutandis*, to Ecuador and Peru.

Imports by Colombia from third countries decreased, as expected, but the magnitude – USD 3.6 billion, only slightly below the increase of USD 3.9 billion in imports from the EU caused by the Agreement – is high. In other words, for Colombia the Agreement has mainly led to import diversion. With an increase in total imports of about USD 300 million and an increase in Colombia's total exports by close to USD 600 million, this also means that Colombia's trade balance improved as a result of the Agreement.

Ultimately, the Agreement's efficiency for achieving the objectives must be assessed against alternative trade policy instruments, such as unilateral preferences or liberalisation, development cooperation, or subsidy schemes. These options were either not available for the EU (unilateral preferences and development cooperation had previously been granted to the partner countries but had to be ended as a result of their reaching higher middle-income status), would arguably have caused larger distortions (such as subsidy schemes) or been less targeted (unilateral liberalisation). As such, we find that the Agreement's efficiency in relation to the objectives has been high.

5.3.2 Institutional Efficiency, Costs and Benefits of the Agreement (EQ 5 & 6)⁵³

The institutional performance as well as the ratio between costs and benefits of the Agreement are addressed through two evaluation questions EQ 5 – “To what extent are the costs associated with the Agreement proportionate to the benefits it has generated? Is the distribution of both costs and benefits proportionate among different stakeholder groups and interests?” – is an extension both to the assessment of efficiency (EQ 4) and the impact assessment (EQ 1B) insofar as it evaluates the distributional fairness of the costs and benefits generated by the Agreement. EQ 6 – “Are there unnecessary regulatory costs (including administrative burden)?” addresses an extreme case of EQ 5, where specific costs or burdens arising from the Agreement do not generate any benefits.

In terms of **institutional efficiency**, the *Trade Committee* has played its role in providing a forum for an overview of trade relations between the Parties and exercised its formal decision-making power to ensure operation of the Agreement and its institutional structures. Regarding concerns raised by the Parties at the Trade Committee, while several of them were raised during the meetings and review of work realised by sub-committees, it seems that the Parties limited themselves to reiterating their positions expressed previously in the sub-committee meetings, while the Trade Committee did not always perform its role as a superior body for resolving issues that could not be addressed by the sub-committees, e.g. by agreeing the way forward and mandating the Parties to take certain steps. In this context, a more frequent use could be made of the Agreement provisions setting out Trade Committee's mandate: Where necessary to solve conundrums or to provide political momentum for problem-solving, Trade Committee meetings could be held at the political level engaging Ministers for Trade and the Trade Commissioner (as foreseen in Article 12).

All Parties agree that the *Contact Points* established under TSD Title have well performed their role and represent an effective element of the institutional structure in preparation for joint meetings and their follow-up, planning cooperation activities and addressing concerns. The Parties also agree that *TSD Sub-committee* meetings have provided a valuable forum for exchanging information about the Agreement's implementation, discuss needs for technical assistance or interest in cooperation activities, and an opportunity to

⁵³ Institutional efficiency is addressed in chapter 10 of the main evaluation report. Cost-benefit considerations are addressed transversally in the respective substantive sections in chapters 6-10.

appreciate efforts taken by the Parties (e.g., to reduce child labour) and encourage new actions. However, we find that there are areas for further improvement, and these include the TSD Sub-committee's role in addressing shortcomings in implementation and dialogue with civil society representatives. Regarding the latter, notably dialogue with advisory groups or domestic mechanisms, there is a need to provide them with a better opportunity to contribute to discussions of the Parties by sharing results of the monitoring activities, submitting proposals (e.g., for cooperation activities) and raising concerns; recommendations in this respect are made in section 6.3.

In terms of the *domestic mechanisms* of each Party, Domestic Advisory Groups (DAGs)/ civil society mechanisms hold their meetings (1-4 a year) to discuss implementation and prepare for the annual meeting. The conditions of their operations vary significantly between the Parties:

