

**COMMISSION SERVICES POSITION PAPER¹ ON
THE TRADE SUSTAINABILITY IMPACT ASSESSMENT (SIA) OF THE
MULTIPARTY TRADE AGREEMENT WITH ANDEAN COUNTRIES**

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Introduction

This paper provides the reaction of the Commission Services to the Trade Sustainability Impact Assessment (SIA) of a Multi-Party Trade Agreement between the EU and Members of the Community of Andean Nations (CAN). This study was carried out by a consortium of independent consultants composed of the following members: Development Solutions, the Centre for Economic Policy Research and the Institute for Development Policy and Management in the School of Environment and Development at the University of Manchester.

The SIA report was finalised in October 2009. It consists of six sections: 1) Introduction of the EU-Andeans SIA and study methodology; 2) Analysis of baseline conditions; 3) economic modelling method and trade liberalisation scenarios; 4) Trade, cooperation and domestic policy recommendations; 5) Project consultation activities; 6) References used and technical appendix.

The report can be downloaded on the Commission's and on the consultant's websites:

- <http://ec.europa.eu/trade/analysis/sustainability-impact-assessments/assessments/>
- <http://www.euandean-sia.org/>

This SIA process was launched at a time when all four countries of the Community of Andean Nations (Colombia, Peru, Bolivia and Ecuador) were still expected to be part of the negotiations. The SIA report therefore refers to the potential effects of a Multi-Party Trade Agreement between the EU and the four Andean countries. However, the fact that two member states of the CAN suspended their participation in the talks following internal divergences among CAN members has no impact on the overall validity of the conclusions reached by the study. Indeed, by estimating the potential impact of the Trade Agreement in the EU, on the one hand, and in each and every one of the Andean countries individually, on the other, the SIA results provide a valid approximation to the potential effects of the Agreement both from an overall regional perspective and from a national point of view.

¹This Trade SIA position paper is presented exceptionally *after* the negotiations of the Multiparty Trade Agreement with Colombia and Peru have been concluded. Therefore it focuses on explaining how the trade SIA recommendations have been taken into account in the Agreement.

1) Objectives of the SIA

The European Commission has been engaged in conducting Trade SIAs as part of its trade policy-making process since 1999. The purpose of the Trade SIA programme is to inform trade negotiators and other interested parties on the potential economic, social and environmental impacts of trade agreements between the EU and its trading partners, both from the perspective of the EU and that of partner countries.

The European Commission has defined the objective of its SIA studies as a means of better integrating sustainability considerations into European trade policy:

- by analysing the issues arising in a trade negotiation with respect to sustainable development;
- by informing decision-makers and negotiators of the possible social, environmental, and economic consequences of a trade agreement as a basis for defining negotiating objectives;
- by providing guidelines to help in the design of possible preventative, mitigation and enhancement measures, the sphere of activity of which can exceed the commercial field (internal policy, capacity building, international regulation), and which make it possible to maximise the positive impact and mitigate potential negative impacts of the trade agreement.

The final Trade SIA report is available publicly and the process leading up to it included extensive consultations both in the EU and in the partner region. The fact that this report was made publicly available on the internet means it could also serve as an orientation tool for Andean negotiators, as well as a useful secondary source of information for stakeholders and civil society in both regions.

2) Summary of the impacts identified by the consultants

Methodology:

The methodological framework for Trade SIAs is described in the EC's Handbook for Trade Sustainability Impact Assessment².

The methodology for a Trade SIA is generally based on a four-step approach³. At the very beginning of the exercise, a screening process identifies the sectors and issues that are relevant in the context of the ongoing trade negotiations. The sectors and issues are selected by applying a core group of quantitative and qualitative indicators with social, environmental, and economic components. In a second stage, the terms of reference are determined by deciding what appraisal methods and consultation procedures should be used. Then the potential impacts of each measure and of the agreement as a whole are assessed. In the fourth stage, flanking measures are identified that could mitigate any negative impacts or enhance

² http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127974.pdf

³ As described in the European Commission's Position paper on the trade SIA of the negotiations of a Partnership and Cooperation Agreement between the EU and China.

any positive impacts on sustainable development that would result from the foreseen trade liberalisation.

