Study on Latin America, the Caribbean and Central and Eastern Europe:
Potential for Economic Exchange

Paper

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Policy Framework of the Cooperation between the European Union and the Latin American and Caribbean Countries

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Introduction

The objective of this paper is to evaluate the trade policy framework of cooperation between the European Union (EU) – with special regard to the position of the Central and Eastern European countries (CEE) – and the countries of Latin America and the Caribbean (LAC). The first section – focusing on the EU – describes the changing attitudes of the partners concerning upgrading their institutional relations, their motivations that led to the present situation, and the main steps taken in this process. The second part provides an overview of the existing trade policy framework, the legal basis of cooperation, the different types of multi- and bilateral agreements already concluded and those under negotiation. This section makes an attempt at mapping the specific interests – if relevant and appropriate – of the countries of Central and Eastern Europe in developing trade policy relations and elaborates on the advantages, as well as the potential risks – if any – for them. The final chapter offers a few concluding remarks.

1. The partners' changing attitudes towards deepening and upgrading their cooperation

1.1. Changing context of the EU trade policy

The main element of the changing landscape of EU relations with its important partners consists in renewing its trade policy, including the modification of its position concerning regional and bilateral trade, cooperation and Association Agreements.

Since the creation of the WTO, disputes about the reform of EU commercial policy have speeded up. The European Commission, in cooperation with interested economic actors and taking into account the ambitions of the Member States, has produced several strategy documents aimed at introducing new perspectives and directions for and reformulating the priorities of the EU's common commercial policies. The first document published in 1996, "The Global Challenge of International Trade: A Market Access Strategy for the European Union",[1] reflects increased activity in the EU intended to implement WTO decisions on liberalisation and to extend the scope of bilateral agreements. This pro-active EU trade policy period was followed in the first half of the 2000s by a turn to a more cautious and more realistic assessment of the EU's room for manoeuvre in trade policy. This was reflected in the 2004 Commission document, "Trade Policy in the Prodi Commission: an Assessment".[2] Following the likely failure of the Doha Round, the EU took a step back in enforcing far-reaching multilateral rules and procedures going beyond classical trade policy (such as government procurement, investment policy, competition rules and trade facilitation). The most recent, significant trade policy document is the 2006 "Global Europe: Competing in the World. A Contribution to the EU's Growth and Jobs Strategy".[3]

The Commission's Global Europe communication returns to some extent to its 1996 communication by focusing on the liberalisation of tariff and non-tariff barriers, both in multilateral and bilateral frameworks. This document particularly stressed a fear of disadvantages and worsening of the EU position arising from increased attempts by the EU's main trading partners to conclude bilateral market access agreements with third countries. By listing new potential priority partners for future bilateral deals and Strategic Partnership agreements (including Latin American countries and groups of countries), the Global Europe communication reflected the EU's readiness to take on a more active role on the international scene. At the same time, this document again emphasises the idea of establishing rules going beyond classical trade policy, either in multilateral or bilateral form. Global Europe, together with

[1] European Commission (1996)
[2] European Commission (2004)
[3] European Commission (2006)

stressing the open nature of the European marketplace, also emphasises the improved coordination of trade policy with the general macroeconomic and sectoral policy objectives of the EU, in other words, the creation of an external competitiveness pillar.

Important changes can be observed in the content and backdrop of trade policy. In previous decades, trade policy measures mainly focused on the elimination or phasing out of classical trade policy barriers. The GATT provides an illustrative example of this developmental stage. Now, liberalisation measures and the creation of new practices and codes of conduct that go far beyond classical trade policy efforts aiming at the reduction of existing barriers are at the forefront of the international agenda on multilateral and bilateral agreements. These newer efforts and ambitions, incuding behind-the-border rules, environmental requirements, enhanced transparency, stronger consultation mechanisms, and recognition of standards, affect much more than pure market access interests. They may touch deeper elements of the economy and regulatory systems and may even affect the existing system of social values.
The Global Europe Strategy has served Europe relatively well since 2006. Its principal economic orientation and main components should perhaps remain in place if the EU is to continue to be competitive in the future. Certainly, challenges have increased in recent years. One need only refer to the recent economic crisis (with increased protective non-tariff measures and discrimination against foreign commercial interests in different non-trade policy fields), or to the drive towards greener growth. By promoting a greater involvement of the European Parliament in trade policy decision-making, recent Lisbon Treaty changes may also influence policy formation, as well as its values and priorities. An updated trade policy will need to take these challenges into account. However, the EU must address these new realities while remaining fully aware of trade's primary purpose – to generate long-term growth and employment in the European economy. The EU's common commercial policy must work to support EU competitiveness and job creation. This is a crucial component of the EU's 2020 growth strategy.