- The process of establishment and operation of the *EU* DAG is assessed positively, with limited areas for improvement – one such area being for the EU DAG to play a more proactive role in supporting the domestic consultative mechanisms in the Andean partner countries;
- In *Colombia*, while progress has been made over time in establishment and operation of civil society mechanisms (independent DAG and notified domestic consultative mechanisms), their dialogue with the Colombian Government and with other Parties to the Agreement and their civil society representatives, there is still room for improvement, in particular with respect to overcoming resource and capacity constraints. We also note diverging views between the Government and non-state (esp. civil society) actors with regard to the DAG's level of performance;
- In *Ecuador*, both the Government and civil society representatives praised the process of consultations leading to the establishment of the Domestic Consultative Council (DCC), as well as its composition, the ways of working, and dialogue with the Government and other Parties and their civil society representatives. However, there is still a need to support the group and strengthen its capacity, and to address trade unions' concerns to facilitate their return to the group;
- Regarding *Peru*, while Article 281 of the Agreement leaves up to discretion of the Parties the choice of the format of the domestic consultative groups and does not set out many requirements for these, one should assume that the overarching requirement should be that these mechanisms are effective in exercising their role in monitoring implementation of the TSD Title and providing advice to the Parties. Critical views maintained that the way the mechanisms chosen by Peru operate, their composition (which include Government entities) and the lack of transparency and coordination in relations with the EU and other Parties has represented a barrier in dialogue and cooperation under TSD Title. There is a recognition that the situation has improved further to the 2018 joint meeting in Quito, and that the Government has engaged in a discussion with civil society on the TSD Title, including with members of the autonomous DAG. However, there is room for further improvement.

In general terms, resource and capacity constraints constitute barriers for the effective functioning of the DAG/domestic consultative groups in the partner countries. Also, discussions focus often on process and a limited number of well-known, serious problems, not using the whole scope of the TSD Title.

DAG-to-DAG meetings have been an important element of the annual meetings and have provided an opportunity for civil society members to discuss the implementation of the TSD Title, and to discuss and agree joint positions (recommendations) to be shared with the Parties; to make it easier to hold the Parties to account, but also to enable the Parties to demonstrate that progress has been made, civil society recommendations should be

focused and operational. In addition, the TSD Sub-committee has convened *annual sessions with civil society and the public at large* to carry out a dialogue about implementation of the TSD Title. This dialogue between governments and civil society representatives constitutes one of the key elements of the TSD Title's implementation. The conditions for participation have improved with EU funding being made available, as well as the possibility to attend remotely. However, insufficient follow-up to civil society recommendations by the Parties has been the most frequent concern raised by civil society representatives in interviews carried out for the evaluation. In this context, we note that the Agreement does not include a corresponding provision that would commit the Parties to take actions to follow-up civil society recommendations nor to report about them. Some other EU agreements, for example the TSD chapter in the agreement with Canada, include such a provision.

Regarding the **proportionality and distribution of costs and benefits**, the economic analysis has shown that all Parties to the Agreement register a net benefit in terms of higher GDP, even if this is small. The main direct beneficiaries are exporters and importers, with their suppliers and customers (including consumers) also benefitting. On the other hand, governments (through lower public revenues) and import-competing businesses and their employees (through reduced output and associated profits, wages and employment) pay the costs. However, as the analysis has shown, the sectoral effects of the Agreement are limited. Although the Agreement also implies costs for traders in order to use the preferences, such as those related to proving origin, these have not been raised as problems by interviewed business representatives. Moreover – although some improvements in practice are possible – the Agreement provides mechanisms to limit such compliance costs, e.g. the approved exporter status (see section 5.1.2). In addition, the high preference utilisation rates by the partner countries (as well as the increasing utilisation rates by EU exporters) show that traders see a net benefit in the Agreement. Considering the net positive effect of the Agreement and the small magnitude of costs created, the proportionality and distribution of costs and benefits is evaluated positively.

The **administrative costs for the Parties** arising from the annual meetings and follow-up are considerable, but are not found to be unduly high in comparison to the benefits of the Agreement. Moreover, the experience during the covid-19 period has shown that an increased use of remote meetings is possible, somewhat reducing administrative costs.

5.4 Policy Coherence of the Agreement (EQ 7)⁵⁴

By means of the Agreement, the EU, Colombia, Ecuador, and Peru confirm their commitments to sustainable development. This is in line with the EU trade policy in place at the time of signature of the Agreement. Evaluation question 7 therefore asks “to what extent has the Agreement been coherent with the EU's trade and development policies – and in particular, with the EU's commitment to sustainable development in trade policies as a contribution attainment of the SDGs?”⁵⁵ The evaluation specifically considers the Agreement's coherence with the EU's overall trade policy, with the EU's commitment to the SDGs and the Decent Work agenda, and with the EU's environmental policies both at the time of negotiation and start of application, and during the period of its application until now; the latter analysis checks to what extent the Agreement is still coherent with the EU policy framework as it exists today.

