

Brussels, 15 June 2009

**Ms. Baroness
Catherine Margaret ASHTON
European Union Commissioner for Trade**

Subject: Trade Sustainability Impact Assessment of the Association Agreement between the European Union and Central America

Dear Baroness Ashton,

As networks of Latin American and European civil society organisations we continue to monitor the development of the negotiations for an Association Agreement between the European Union and Central America. On many occasions we have expressed our suggestions, recommendations and concerns regarding these negotiations. We are particularly concerned by the possible impact that this agreement could have on the people of Central America, especially on the poorest and most vulnerable sectors. For this reason, for more than two years we have called for an assessment of the possible social, environmental and economic impacts of this agreement, to be realized before the initiation of the negotiations.

The consultants contracted by the European Union to carry out a trade sustainability impact assessment (TSIA) of the agreement published an interim technical report on 6 April 2009 and carried out a related consultative workshop on 20 April 2009 in Managua, Nicaragua. We would like to bring to your attention some of our considerations and concerns regarding the TSIA draft interim report and the workshop in Managua.

On the TSIA interim technical report

- 1. Language:** As we have stated previously, we consider it essential that Spanish be the working language for the entire process of the elaboration of the TSIA. This includes all information relating to the process being provided in Spanish, especially the full reports, the web page and the bulletin. Currently only short executive summaries of the reports are available in Spanish. The lack of availability of information in Spanish has been a serious impediment to Central American civil society's ability to read, analyse and comment on the TSIA.
- 2. The global economic crisis** and its impact in Central America and Europe must be properly taken in to account in the TSIA, in both the estimations of the Computational

General Equilibrium (CGE) modelling and in the complementary analysis. The Economic Commission for Latin America (ECLAC) in a study published on 22 April¹, warned of the severe impact of the financial crisis on Central America and stressed the severe decline in external demand, the deceleration of economic growth and exports and the increase in unemployment in the region. The study also predicts a reduction in foreign investment, tourism and access to credit in the region. These factors are crucial for the analysis of the TSIA and the impacts of the Association Agreement on Central America. The report does not take into account the current global crisis, does not even mention it.

3. **Regional integration** is an extremely important process for Central America and a stated priority for the European Union in the negotiation of the Association Agreement. The draft report has not analysed the effects of the Association Agreement on regional integration, even though it recognises integration as a crucial factor to stimulate commercial activity in the region. We consider it essential that regional integration should be considered a crosscutting issue for the entire assessment of impact and limited not only to commercial integration but also political, social, cultural and environmental impacts.
4. Employment is the only variable related to social aspects included in the macroeconomic modelling. There **is no mention of poverty indicators, access to basic services or social equity**.
5. The interim report notes that unemployment is a chronic unresolved problem in the region but the CGE model assumes full employment and does not take into account employment in the informal sector (growing due to the crisis and of great importance for Central America), the regional employment market, wage disparity and labour migration. The model is therefore very far from correctly representing the labour market in Central America **and does not allow an accurate estimation of the impact of trade on employment and salaries**; it can only predict changes in the relative demand for work. The report predicts **labour mobility between sectors**, as a result of higher salaries in expanding export sectors, and states that this mobility is “positive”. However, this analysis is too restrictive and based on the standard deviation of the percentage changes in employment between sectors. Therefore, it is not possible to estimate the number of people who will lose their jobs and will have to look for jobs in another sector, nor the number of jobs that will be created in other sectors, nor the costs of adjustment of this labour mobility (which are normally very high), these indicators being fundamental to adequately assess the possible impact on employment in Central America.

¹ <http://www.eclac.cl/publicaciones/xml/4/35814/L904.pdf>

6. We ask that the **principal conclusions of the interim report be revised**, clarifying that these are preliminary and partial conclusions, limited to results of macro-economic modelling (and which don't yet include qualitative analysis).

Currently, the interim report states that “*the FTA is beneficial for both Central America and the EU in terms of additional GDP growth and wage increases.*” However, **it does not mention that according to the same report:**

- The gains from the proposed FTA, measured in Euros, will be greater for the European Union: the report affirms that *the greatest absolute winner is the EU (by €2 billion)*. Furthermore, the estimated increase in GDP for Central America will be modest, in comparison with TSIA's carried out for other regions, for example ASEAN.
 - Some Central American countries can expect: a reduction in real wages, significant labour displacement, deterioration in the terms of trade, greater economic concentration and important changes in land use patterns.
 - The benefits of the Agreement for each individual Central American country will differ greatly: Costa Rica will be the main winner in comparison to Guatemala, Honduras, El Salvador and Nicaragua. Furthermore, the effects on the terms of trade will be negative for all Central American countries (who already have an elevated trade deficit), except Costa Rica
7. The preliminary results of the report predict a **greater economic concentration** in sectors which already account for the greatest share of the Central American economies, and a reduction in value added economic sectors such as transport, manufacturing and insurance. This would reinforce a primary export-oriented economic model without promoting development of value added sectors. Over the long term, this would mean a **greater vulnerability for Central American economies**, aggravated by a reduction in the policy space for Central American governments in the adjustment of economic policy (as a result of the commitments made under the Agreement in relation to government procurement, intellectual property and competition policy as well as principles such as most favoured nation, standstill clause and national treatment).
 8. The report **lacks a gender perspective** and does not analyse how the agreement could affect men and women differently.
 9. The report predicts growth in forestry exports, however it does not analyse the potential environmental impacts that this growth could have, even though deforestation is mentioned as a key environmental problem for Central America. The production of

monocultures for export also carries serious social and environmental risks. It is **necessary to analyse more thoroughly the effects of deforestation** resulting from intensive cultivation (for wood products, pulp and paper production, or for “cash crops” like coffee or agro-fuels).