On the basis of the evaluation of the achievements and shortcomings of the EU's current trade policy, in the second half of 2010 the European Commission started to prepare the intellectual background for discussions and consultations on a renewed strategy. As the first milestone in this process the Commission published a report assessing the Global Europe Strategy ("Report on progress achieved on the Global Europe Strategy, 2006-2010"[4]) and shortly thereafter, a deeper analysis that also incorporated recommendations for the future ("Trade as a driver of prosperity"[5]). These two working documents served a basis for the Commission communication, "Trade, Growth and World Affaires – Trade policy as a core component of the EU's 2020 strategy",[6] which elaborated future directions for Community action in this field.

The main elements of the EU strategy focus on delivering new market access through multilateral and bilateral trade negotiations and ensuring that that these policy goals are more efficiently enforced. The EU is strongly committed to concluding the WTO Doha Round. At the same time, the EU has taken a more strategic approach to its relationship with its major partner countries. The European Union needs a trade policy that will enhance the competitiveness of the European economy including, among other things, the regulation of raw materials and energy markets, tackling barriers to participation in international public procurement markets, addressing regulatory barriers to trade and investment, the creation of new business opportunities in green and digital technologies, ensuring full protection of intellectual property rights through stronger rules and improved enforcement. Finally, the EU wants to achieve a higher level of coordination between trade and other policies that have a direct bearing on EU commercial policy.

[4] European Commission (2010a)
[5] European Commission (2010b)
[6] European Commission (2010c)

1.2. Main developments in EU-Latin American relations: co-operation and trade aspects

The strong shift in the EU approach towards improving institutional links with different partners has led to an intensification of relations with countries of the Latin American and Caribbean (LAC) region in recent years. The motivation behind this shift, besides renewing the trade policy of the EU, is the need to preserve and strengthen its position in the Latin American countries in a period when both these countries and their main partners (USA, Asian economies) show growing activity in creating free trade arrangements (FTAs) and establishing different cooperation schemes. In the recent period Latin America has undergone a major process of diversification in its international relations. Apart from the traditional relationship with the United States, there are increasingly important links between Latin America and the Asia-Pacific region. By upgrading and intensifying relations with Latin America, the EU tries to counterbalance the potential crowding-out effect of the emerging and already concluded FTAs by creating similar arrangements in the region. From the point of view of the Latin American countries there is a visible effort to preserve their position in the EU's foreign policy agenda after the Eastern enlargement by strengthening political and economic ties with the enlarged EU.

During the past two decades, EU-LAC relations have been shaped at bi-regional, sub-regional and country levels, with regular summits at highest level of the two regions as the main driver. Since 1999, the high-level political dialogue on topics of common interest pursued in the framework of the bi-regional partnership has brought about a broad range of thematic dialogues and sectoral cooperation programmes. It has spurred negotiations on Association Agreements involving political dialogue, trade and cooperation.

The EU has formulated its policy priorities towards Latin America and the Caribbean as follows:[7]

- deepening political dialogue at bilateral, regional and multilateral level,
- deepening mutually beneficial trade and investment ties, extending agreements serving these objectives,
- furthering closer bilateral relations with individual Latin American countries while also supporting regional integration,
- increasing dialogue on macro-economic and financial issues, environment, energy and science and research, intensifying cooperation in these fields,
- supporting the region's efforts to reduce poverty and inequality and to pursue sustainable development,
- adapting cooperation programmes to cover innovative areas not addressed by traditional development cooperation,
- involving civil society in the Strategic Partnership through the EU-LAC Foundation.

A wide range of agreements with individual countries and groups of countries in the region has been concluded, including Association Agreements with Chile and Mexico. A Strategic Partnership has been established with Brazil and Mexico. An Association Agreement with Central America, CARIFORUM-EU economic partnership agreement (EPA), as well as a trade agreement with Peru and Colombia have been signed.