Stakeholder views on the Agreement's coherence with current wider EU policy objectives are divided. Among respondents to the OPC, a large majority considered that the

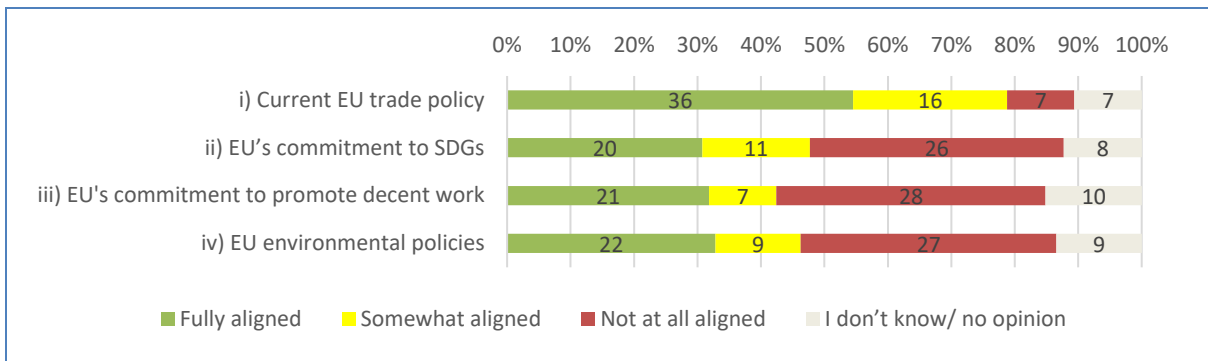
⁵⁴ The Agreement's coherence with other EU policies is addressed transversally in the main evaluation report, in the respective substantive sections in chapters 6-9; also see the consultations report.

⁵⁵ The evaluation of coherence looks at the degree to which the Agreement complies with other EU policies and strategies that were in place at the time of the negotiation and those that have been formulated and adopted since.

Agreement is fully or at least somewhat aligned with the EU’s trade policy, but simple majorities of respondents consider that it is “not at all aligned” with the EU’s commitment to the SDGs and to the promotion of decent work, as well as EU environmental policy objectives (Figure 2). EU respondents as well as civil society/trade unions/individuals were particularly critical of the Agreement’s coherence with wider EU policy objectives in place today.

As discussed in the following paragraphs, the evaluation findings, which have been established based on a comparison of the Agreement’s effectiveness and impact with EU policy developments, somewhat divert from stakeholder perceptions. We find that, although not incoherent, the Agreement has become somewhat outdated compared to EU trade policy objectives and priorities, but is – at least in terms of its effects and impact – somewhat aligned with environmental policy objectives and the EU’s commitment to the SDGs and Decent Work agenda (although its positive contributions in these areas are very small).

Figure 2: Distribution of views on the Agreement’s alignment with EU policy objectives (nr and % of responses)



Source: OPC responses.

Coherence with EU Trade Policy

When the Agreement was negotiated and started to be applied, it fully reflected the EU’s trade policy objectives and priorities and hence is coherent with the EU trade policy at the time. But since the Agreement started to be applied in 2013, EU trade policy has changed considerably; two new trade strategies were adopted in 2015 and 2021. As mentioned above (section 2.4), the 2015 “Trade for All” strategy sought to address new economic realities such as global value chains, the digital economy and the importance of services; touched upon the issues of competition, e-commerce, protecting innovation and regulatory cooperation. And the 2021 “Open, Sustainable and Assertive Trade Policy” aims at building on the EU’s openness to contribute to economic recovery through support for the green and digital transformations, as well as a renewed focus on strengthening multilateralism and reforming global trade rules to ensure that they are fair and sustainable. It also provides for reinforced rules to tackle competitive distortions.