The SIA on the EU-Andean negotiations is built on two different scenarios:

- The first one, "Modest liberalisation", is based on the following working assumptions: 90% liberalisation of tariffs, 50% liberalisation of services, 1% of the value of trade in cost reductions through trade facilitation measures.
- The second one, "Ambitious liberalisation", is based on the following working assumptions: 97% reduction of tariffs, 75% liberalisation of services, 3% of the value of trade in cost reductions through trade facilitation measures.

These two scenarios are run on the basis of baseline modelling assumptions that take account of the possible effects of a WTO multilateral liberalisation agreement and which fully integrate the significant preferences currently granted by the EU to Andean countries, notably via the autonomous General System of Preferences (in particular, the special incentive arrangement for sustainable development and good governance, known as GSP+).

A) Economic Impact

The overall impact on GDP of an EU-Andean FTA is estimated to be positive, with output/income gains for all economies in all scenarios: dynamic long term effects under a scenario of ambitious liberalisation could amount to up to €4bn in the EU (even though this would represent less than 0.1% GDP), €400 million in Bolivia (2.1% GDP), €2.7 bn in Colombia (1.3% GDP), €860 million in Ecuador (1.9% GDP) and €940 million in Peru (0.7% GDP).

Trade flows are expected to expand following the entry into force of the agreement. The effect would be marginal in the EU (maximum +0.1% in imports and exports to/from the Andean region) but would be much more significant for the Andean countries. The value of the exports from these countries could grow by up to 6.5% (Bolivia), 9.9% (Colombia), 7.9% (Ecuador) and 7.2% (Peru) while imports from the EU would follow a similar trend. It is also possible that some small trade diversion effects would be felt vis-à-vis the US and Mercosur.

A sector specific analysis also shows that the impact in terms of output for the agricultural sector would be minimal in the EU, potentially limited in Ecuador, and generally positive in Bolivia, Colombia, and Peru. The biggest impacts for Andean sectoral output would be felt in the fruits sector, with banana production being the most important element explaining the expected increase in output. For this specific product, the Commission services note that due account should be taken of both the reduction in tariff that has been agreed to by the EU at the multilateral level, and of the further tariff reduction negotiated in the context of the EU-Andean Trade Agreement. Forestry and fisheries would display mixed results depending on the country.

In industrial sectors, the effects for the EU are not expected to be significant. In Andean countries, the industrial sectors most likely to benefit from a Trade Agreement include mining, textile, wearing apparels, leather products, wood products, machinery and equipment and metal production. Output of both heavy and light industrial goods is therefore generally expected to increase in all four Andean countries as a result of liberalisation.

In the services sector, although modelling techniques face considerable challenges and the resulting estimates have to be approached with caution, European firms should benefit from improved opportunities in some parts of the services sector. On the other hand, further liberalisation via an EU-Andean Trade Agreement is expected to bring significant economic benefits in all Andean countries for many services sectors. According to the SIA, in the Andean countries the sectors that would be most likely to grow in a scenario of ambitious liberalisation are utilities, distribution, communication, public services or construction while the sectors that could be facing a decrease in output are insurance, financial services as well as business and recreational services. However, as the SIA report clarifies, the opening of services sectors to EU companies can be expected to encourage further European investment in establishing a commercial presence in the Andean economies: therefore, the Commission services' assessment is that output should increase overall (i.e.: if considered independently of the country of origin of the service provider).

In addition, over the long term, services liberalisation is also expected to deliver significant efficiency and welfare gains by reducing costs of key services (e.g.: financial, energy, telecommunications) for local businesses, increasing their availability, and generating sustainable development and poverty reduction effects given the overall cost reduction impact on consumers.