The above-mentioned arrangements are inserted in the broader framework of the EU-LAC bi-regional Strategic Partnership and dialogue. This framework was created by the first bi-regional Summit in Rio de Janeiro in 1999. Major decisions are made at those biannual summits, which have been held alternatively in Latin America and Europe, and are attended by member states' representatives, in many cases at the highest level. Summits were held in Rio de Janeiro (1999), Madrid (2002), Guadalajara (2004), Vienna (2006), Lima (2008), Madrid (2010) and Santiago de Chile (2013).

The Rio de Janeiro Summit launched the bi-regional Strategic Partnership and the EU-Mercosur and EU-Chile negotiations on an Association Agreement. The Madrid Summit launched the idea of promoting an EU-LAC common area of higher education based on common programmes and on cooperation between higher education institutions and on information society. The Guadalajara Summit con-

[7] http://eeas.europa.eu/la/index_en.htm

firmed social cohesion, effective multilateralism and regional integration as the strategic objectives of the partnership. The Vienna Summit launched the negotiations on an EU-Central America association. The Lima Summit resulted in the definition of the major axes of the bi-regional Strategic Partnership. The objective was to create a network of Association Agreements between the EU and the various sub-regional integration groups. The EU-LAC Summit in Madrid moved forward with this approach. In the declaration of this Summit the partners stressed their determination to favour an open and non-discriminatory, rules-based multilateral trade system and fully respect its disciplines. They recognised its contribution in promoting the recovery from the economic crisis and in promoting growth and development.[8] It adopted an Action Plan for the years 2010-2012 encompassing six priority areas:

- science, research, innovation and technology,
- sustainable development, environment, climate change, biodiversity and energy,
- regional integration an interconnectivity,
- migration,
- education and employment,
- the global drug problem.[9]

The Santiago Summit in its declaration[10] welcomed the new CELAC-EU dialogue, reaffirmed the shared values and positions in the international and multilateral arena, highlighted the progress in the bi-regional Strategic Partnership process, and launched the Alliance for Sustainable Development: Promoting Investments of Social and Environmental Quality. It deepened the partnership by elaborating a new Action Plan for 2013-2015. The plan added two new priority areas (gender and investment) to the six focal areas of the 2010 Plan. It also identifies instruments and activities, which, if properly implemented, should lead to concrete results in cooperation in various new fields (such as science and innovation, sustainable development, migration, social cohesion, investments and entrepreneurship).[11]

2. Trade policy framework

2.1. Mexico

Background

Mexico has enjoyed membership in the North American Free Trade Area (NAFTA) for two decades. This agreement was signed in 1994 and prompted the EU to become more active in developing its relations with Mexico, one of its most important partners in Latin America. Shortly after the NAFTA arrangement the EU and Mexico concluded an Economic Partnership, Political Coordination and Cooperation Agreement in 1997. This framework agreement, often called Global Agreement, is an open-ended one, as it defines the main areas of relations and cooperation to be developed later. Its objective is to encourage the development of trade in goods and services, including a bilateral and preferential, progressive and reciprocal liberalisation of trade, taking into account the sensitive nature of certain products and service sectors.

For this purpose the partners mandated the institutions of the agreement (Joint Council, Joint Committee and special committees) to elaborate appropriate measures to implement and extend the provisions of the agreement. On this basis a comprehensive Free Trade Agreement was reached that entered into force in 2000 for the part related to trade in goods and in 2001 for that related to trade in services.

[8] http://www.europarl.europa.eu/meetdocs/2009_2014/documents/inta/dt/814/814925/814925en.pdf
[9] Grieger (2014)
[10] http://www.eeas.europa.eu/la/summits/docs/2013_santiago_summit_declaration_en.pdf
[11] http://www.eeas.europa.eu/la/summits/docs/2013_santiago_summit_eu-celac_action_plan_en.pdf

Content

The Free Trade Agreement after a transitional period gradually established free trade covering substantial trade between the partners. It foresees that both parties will review and further liberalise trade in agricultural goods, additional fields of services and investment. The agreement includes provisions on access to public procurement market, on competition and intellectual property rights. It creates a solid basis for cooperation of the partners in a wide range of issues, such as industry, financial services, fisheries, SMEs, energy, transport, tourism, innovation, culture etc.