The Agreement, its implementation and its effects have not been incoherent with these trade policy priorities in the sense of going against them, but they have also not actively promoted them. As shown above (sections 5.1 to 5.3), the development of GVCs, services trade, digital trade and e-commerce, or the green and digital transformation have neither played an important role in the implementation of the Agreement, nor have they been strengthened as a result of the Agreement. In addition, provisions on these topics, if at all present in the Agreement, are mostly limited to general statements and soft language. As such, although not incoherent with current EU trade policy, the Agreement does not provide an appropriate framework for addressing these new topics in the bilateral trade relationship with the Andean partner countries.

Coherence with EU policies aimed at attaining the SDGs and the EU's commitment to the Decent Work agenda

In the Agreement, the Parties express their commitment to sustainable development, and respect for labour rights (Preamble), in line with the established practice at the time of the Agreement's negotiations. Since then, the 2015 "Trade for All" strategy not only aimed at responding to new economic realities; it also included a commitment to using EU trade policy to promote sustainable development and human rights. The Agreement's TSD Title and its implementation are still coherent with this approach, although views diverge regarding its effectiveness (see section 5.1.6).

Coherence with EU Environmental and Climate Change Policies

Since the signing of the Agreement, major developments have taken place with respect to environmental policies in the EU. Milestone achievements include the ratification of the Paris Agreement in 2016, the adoption of the European Green Deal in 2019 and the release of the EU Biodiversity Strategy for 2030⁵⁶ in 2020. The Green Deal is the top priority of the European Commission and identifies diplomacy and trade policy as a means to promote and enforce sustainable development across the globe and to support the EU's green transition. In addition, environmental objectives have also gained a more prominent and integral role in the 2021 EU Trade Policy. Finally, the EU's environmental footprint in third countries through its imports has become a key policy topic since studies identified the role of EU consumption in (embedded) deforestation and established that EU consumption is responsible for 10% and more of global deforestation (Cuypers et al. 2013; Hoang and Kanemoto 2021). In 2021, the Commission expects to present a law to prevent importing products which cause deforestation or forest degradation. Various EU strategies refer to the importance of this forthcoming law, such as the EU Trade Policy and the Farm to Fork Strategy.

In terms of the coherence of the Agreement with the EU's environmental policies, it is concluded that the Agreement was broadly coherent with the policies in place at the time of the signature of the Agreement. However, the Agreement does not fully reply to the EU's environmental and climate change policies developed in the course of the past ten years (since the Agreement started to be applied) and the current EU priorities: As shown above (section 5.2.3), the Agreement's tariff reductions slightly lowered global GHG emissions due to productive shifts caused by the Agreement, though the impact of non-tariff measures has not been measured. No evidence has been found for tariff reduction-induced deforestation in Ecuador and Peru. In Colombia, however, we find that some deforestation has taken place because of expanded agricultural production triggered by the Agreement's tariff liberalisation. The magnitude of this deforestation is limited, with the aggregated forest loss over the whole period of the Agreement equating to an area of 3,500 to 4,000 hectares (or a strip of land 3.5-4 km times 10 km); this corresponds to about 0.5% of total deforestation driven by commercial agriculture. The severity of the deforestation is also limited, as is it unlikely that it occurred in the most (biodiverse) intact areas in Colombia. Nevertheless, the new and more ambitious environmental strategies call for additional action in order for the Agreement to be coherent with these strategies. The provisions of the Agreement, such as the TSD Title, provide a decent basis for additional action.

⁵⁶ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. EU Biodiversity Strategy for 2030. Bringing nature back into our lives, COM(2020) 380 final, 20 May 2020.

5.5 Relevance of the Agreement for Trade Needs and Issues in the EU and Partner Countries (EQ 8)⁵⁷

Evaluation question 8 assesses if the Agreement remains relevant for the Parties trade needs and objectives almost a decade after it was negotiated and in a global trade context that has changed considerably: “To what extent do the provisions of the Agreement continue to be relevant in order to address the current trade needs and issues of the EU, Colombia, Peru and Ecuador?”⁵⁸

Responding to this question first requires an identification of what the “current trade needs and issues” are – arguably a difficult task as views on the needs and issues vary across stakeholders. For the evaluation, we have identified key trade needs and issues indirectly – on the basis of policy statements and stakeholder contributions.⁵⁹ This introduces a certain degree of redundancy in the evaluation of coherence and relevance, assuming that trade strategies correctly identify the main trade needs and address them through their priorities.

Separately for the Andean partner countries and the EU, we first briefly list the identified current trade needs and then assess to what extent the Agreement, its implementation and its effects address these trade needs.