B) Social Impact

The study concludes that effects on average national wages both for skilled and unskilled workers are expected to be minor. In the EU, the effect on average wages of an EU-Andean Trade Agreement would be negligible whereas, in the Andean countries, the effects for unskilled workers would overall be positive (up to 1.3% in Bolivia) with the exception of Ecuador that would possibly see a 0.1 to 0.2% reduction in the short term.

For skilled workers, the effects on average wages in Andean countries would be very modest with results varying according to the scenario chosen and to the perspective taken (short term/long term). The maximum positive effect could be an increase in wages of 0.6% in Bolivia whereas the maximum negative effect could be a decrease of 0.5% in Ecuador.

Conversely, national employment effects would be positive in all scenarios. The impact on employment in the EU would be negligible whereas the impact on employment in Andean countries could reach +2 to +3% in Bolivia, Ecuador and Colombia over the long term. There could be some inter-sectoral shifts in employment and therefore some adjustments in labour markets.

With regard to the sectoral impact of liberalisation, the sectors in Andean countries that may benefit the most from a Trade Agreement would be sugar and fruits in addition to a possible further expansion of mining and hydrocarbons. The SIA includes an assessment of possible social issues arising in those sectors: land ownership, the situation of small farmers and the development of large-scale commercial operations, effects on employment and wages, labour rights, local and indigenous communities, and gender issues. Some effects are identified by the SIA as bearing possible negative social impacts, e.g. in view of past opposition of some local populations to the extension of mining operations or hydrocarbons production sites. The SIA also mentions the possibility that, in the large scale mining sector, restrictions on workers' rights could limit increases in real wages and hamper substantial improvements in working conditions. Finally, in the biofuels and palm oil sectors, the SIA suggests that the

increase of production could have a potentially negative social impact in Andean countries given the risk of displacement of populations and the possible social consequences - notably in the eastern regions – that could follow.

The SIA report also mentions that trade liberalisation is often associated with a decline in trade tax revenues (i.e. import duties), and an overall fall in government revenues could occur in the short run if additional revenue is not obtained through other sources. This may in turn translate into a fall in social expenditure. On this specific point, the Commission services note that any short-term revenue losses should be offset by the positive impact for public finances of increased local production, increased trade (for products not fully liberalised) and an overall better allocation of resources by the private sector. The Commission services also point out that the share of tariff revenue in overall tax revenue in Andean countries is generally limited and decreasing over time, in line with economic development and openness policies.

C) Impact on the Environment

Concerning its impact on the environment, the SIA report reaches 4 main conclusions. First, as regards climate change, any increase in greenhouse gas emissions resulting from an EU-Andean Trade Agreement is not expected to be significant against the background of global emissions. Secondly, at a sectoral level, the SIA points out that the predicted growth in the agriculture sector in Andean countries could add pressure on both land and water resources. A third point mentioned by the study is the risk of generating important sources of pollution as a consequence of an increase of mining activities, large-scale agricultural production, or in case of unregulated expansion of some sectors such as textiles, chemicals, rubber and plastics. Finally, the study suggests that the Trade Agreement might have potentially significant impacts in terms of deforestation and reduced biodiversity, as a result of the predicted expansion of agriculture and timber industries.

On the specific issue of increased demand for agricultural commodities and processed agricultural products from the Andean countries (including biofuels, fruits, soy and sugar), the SIA points out that if the FTA were to generate changes in land use to the detriment of forested area, the greatest concern would be with the loss of biodiversity. With respect to biofuels (ethanol and palm oil), the study notes that specific areas in the Andean region might see their production rise due to increased demand from the EU and greater access granted through the planned Trade Agreement. The Commission services point out though that while it is true that the Agreement will put trade relations between the Parties on a more permanent basis, access *per se* will not be greater as the EU already allows duty free imports from Andean countries of both products under GSP+. The incremental environmental impacts of a trade agreement in this domain should therefore be put into perspective and are not likely to be significant.

As regards illegal logging and deforestation due to exploitation of forestry resources, the Commission services consider that EU-Andean trade in forestry products is not likely to become a main source of environmental pressure, as tariff levels for forestry products were already low, so the impact of the Agreement on export flows from the region to the EU is likely to be limited. Thus, the US and China are likely to remain the major international markets though it is possible that in the case of China some wood from the Andean region may be processed and reach the EU in the form of finished products.