Relevance

For Mexico the EU is the second biggest export market and third largest source of imports. The EU imports from Mexico minerals, machinery and electric equipment, transport equipment and precision instruments. The EU's exports are dominated by machinery, transport equipments, chemicals and mineral products. In the service sector, the main fields of EU imports are sea transport, air transport and construction services, on the export side transport, computer and information services are the most important. The bilateral stock of direct investments and their flow between the partners is significant.[12]

For the Central and Eastern European (CEE) countries Mexico (together with Brazil) is the largest trading partner in the Latin American region. Besides direct exports composed mainly of machinery, mechanical and electrical equipment, CEE companies enjoy liberalised access to the Mexican market as subcontractors of European production networks. In the imports of the CEE economies partly agricultural raw products and partly manufactured goods are the most important groups. Mexican agricultural exports are mainly of complementary character for CEE countries' products.

Table 1: CEE countries in trade between the EU and Mexico

Countries	**Exports**	**Imports**
	2012, million euro	
Hungary	377.88	602.07
Slovakia	85.14	25.03
Czech Republic	357.96	150.59
Poland	442.14	93.01
Slovenia	48.01	9.6
Romania	69.33	139.58
Bulgaria	24.0	29.07
Latvia	2.49	4.64
Lithuania	10.75	38.37
Estonia	110.5	5.49
CEE total (billion euro)	**1.5**	**1.1**
EU total (billion euro)	**27.9**	**19.4**
CEE in total EU (%)	**5.4**	**5.7**

Source: Eurostat, own calculations, Éltető (2014)

[12] http://ec.europa.eu/trade/policy/countries-and-regions/countries/mexico

2.2. Chile

Background

Chile was a member of the Andean Pact, the Andean Community's predecessor, in the past but abandoned this membership during the years of military dictatorship. With the return to democracy, Chile proceeded to develop one of the most open economies, including free trade agreements with many countries and regions in the word. In 1990 the EU and Chile signed a first Framework Cooperation agreement. This agreement was followed in 1996 by another Framework Cooperation Agreement aiming at establishing in the future a political and economic association.[13] The two partners concluded an Association Agreement in 2002, which included a comprehensive free trade agreement that entered into force in 2003. The complete Association Agreement after the ratification process became effective in 2005.

The EU-Chile Association Agreement was the first in the series of the advanced FTAs of the EU concluded recently (e.g. with South Korea) or being under negotiations. It is seen as a model when the EU negotiates with countries at a similar level of development.[14]

Content

The Association Agreement is broad and covers all areas of EU-Chile relations, going well beyond WTO commitments. As far as trade policy provisions are concerned, the agreement stipulated the elimination of trade barriers after a transitional period of maximum 10 years. It established clear, stable and transparent rules for exporters, importers and investors. Besides free trade in goods, it covers free trade in services, and mutually opens the public procurement market. According to the provisions of the agreement, the parties achieved high levels of liberalisation of capital flows and investments. Specific provisions deal with strengthening the protection of intellectual property rights. The agreement also addresses standards, technical regulations and conformity assessment procedures, thus taking a step towards partly eliminating non-tariff barriers to trade. A great number of cooperation fields have been defined by the partners.

Relevance

The free trade arrangement between Chile and the European Union led to a significant increase in trade in goods and services after its entry into force. Bilateral trade has more than doubled since 2003, although its overall level is not very high. The EU is Chile's second largest source of imports and the third largest export market. Key EU imports from Chile include mining products such as ores and non-ferrous metals, mostly copper, which traditionally represent around half of EU imports from Chile. The second most important sector in EU imports is agriculture, with a share of around a quarter. Agricultural imports cover mainly fruits and vegetables, wines and fish products. The main product groups in the EU exports are machinery and electrical equipment, transport equipment, chemical products and fuel.[15]

The CEE countries' trade with Chile is rather low. Its structure on both sides is mainly similar to that of the EU.