- 10. On resource use**, we believe **the focus on land use is much too narrow**. As such, the current analysis does not give meaningful information about the impacts of the projected FTA on Europe’s or Central America’s resource use. Therefore it should also be noted that the sector specific modeling results mentioned in paragraph 3.2.2. of the draft Interim Technical Report are solely based on economic criteria and do not quantify for environmental impacts of the EU-CA FTA as is also wrongly suggested in the first paragraph of chapter 3. We believe a set of indicators need to be used around **five main categories of resource inputs to human production and consumption processes**. These indicators should cover: (1) biotic materials; (2) abiotic materials; (3) air; (4) water and (5) land area.² Also, the text of the TSIA should be adjusted to make absolutely clear that it does not quantify for environmental impacts.

On the workshop in Managua

We welcome that the European Commission has recognised the necessity to carry out consultations in Central America with civil society, an important advance with respect to previous experiences of studies carried out by the European Commission. However, we would like to draw your attention to the following concerns regarding the consultation process:

1. There were less than two weeks between the publication of the draft interim report (6 April) and the workshop carried out in Managua on 20 April. This **did not allow sufficient time for Central American civil society actors and organisations to analyze the report** and prepare properly for their participation in the workshop.

Furthermore:

- a. The report was published on the TSIA website **but Central American civil society was not informed in a timely manner** about the publication, even though contacts had been sent to the consultants during the initial phase.
- b. The fact that Easter week, a general holiday period for Central America, was between 13 and 17 April was not taken into account, and this made the

² Giljum, S., Hinterberger, F. and S. Lutter (2008). Measuring natural resource use. Context, indicators and EU policy processes, SERI Background Paper, http://www.seri.at/index.php?option=com_docman&task=doc_download&gid=251&Itemid=39

participation and preparation of Central American civil society organisations even more difficult. The workshop took place on the Monday immediately after this week.

- c. As we have already stated, **the lack of availability of the draft interim report in Spanish was a serious barrier** for the participation of Central American civil society.
2. The **call for participation in the region was limited, unrepresentative and inadequate**. The criteria for invitation were not clear and many representatives of civil society with an interest in the negotiations were not invited. According to information received by us, even the CC-SICA had to request a specific meeting with the consultants, because they had not been informed of the workshop. Many organisations only became aware of the meeting and the existence of the draft interim report, through information from networks with representation in Brussels. Many of the civil society organisations with knowledge and interest in the negotiation process did not have the opportunity to give their opinions, although various organisations had sent the consultants the contacts of these organisations (contacts solicited by the consultants) during the first phase of the TSIA in February.
 3. **With respect to the content of the report**, the consensus among civil society is that only assessing the impact of the trade pillar is insufficient and it is essential to incorporate an analysis of the three pillars of the Agreement
 - a. The quantitative character of the methodology severely limits the possibility of incorporating more qualitative features like environmental factors
 - b. Products such as banana and sugar which are the most relevant to Central America should be addressed, but the aggregation of sectors in the TSIA does not allow an analysis of these sectors. Sectors such as the electronics sector are not of great interest to Central America from a trade point of view.
 - c. The forestry sector should be analysed from a value chain perspective and not from a production perspective.
 - d. The services sector should be incorporated as a sector to be considered in detail in the study.
 - e. It was underlined that the TSIA should clarify what it means that Nicaragua will be the country to benefit least from the agreement and the repercussions of this.
 4. The presentations made during the consultation workshop have been published on the website, but **the minutes and conclusions from the meeting have not yet been**

published. We also consider it necessary that the criteria for invitation to the workshop be made public, together with the list of invitees and the list of participants, naming the organisations and the countries that they represent.

5. We recommend that **at least one further consultation workshop be carried out in Central America** concerning the draft final report, which should take into account the recommendations, concerns and suggestions that have expressed by civil society.

We consider it essential that the concerns and considerations detailed above should be taken into account. In its reply to citizens' letters to the EC chief negotiator Mr. Sannino, the Commission highlights a number of potential positive impacts of the agreement, referring to the interim TSIA. Considering the weaknesses of the interim TSIA as raised above, as well as the mixed results regarding benefits, **the Commission should be more prudent and balanced in the references it makes to the preliminary results of the TSIA and should not draw hasty conclusions.**

We also propose that, as an act of good practice and to demonstrate sincere adherence to its own TSIA program, the **European Commission does not continue with the negotiations until the TSIA is completed.**

Finally, we would like to reiterate our interest in maintaining a dialogue with you about this and other issues relevant to negotiation of an association agreement between the European Union and Central America.

Respectfully,

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Presidente

ALOP



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Consultants responsible for the TSIA

Central American Negotiators