3) Policy recommendations in relation to the Trade Agreement: suggestions made in the study and Commission services' view

A) Trade-related measures

The SIA report specifies a number of FTA-related recommendations to address possible economic effects and to enhance sustainable growth, in particular:

- 1) *Establish a timetable for phased reductions in tariffs and Non Tariff Measures to allow for an adjustment period in sectors expected to experience adjustment costs; and to enable the introduction of a set of sustainability criteria for environmentally sensitive goods;*
- 2) *Include a Trade and Sustainable Development Chapter in the Trade pillar of the Agreement;*
- 3) *Establish an institutional framework for the monitoring of the social and environmental outcomes of the trade agreement;*
- 4) *Establish binding measures on transparency of tax and non-tax incentives to attract FDI in the extractive industries and services sector.*

Regarding the first recommendation, the Commission services note that the standard procedure for negotiating tariff liberalisation is for both partners to prepare tariff offers in accordance with agreed modalities. These modalities set the general framework for the discussion, ensuring the WTO compliance of the future agreement and streamlining further discussion on the sequence of market access liberalisation of traded goods. During the negotiations, both partners agreed on some sensitive products for which a more extended market protection would apply. The exact extent of this market protection (products concerned, length of transition periods) was one of the key elements of the discussions in the negotiating process.

The Commission services agree on the need to address the potential impact of trade in environmentally sensitive goods and will discuss these issues with the Andean countries. In some areas, appropriate policy frameworks are being put in place. The Commission services recall that for biofuels, for example, the EU Renewable Energy Directive (RED) 2009/28/EC lays down comprehensive sustainability criteria for the production of bioliquids and can therefore play an important risk mitigating role. It will be important to discuss with Andean countries how to best accompany possible changes in production and consumption patterns with measures aiming at tackling environmental externalities and promoting environmentally-friendly production processes. Consideration of these issues by government authorities as well as by civil society groups will be possible, among other things, in the context of the Trade & Sustainable Development title included in the Agreement. The policy space to adopt appropriate environmental protection measures, including on the basis of precautionary considerations, needs to be recognised and safeguarded.

With respect to the specific comments of the report concerning biofuels, the Commission services note that this trade agreement will consolidate the current trading conditions that apply to imports of ethanol and palm oil from Andean countries under GSP+ and is thereby likely to create more permanent, long-term export perspectives for these commodities. However, the pre-existence of GSP+ arrangements - by which the EU is already giving duty free access to ethanol and palm oil from Andean countries - implies that such concerns over

the impact of a yet unsubstantiated potential increase in biofuels trade should be put into perspective.

With regard to social concerns, it is important to ensure that the policy space to implement measures aiming at promoting better social conditions or at facilitating adjustments during a transitional period is safeguarded. On this aspect, the Commission services would note that there are only limited potential risks associated with the reduced autonomy in domestic policies resulting from a trade agreement which could theoretically lead to a limitation of the EU or Andean countries' capacity to deliver on social objectives. The SIA report itself concludes that much of this policy space remains in the hands of governments who will be the real actors of social improvements. The Commission Services support this view.

In line with recommendations 2 and 3, the Trade Agreement will include a comprehensive Trade and Sustainable Development title. This title will include commitments to effectively implement a number of key multilateral labour and environmental agreements to which both partners are party, in addition to commitments on the effective implementation and enforcement of the domestic regulatory frameworks on labour and environmental issues. The title will also provide a basis to address sustainability considerations with respect to the production of trade in environmentally sensitive products (e.g.: forestry and fisheries), as well as general biodiversity issues.

The Agreement will also establish an institutional framework to monitor the effective implementation of these commitments and provide for regular consultation with civil society. Monitoring should inter alia rely on the ground work of the EU delegations in the region, on the basis of their contacts with business, social and environmental stakeholders. Regular meetings of the institutions to be set up by the Agreement should include opportunities for direct engagement with civil society organisations. Recourse to impartial and independent experts to assess compliance with legal commitments will be possible as a means to address divergences between the Parties, with public reports to serve as a basis to consider what remedial action may be implemented.