[13] Roy (2012), p.11.
[14] Woolcock (2007)
[15] http://ec.europa.eu/trade/policy/countries-and-regions/countries/chile

Table 2: CEE countries in trade between the EU and Chile

Countries	Exports	Imports
	2012, million euro	
Hungary	25.14	5.92
Slovakia	19.28	1.0
Czech Republic	58.21	10.2
Poland	55.08	65.38
Slovenia	7.88	15.34
Romania	15.28	-
Bulgaria	6.23	-
Latvia	5.54	4.21
Lithuania	3.35	7.45
Estonia	3.22	6.28
CEE total (billion euro)	**0.2**	**0.1**
EU total (billion euro)	**8.5**	**9.7**
CEE in total EU (%)	**2.4**	**1.0**

Source: Eurostat, own calculations, Éltető (2014)

2.3. Peru and Colombia

Background

Colombia and Peru are founding members of the Andean Community (together with Bolivia and Ecuador), which emerged in 1996 as a successor of the Andean Pact. The EU initiated in 1996 a political dialogue with the Declaration of Rome, which was later consolidated with a Political Dialogue and Cooperation Agreement of 2003. However, this agreement has not yet entered into force since not all States parties have ratified it.

The European Union intended to reach a new generation Association Agreement in its relations with the Andean Community on a region-to region basis, but in 2008 the partners failed to conclude the association between the groups of countries. This failure led to a change of approach on both sides and negotiations were initiated with individual countries. This case illustrates the difficulties and drawbacks of the region-to-region concept of the FTA. The EU's regional partners often represent relatively loose groupings compared to the EU, who can find it difficult to coordinate and agree on common position. Intra-group dynamics can lower the level of ambition as negotiating partners settle for the lowest common denominator. In this case, introducing a bilateral dimension to the negotiation could yield better results, as the example of Peru and Colombia shows.

Thus, negotiations began with Peru, Colombia and Ecuador in 2009. They were completed in 2010 in the cases of Peru and Colombia. Ecuador opted for a delay. As a result, the EU signed an ambitious and comprehensive Trade Agreement (called Multi-Party Trade Agreement, MPTA) with only two Andean countries in 2012. Contacts have been maintained to explore the possibility to include the other two members of the group, and negotiations with Ecuador have been reinitated. The MPTA with Colombia and Peru is provisionally applied since 2013.

Content

After full implementation of the agreement, it will open up markets on both sides, increasing stability and predictability of trade conditions. It provides for gradual, progressive and reciprocal liberalisation of trade in goods and services, for opening the government procurement market, as well as for creating a favourable environment for investments. The agreement partly addresses non-tariff barriers, technical regulations and standards. Provisions on intellectual property rights and transparency of competition rules, mainly those of state aid have been included in the agreement and may facilitate the creation of a fair environment for European exporters and investors. Provisions for cooperation on competitiveness, innovation and technology transfer, as well as the ambition of partners to contribute to balanced and sustainable development of the Andean countries reflect the objective of helping these economies and local businesses to develop strength in the local market and to compete internationally.

Relevance

The structure of trade between the partners is highly concentrated. In EU exports, machinery, transport equipment and chemical products have predominant share, while imports are almost completely composed of agricultural and mining products and fuels.[16] The agreement hopefully will facilitate diversification on both sides by allowing market presence of companies that have until now neglected these markets.

Trade between CEE countries and the two Andean economies is rather low. Future liberalisation here also may open new opportunities.

Table 3: CEE countries in trade between the EU and the two Andean countries

Countries	**Exports**	**Imports**
	2012, billion euro	
CEE total	**0.3**	**0.1**
EU total	**11.7**	**17.8**
CEE in total EU (%)	**2.6**	**0.6**

Source: Eurostat, own calculations, Éltető (2014)

Table 4: CEE countries in trade between the EU and Peru

Countries	**Exports**	**Imports**
	2012, million euro	
Hungary	9.12	-
Slovakia	8.51	-
Czech Republic	22.54	7.25
Poland	40.4	12.69
Slovenia	-	-
Romania	-	-
Bulgaria	-	83.16
Latvia	14.74	-
Lithuania	-	2.25
Estonia	-	-
CEE total (billion euro)	**0.1**	**0.1**

Source: Eurostat, own calculations, Éltető (2014)

Table 5: CEE countries in trade between the EU and Colombia

Countries	**Exports**	**Imports**
	2012, million euro	
Hungary	16.57	21.09
Slovakia	12.19	-
Czech Republic	29.53	6.2
Poland	36.29	-
Slovenia	6.84	-
Romania	141.82	7.43

[16] http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community

Bulgaria	-	-
Latvia	-	-
Lithuania	-	-
Estonia	-	-
CEE total (billion euro)	**0.2**	**0.03**

Source: Eurostat, own calculations, Éltető (2014)

2.4. Central America

Background

Contrary to the unsuccessful experience of region-to-region approach in the case of the Andean Community, the example of developing relations and reaching a regional agreement between the EU and the Central American countries highlights the fact that in some cases this approach can produce result and benefits for the participants. The Association Agreement between the EU and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) marks an important step forward in relations between the two regions. The agreement includes a comprehensive trade part. Negotiations were concluded in 2010. The Association Agreement was signed in 2012. Now it is under ratification, but the trade provisions have been provisionally applied since the second half of 2013. It gives EU exporters access to a larger regional market under consistent conditions and enhances inter-regional trade for the partner countries.