Among the current trade needs **in the Andean partner countries** are the further need to diversify exports, ensure greater inclusiveness of trade, and ensure the sustainability of production for export (but also domestic) markets.

The Agreement is relevant for these issues. The elimination of tariffs and trade facilitation have created the basis for export diversification of the Andean countries, and indeed some diversification (mostly within the agriculture and food production sectors) has taken place. The number of exporters has grown, and MSMEs have also benefited from the Agreement, contributing to a more inclusive distribution of the benefits of trade. The TSD Title provides a framework for addressing sustainable development issues related to bilateral trade – and technical assistance and cooperation have also taken place in this regard – and have had some success, but at the same time among stakeholders there are disagreements regarding the effectiveness of these measures.

As already mentioned in the previous section on coherence, trade needs and issues **in the EU** have evolved considerably since the Agreement was negotiated: The new trade strategies have highlighted the following trade needs of the EU: prioritising GVCs, services trade, digital trade and e-commerce, trade’s role in the green and digital transformation, and an increased focus on enforcement. Considerations about strengthening due diligence across supply chains, the European Green Deal, and the Farm to Fork strategy, among others, attest to the comprehensive shifts and changes that have taken place with regard to the EU’s needs to which the Agreement and bilateral trade between the EU and the Andean partner countries also has to respond in order to remain relevant.

As has been noted throughout this report, the Agreement itself, its implementation and results address these issues in different ways, and to a different extent: the creation of value chains, trade in services and e-commerce have not been priorities, but enforcement issues (through the annual meetings of the committees and follow-up during the year)

⁵⁷ Evaluation findings regarding the Agreement’s relevance are presented transversally in the main evaluation report, in the respective substantive sections in chapters 3, 4 and 6-10.

⁵⁸ The evaluation of relevance “looks at the relationship between the needs and problems in society and the objectives of the intervention” (Better Regulation Tool #47, p. 351). Like the evaluation of coherence, the relevance of the Agreement can be assessed statically, determining the degree to which the Agreement addressed the trade needs and problems *at the time of its start*, and dynamically, i.e. determining the degree to which the Agreement addresses the trade needs and problems of the Parties *today*. The main focus is on this latter question.

⁵⁹ We make no claim to comprehensively covering all different views.

have been an important element of the Agreement's implementation. Environmental and social sustainability issues have been addressed under the TSD Title as well as through technical assistance, but disagreements prevail over the effectiveness of these measures.

In sum, we find that the Agreement remains relevant in the sense of providing a floor 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 further attention.

6 CONCLUSIONS AND RECOMMENDATIONS

Based on the findings presented above and in more detail, with underlying evidence, in the main evaluation report, the evaluation team has drawn conclusions and presents recommendations. The main ones are presented in the following section, by evaluation criterion – for the full list of recommendations, we refer to the main evaluation report.

6.1 Effectiveness

The Agreement has been moderately effective with regard to the achievement of operational objectives. On the positive side, *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, and business stakeholders have confirmed that the implementation of the Agreement, and the flow of goods between the Parties, are not affected by major problems.

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. Services sectors have played a limited role in the implementation of the Agreement. The opening of *government procurement* markets has not led to increased participation of suppliers and providers from the respective other Party.

Progress has been made in the registration and enforcement of *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.

With regard to the effectiveness of *dispute settlement* under the Agreement, this is difficult to assess in the absence of objective criteria about what constitutes the right level of assertiveness. The fact that about half of the disagreements counted have been solved indicates that by and large the approach taken by the Parties works. The fact that formal disputes are "outsourced" to the WTO however indicates a high reluctance by the Parties to make use of the formal dispute settlement provisions provided by the Agreement. In protracted disagreements a more assertive stance by the Parties to actually use the DSM might be called for.

The effectiveness of the *TSD Title* and its implementation is mixed: A direct and tangible impact 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 decisive influencing factor.

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.