Regarding the recommendation on transparency of tax and non tax-incentives to attract FDI in the extractive industries and services sector, the Commission services' general position is that initiatives to promote enhanced transparency and better governance are to be encouraged. It is foreseen that the Trade Agreement will include both a chapter on transparency and clauses prohibiting the lowering of labour and environmental standards for the purpose of attracting FDI.

B) Cooperation related measures

In order to address economic, social and environmental aspects, the Trade SIA recommends a number of measures in the cooperation sector:

- 5) *Support for regulatory capacity building, particularly in environmental regulation, public utility regulation and financial sector regulation;*
- 6) *Provision of technical assistance in education and training on sustainable forestry practices;*
- 7) *Industrial cooperation to support and promote industrial policy measures;*
- 8) *Reporting on EU companies' compliance with initiatives for promoting social corporate responsibility in the mining, oil and gas sectors;*

- 9) *Cooperation on agriculture and rural sectors;*
- 10) *Cooperation on territorial planning;*
- 11) *Cooperation in the field of foreign and security policy with joint initiatives against terrorism, corruption and drug-trafficking;*
- 12) *Establish a policy dialogue between the EU and Andean countries to promote and disseminate information to further the development and maintenance of democratic values.*

The Commission services agree that promoting regulatory capacity building, particularly in environmental regulation, public utility regulation and financial regulation would have very positive effects in the Andean countries. In this respect, the Commission services recall that the findings of this SIA are available to the governments of Andean countries which have the prime responsibility for the strengthening of their national and regional legislations in this area. In addition, the Commission services, point out that the Commission has already been playing a substantial role in promoting this regulatory capacity building via its actions in the region⁴.

In the framework of the Mid-term review of the Country Strategy Papers for Peru and Colombia and the design of the National Indicative Programmes 2011-2013, adopted in July 2011, specific indicative amounts have been allocated to support the implementation of the agreement, notably through the strengthening of institutional capacities, the adaptation of the regulatory framework, including in the environmental sector. €13 million (Peru) and €8.6 million (Colombia) will be allocated for this over the period in question. Possible activities under this chapter could include: technical assistance in view of the adaptation of the legal and regulatory frameworks of Andean countries to their international commitments; supporting business development for enterprises active in renewable energy and environmentally friendly technologies; supporting the design and implementation of biodiversity conservation strategies; strengthening institutions responsible for environmental protection, management of natural resources etc.

Similarly, the Commission services agree with the need to continue providing technical assistance in education and training on forestry practices. Under the thematic programme for environment and sustainable management of natural resources including energy, several forest-related projects were financed in Andean countries in the last few years while others are currently being implemented or planned. These projects aim notably at promoting the conservation and sustainable management of forests (principally in the Amazon region) and the participation of indigenous communities in this process. Also, as part of its Action Plan for Forest Law Enforcement Governance and Trade (FLEGT) a number of forest management-related capacity-building projects are financed in the region. Commission services also highlight the efforts undertaken by the EU as part of its "Regional Biodiversity Strategy"⁵.

Regarding the promotion of the rights of indigenous people, the EU is willing to further support the process of inclusion of this issue within national agendas. Currently, the Commission is supporting the governments' efforts to fight against poverty and to develop the poorest regions (principally inhabited by native communities). In both Colombia and Peru, the Commission is also financing projects implemented by NGOs and non-state actors, in fields

⁴See in particular Regional Programming document for Latin America 2007-2013:
http://ec.europa.eu/external_relations/la/rsp/07_13_en.pdf

⁵ See <http://ec.europa.eu/environment/docum/9842sm.htm>.

such as education, health, economic and productive development, forestal management by indigenous communities from the Peruvian Amazon, or aiming to reinforce indigenous organisations, promote their rights and their political participation.