Some **lessons learnt and recommendations to further improve the effectiveness of the Agreement** are:

- Further measures to facilitate trade could be considered, including the promotion of the approved exporter scheme, the potential expanded use of digital documents, and a review of the Agreement's provisions on direct transport to ensure eligibility for preferences.
- Technical assistance should continue to ensure that exporters of products covered by SPS requirements can keep benefitting from the preferences offered by the Agreement, also in view of the importance of the sustainability requirements in the context of the European Green Deal or the Farm to Fork strategy.
- Measures in line with the Access to Market Days should be envisaged to encourage more new exporters to benefit from the Agreement, especially MSMEs. The promotion of the approved exporter scheme and a (still) stronger focus on raising awareness of businesses for the Agreement, e.g. by strengthening the EU Chambers in the partner countries, and by promoting the Access to Markets database could also be envisaged.
- An increased focus on ways to develop bilateral trade in services is recommended, e.g. by establishing a dedicated sub-committee that could also follow-up on the negotiation of MRAs.

6.2 Impact

The **impact of the Agreement overall is assessed as positive, although relatively limited**, based on the following findings: In *economic* terms, it has led to a small increase in 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 with the agriculture sector has been observed. Likewise, diversification of exporters has taken place, including an increase in exporting 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 revenues. LDCs and developing countries have not been impacted by the Agreement; among the EU ORs, the sugar sector in La Réunion and Guadeloupe has so far largely been able to compete with increasing sugar imports from the Andean countries and the shift towards speciality sugar trade.

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, 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.

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 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.

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.

Some lessons learnt and recommendations to further improve the impact of the Agreement are:

- Although the Andean partner countries are all upper middle income countries, the capacity of many businesses, in particular MSMEs, to engage in trade or value chains with the EU is limited. Therefore, technical assistance remains important, and although the primary responsibility for this rests with the partner country governments, the EU should continue to provide technical support to help MSMEs improve productivity and competitiveness and to benefit from the Agreement. To foster the Agreement's contribution to trade diversification, more complementary measures, such as export marketing training for businesses, (even) more information about the respective partner market, and more specific support in market entry might be conceived by the relevant authorities in the Andean countries.
- While job creation thanks to the Agreement is a positive result, the nature of those jobs (formal or not) and their quality also play a role in the economic situation of workers and their families. Therefore, it will be important in all Andean countries that in addition to creating conditions for new jobs, sufficient attention is paid to their quality and the possibility of workers to defend their rights as well as how the dialogue with the EU can contribute. The work will need to ensure that the conditions already foreseen in the legislation are implemented in practice and enforced by the labour inspection services. These include the right to a written contract, the payment of salaries according to the law, payment for overtime and social security contributions, and other benefits, provision of training in health and safety at work and appropriate personal protective equipment.
- To further strengthen working conditions and labour rights, technical assistance projects involving the EU, ILO and the partner countries should continue, aiming at

strengthening capacity of labour inspection, labour formalisation and respect for labour standards and health and safety at work. In Ecuador, worker rights in agriculture, incl. in the banana sector, should be brought to the level of other sectors, and the effective implementation and enforcement of these rights should be ensured.

- A common problem for the social impact analysis was lack of disaggregated data by gender and sector. Therefore, we recommend a more frequent and more systematic collection of such disaggregated employment data, starting with sub-sectors participating in international trade and likely to be affected by trade agreements. Such data could be collected by national institutes of statistics, sectoral business associations, civil society, or research institutes, depending on the available capacities and specificity of the sector.
- Although the Agreement's impact on gender equality has been limited, considering suggestions made by stakeholders and international trends related to gender and trade, we suggest that the Parties include into their policy dialogue, either under the TSD Title or other relevant chapters, elements related to participation of women and women-led enterprises in trade between the Parties. This could include the exchange of information and examples of best practice in the collection and processing of sex-disaggregated data, examples of support activities provided to women and effects, and engagement with women entrepreneurs to note success stories and remaining challenges. Such cooperation and capacity building should be driven by the identified needs, and be complementary to activities undertaken in other forums, including in WTO, in the follow-up of the Buenos Aires Declaration.
- Measures should be taken to avoid that the Agreement contributes to deforestation. In addition, taking into account the large share of LULUCF emissions (in total GHG emissions) in the Andean countries, as well as the increase in LULUCF emissions in the agricultural sector and the potential impact through other sectors (e.g., shrimp in Ecuador), it is recommended to support stricter initiatives to lower LULUCF emissions (see section 5.2.3).

6.3 Efficiency

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

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. DAG/domestic consultative groups have also performed unevenly across the Parties, primarily as a result of differences in the availability of resources and capacities.