On industrial cooperation, the EU is financing various programmes, both at national and Andean level, supporting export diversification and product development, strengthening technical regulations in line with international standards, and simplifying administrative procedures. The Commission services also note that upon request from the Andean countries they are ready to consider the creation of bilateral mechanisms to share expertise and exchange best practices in this area.

With regard to the implementation by EU companies of initiatives promoting corporate social responsibility notably in the mining, oil and gas sectors, the Commission services would agree to consider appropriate means, in accordance with international guidelines, to promote the adoption of corporate social responsibility criteria by EU companies including when investing abroad. In the meantime it should be noted that a renewed European policy on corporate social responsibility, to be finalised in 2011, is expected to have a stronger focus on business and human rights and in particular on the implementation of the United Nations business and human rights framework. The European Commission has recently launched two studies, respectively on the legal framework for human rights and the environment applicable to European companies when they operate outside the EU and on illustrations of supply chain practices by European companies, especially in the area of protection of human rights. This issue is to remain a priority for the future.

On cooperation with the agriculture and rural sector, the Commission services consider that initiatives to facilitate the integration of small farmers into the international markets are to be supported. The Commission is therefore willing to continue, and if necessary reinforce, existing dialogues, exchanges of information and best practices as well as technical assistance programmes on agriculture, sanitary and phytosanitary measures, R&D on biodiversity-based agro industry to improve the competitiveness of the sector as well as the quality and safety of Andean products for European consumers⁶. The Commission services are also ready to examine the possibility to further develop cooperation on territorial planning and to share knowledge and expertise on these issues with interested Andean countries.

Concerning the combat against illicit drugs, the Commission services would like to point out that this is already a key priority for cooperation with Colombia and Peru. Alternative development is a central component of EU-funded programmes such as the Peace Laboratories in Colombia. Support for the national anti-drugs policy will remain a priority sector of cooperation with both countries also in the future.

Regarding cooperation on foreign policy and the promotion of democratic values, the Commission services note that these are important points which should be dealt with via a full-fledged EU-Andean Association Agreement or via the existing bilateral cooperation and political dialogues mechanisms existing between the EU and the Andean countries. In so far as human rights and democratic values are concerned, while the trade agreement will not

⁶ European Commission, 2010. Towards the EU-LAC Knowledge Area. Scientific and Technological Cooperation between Latin America, the Caribbean and the European Union for Sustainable Development and Social Inclusion. Luxembourg, Publication Office of the European Union, 32 p. <http://ec.europa.eu/research/iscp/index.cfm?lg=en&pg=allpublications>.

regulate those issues in detail, the EU regards them as essential elements underlying our relations with the countries in the Andean region, and as such they will be fully included in the general principles of the agreement.

C) Domestic measures

The following domestic measures are recommended by the SIA report in order to enhance the positive effects of an EU-Andean Agreement on sustainable development.

European Union

- 13) Continued efforts to increase coherence between EU trade and sustainable development policies and those of Andean countries*
- 14) Continued effort to cooperate with the corporate sector to improve corporate social responsibility measures*
- 15) Continued effort to cooperate with civil society organisations*
- 16) Significant reduction of entry restrictions into the European market of "novel foods"*

The Commission services agree with the importance of further increasing coherence between EU and Andean countries' sustainable development policies, as well as policy coherence at the national and supranational level. In this regard, the creation of an institutional framework to monitor the effective implementation of sustainable development provisions (see recommendation 3) should play a significant role. Such a framework could allow for the participation of representatives from different national bodies and policy backgrounds, spurring a comprehensive and multi-faceted assessment of cross-cutting issues, as well as an enhanced exchange of information and best practices in sustainable development initiatives in both parties, thus contributing to the coherence between policies.

The Commission services also agree that initiatives aiming at promoting corporate social responsibility measures should be encouraged. Results of these initiatives could for example be disseminated and discussed in the institutional framework set up to address sustainable development issues.

The important role to be played by civil society organisations is also to be underlined. On this point, the Commission services recall the central role that is to be played by civil society organisations in the foreseen commitments of all parties in the future trade and sustainable development title of the Agreement and note the important contribution brought by the consultation with civil society in the process of drafting the trade SIA report.

On the reduction of entry restrictions into the European market for "novel foods", the Commission services note that any food products of whichever origin must of course comply with the same safety standards applied to EU products. A process for the assessment of foods and food ingredients that have not been used for human consumption to a significant degree within the EU is necessary to guarantee adequate food safety standards. Mechanisms already exist to promote exchange of information and guidance on these procedures and standards.

Andean countries

- 17) Strengthen environmental regulation*
- 18) Strengthen financial services regulation prior to liberalisation*

- 19) *Strengthen trade facilitation reform*
- 20) *Strengthen public procurement reform*
- 21) *Strengthen social protection*
- 22) *Strengthen the Andean countries' diplomatic representations in EU countries*
- 23) *Adapt the countries' tax systems to be more progressive and equitable for local producers, in particular SMEs*

The Commission services share the consultant's views that strengthening environmental regulation in Andean countries would be important to offset potential adverse impacts of forest conversion, mining expansion and industrial growth. It should be underlined that the findings and recommendations of this SIA are also available to Andean countries' governments and that various mechanisms already exist and could be reinforced in order for these countries to benefit from EU's expertise in this field.

On the need to strengthen regulation in the financial sector the Commission services agree with the need for effective regulatory mechanisms to avoid risks of financial instability and points out to the efforts currently undertaken in this direction. However, it is also important to stress that this issue should be addressed primarily at the national level and possibly multilaterally, but that a bilateral EU-Andean trade agreement does not represent the appropriate framework for such a task.

Measures aimed at strengthening trade facilitation reform should also be encouraged. The Commission services firmly believe that trade facilitation measures could play a significant role in enhancing trade to the mutual benefit of both partners.

Similarly Commission services agree that further increasing public procurement reform in Andean countries may generate gains from increased competition for government contracts and that further economic efficiency gains might be expected to result from the improvement in the quality of public sector governance.

The Commission services take note of the recommendations to strengthen social protection and adapt the tax systems to be more progressive in Andean countries. Though underlining that it is the prime responsibility of these countries to improve their revenue systems and policies according to their own economic and political choices, the Commission services nonetheless encourage Andean countries to address the principles of good governance when designing their domestic tax systems.

Finally, the Commission services agree with the recommendation to strengthen the Andean countries' diplomatic representations in EU countries and in Brussels. This could help facilitating the cooperation between the EU and these countries and would help them to fully benefit from the numerous opportunities generated by this trade agreement.

Conclusion

The Commission services believe that a trade agreement with Andean countries is desirable due to the multiple advantages it presents. Establishing such a framework for our bi-regional relations will help these countries in their reform agenda and support their efforts to develop a more open economy and will allow them to fully benefit from their competitive advantages while generating the conditions for increased investment into their growing markets. This, the

Commission services believe, is beneficial to their political and economic stability. Indeed, creating such economic interdependencies both within the region and with a powerful and stabilising economic partner such as the EU will be a key result of this project.

The agreement will be ambitious and will contain very significant commitments from all Parties. It will generate new opportunities for economic operators in the EU and in the Andean countries and act as an incentive for Andean countries to modernise their production structure and - through expected additional income and economic growth - increase their means to offer more extensive and improved social protection as well as alleviate poverty.

The overall contribution to the development objectives of these countries will therefore be very positive. Yet, as this study shows, an EU-Andean trade agreement will have an important environmental and social impact in Andean countries, and it is therefore essential that these elements are taken into account during its implementation phase, including in the context of domestic policy-making and international cooperation. Moreover, effective implementation of the Agreement's commitments in the comprehensive trade and sustainable development title will also help Andean countries to maximise the expected benefits of the agreement and adequately address the potential negative effects.

The Commission services have taken good note of the findings and recommendations made in the SIA report and have fully considered them during the negotiations with Andean countries. Close attention will also be paid to them during the Agreement's implementation phase so as to ensure that it will contribute to sustainable development objectives.