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The **proportionality and distribution of costs and benefits is evaluated positively**. Likewise, although the administrative costs for the Parties arising from the annual meetings and follow-up are considerable, they are not found to be unduly high in comparison to the overall benefits of the Agreement.

Some **lessons learnt and recommendations to further improve the efficiency and implementation mechanisms of the Agreement** are:

- Moving forward, consideration should be given to the role of the Trade Committee as a decision-making body, and in this context the role it can play in problem solving, notably in cases where a discussion at the working level in Sub-committee meetings does not bring about a satisfactory outcome over time. Considering that the experience showed the difficulty to unblock stalemate positions, the Trade Committee should provide political momentum for problem-solving, including by repackaging issues affecting different chapters, holding the Trade Committee meetings at the political level, and engaging Ministers for Trade and the Trade Commissioner (as foreseen in Article 12) to advance in the discussions. The Trade Committee (acting within its mandate) should also consider taking decisions improving the Agreement's implementation and amending the Agreement in a way that it will catch up with new developments and will achieve its objectives to a higher degree.
- Regarding the strengthening of the TSD Sub-committee for addressing implementation shortcomings related to TSD issues, we recommend the following:
 - Issues of concern related to the implementation of the TSD Title should continue to be addressed. Examples are the commitment not to encourage trade or investment by reducing levels of protection (Article 277(1)) and not to fail to effectively enforce domestic labour or environmental laws (Article 277(2)), as well as commitments to effectively implement ILO core labour standards (Article 269(3)) and MEAs (Article 270(2)). This exchange of information constitutes the basis on which the Parties can further discuss and determine if any actions are required.
 - Recognising that addressing certain issues or improving a given situation may take time, an approach suggested e.g. by Colombia should be considered. This would foresee a more frequent use of cooperation activities, including technical assistance and exchange of good practices, to strengthen administrative capacities and test solutions in the area of concern that are applied successfully by other Parties. In this context, the Commission could promote in a more visible way, e.g. through attachments to the minutes of the TSD meeting, the already ongoing cooperation activities with the Andean countries in areas relevant for the TSD Title, as these also demonstrate a commitment to address the identified problems and show the activity of the EU.
 - Where needed, the Parties should continue to develop and agree lists of actions to be taken by the Party or Parties concerned, with related timelines, outputs, and responsible institutions (we understand that similar measures have been discussed and agreed under the Agreement). Subsequently, these, as well as other outcomes of the dialogue should be communicated more clearly to the

civil society and other stakeholders than has been the case so far. Communication could take place verbally in meetings or in writing, e.g. in the TSD Sub-committee meeting minutes or in other documents published on a website or shared with members of the advisory groups/ domestic consultative mechanisms. Once adopted and communicated, such documents would enable measuring progress over time and provide a useful reference for dialogue between the respective government and civil society, as well as between the Parties and with other relevant partners, including international organisations (e.g. the ILO).

- If needed, matters should be escalated to the Trade Committee, including at the ministerial level, as this may also help to open possibilities for political decisions or solutions which may provide a momentum for new actions or decisions at the technical level addressing identified problems.
- To foster the cooperation between the Parties and civil society, various options could be pursued. The first one would be a strengthened domestic dialogue between the Government and civil society, including consultations before the TSD Sub-committee meetings, where the civil society could express views, share results of the monitoring, and formulate proposals, which would then be included into a briefing for the TSD Sub-committee meeting. Second, to enable civil society dialogue with all Parties, dedicated meetings between all Parties' members of the TSD Sub-committee with all advisory groups or domestic mechanisms should be held as part of the joint annual meeting. Alternatively, the Parties could envisage inviting members of the civil society advisory groups/domestic mechanisms to participate in the part of the TSD Sub-committee meeting dedicated to the follow-up of discussions from the previous year and new findings from monitoring the implementation.⁶⁰ This would be similar to the solution applied in 2014 (albeit not repeated since) under the EU-Korea FTA, where Chairpersons of the EU and Korea domestic advisory groups joined the TSD Sub-committee meeting for the first agenda item to inform about work of the domestic advisory groups since the previous joint meeting and bring to the Parties' attention priorities and concerns of the civil society with a view of them being discussed by the Parties in the TSD Sub-committee's session. Finally, a more active and frequent use of virtual meetings both between the domestic consultative mechanism and between them and the Parties could help civil society advance their agendas, work on opinions, and monitor activities through remote connections.
- To support the partner country domestic consultation mechanisms, the EU DAG could organise an additional meeting or a workshop a year, with invited speakers, opening the possibility to address topics from the broad spectrum covered by the TSD Title. Such workshops should be open to civil society from the Andean countries to develop capacity.
- Capacity building measures and additional support (including financial support to allow for a secretariat) to the non-EU DAGs/domestic consultative mechanisms should be provided. Such support should normally be provided by the respective government; in cases where resource or capacity constraints of the Partner country government do not allow for such support, the EESC could step in to provide technical support.

⁶⁰ The Rules of Procedure of the Trade Committee which also apply to the TSD Sub-committee in Article 5 state that observers may be invited to the meeting on an ad hoc basis. This rule could be interpreted by the Parties in a way to allow the participating civil society representatives to take the floor, i.e., to be active observers. Otherwise, the Parties could consider amendment to the Rules of procedure to include a provision similar to the Rule 8 (point 5) of the Rules of Procedure of the EU-Canada Joint Committee, according to which the Co-chairs of the Committee may by mutual consent invite observers or independent experts to attend its meetings in order to provide information on specific subjects.

- To a certain extent, the dissatisfaction of some stakeholders with the achievements of the TSD Sub-committee are the results of unrealistic expectations regarding the TSD Title and the degree of authority that it has. Ultimately, the powers of the Sub-committee are the result of the negotiations between the Parties and the level of supranationalism that they were prepared to give (or not) to the institutions established under the Agreement. At the same time, during the negotiations (and also during implementation), the Parties highlighted the important role of the TSD Title for ensuring inclusiveness and social and environmental sustainability of the Agreement, thereby contributing to the emergence of overblown expectations. To avoid this going forward, a more cautious communication about the scope and level of authority and powers of the TSD Title and the TSD sub-committee is recommended.
- Having said this, the inherent power of the TSD Title is considered very strong. Based on the minimum amount of direct positive impacts of the TSD Title on environmental indicators thus far and the recommendations mentioned above, it is recommended to unlock the potential of the TSD Title. Significant progress could be made within the current TSD framework of the Agreement without the need to renegotiate the chapter. To unlock this potential, it is crucial to step up the ambition and align the priorities of the implementation of the Agreement with the overarching EU priorities on climate and environment, which could imply allocating more resources to TSD implementation and turn it into a pro-active tool, instead of a reactive one. Where possible, it is recommended to seek concrete targets so that progress towards these targets can be monitored and reflected upon.

6.4 Coherence

Coherence of the Agreement with the EU's overall trade policy, with the EU's commitment to the 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).

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.

Based on these conclusions, some **lessons learnt and recommendations to improve the coherence of the Agreement** with other EU policies are:

- The implementation of the Agreement should focus more on covering, respectively strengthening, the new issues and priorities set in the 2015 and 2021 EU trade strategies, such as trade in services, digital trade, or the green transformation.

- To mitigate deforestation effects (identified in Colombia) and, more broadly, considering the deforestation footprint of EU imports we recommend to intensify efforts to prevent deforestation in the Andean countries. 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.⁶¹

6.5 Relevance

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.

Some **lessons learnt and recommendations to improve the relevance of the Agreement** are:

- Although new issues are discussed between the Parties in the annual meetings of the Trade Committee and Sub-committees and their follow-up, cooperation on practical measures related to them could be expanded. This need not necessarily take place within the implementation of the Agreement in a strict sense but as flanking measures. For example, more cooperation on fostering organic and fair trade would contribute to the need for enhancing the sustainability of productive activities fostered by the Agreement. An increased focus on ways to develop bilateral trade in services is another area (see section 6.1).
- 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.

These recommendations show that in order to ensure the continued relevance of the Agreement for today's trade issues and needs more active implementation work and follow up are required. This, however, would seem to be in line with the EU's increased focus on the enforcement of trade agreements.

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⁶¹ This would be in line with (and thereby anticipating) the forthcoming law to prevent imports that contribute to deforestation, building on the Commission *Communication on Stepping up EU Action to Protect and Restore the World's Forests* (available at: https://ec.europa.eu/info/sites/default/files/communication-eu-action-protect-restore-forests_en.pdf), as well as national strategies of the Andean countries, which aim to prevent deforestation.

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