Content

Once ratified, the Association Agreement will open markets on both sides, will help establish a stable business and investment environment and will foster sustainable development. The agreement reinforces regional economic integration in the Central American region and may have positive spill-over effect on the overall political stability. The agreement gradually, with a rather long transition period, largely eliminates customs tariffs, taking into account the sensitivity of certain sectors and product groups. It addresses non-tariff measures, enforces new trade disciplines, including intellectual property rights and competition, simplifies procedures. It offers improved access to government procurement, services and investment markets. Besides the trade pillar, the agreement relies on two other important pillars: political dialogue and cooperation.

Relevance

The Central American region traditionally maintains close relations with the United States. The biggest part of the trade of the six countries comes from there and goes to the American market. The share of the EU in the overall trade of the region is relatively small, around 10-12%. Nevertheless, recently an increasing diversification of the Central American trade flows can be observed. Imports of the EU reached the level of 10 billion euro in 2012. The main items are machinery and agricultural products. The level of exports remains lower, around 5 billion. It is composed mainly of machinery, transport equipment and chemicals.[17]

Direct trade between Central American states and Central and Eastern European countries is extremely low, almost negligible. Statistical data may not register trade flows administered by intermediating Western European companies.

[17] http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america

2.5. Caribbean countries

Background

The EU has developed special relations with the Caribbean countries using approaches and schemes very similar to those implemented in the case of Latin American economies, especially with the Central American region. In the historical past most of these countries were former colonies. The majority of the Caribbean states, 15 of them, are members of the Caribbean Community, often referred to as CARICOM or, within the African, Caribbean and Pacific (ACP) framework, CARIFORUM (Forum of the Caribbean Group of ACP States). The Community was formed originally to follow the institutional example of the EU, but integration was slow and remained incomplete.[18] From 1992 onwards, CARIFORUM served as the framework to coordinate the benefits accorded by the EU to the Caribbean group of ACP countries under the Lomé Convention and later the Cotonou Agreement.

After completing negotiations the EU and 15 Caribbean countries signed the CARIFORUM-EU Economic Partnership Agreement (EPA), as a new form and framework of their cooperation. It was provisionally applied from December 2008 (when the WTO waiver to the EU's system of unilateral preferences under Cotonou Agreement ended).

Content

The objective of the EU-CARIFORUM Economic and Partnership Agreement is to facilitate trade and investments, and to foster development by providing the 15 countries with preferential access to the EU market, in compliance with the WTO rules, and by improving economic governance and supporting regional integration. The EPA is in part a free trade agreement. It creates a more equal partnership. Before the EPA, only the Caribbean enjoyed preferential access to the EU, without any liberalisation in their import regime. The EPA establishes such obligations for both sides, as in any free trade agreement, but with very strong asymmetry. The EU grants free access for all products from the entry into force, the Caribbean countries have a 25-year transition to cut tariffs. Moreover, almost 20% of goods and services considered sensitive by the Caribbean countries, are excluded from this cut. The scope of the EPA besides trade in goods covers services, rules, competition, innovation, intellectual property, public procurement, environmental and labour standards. The EPA also offers EU financial support.

Relevance

In the short run, the EPA has not introduced immediate radical change in the trade rules between the partners. Trade levels and patterns remained stable in the past few years. The EU imports mainly mining products, sugar, bananas, minerals and fertilisers. The value of imports fluctuates around 4-4.5 billions euro. Exports are around 5-6 billions and the main items are transport equipment, phone equipment, spirits and dairy products.[19]

For the CEE countries direct trade flows are not relevant.

2.6. Mercosur and Mercosur countries

Mercosur

Relations of the European Union and Mercosur serve as an example to illustrate how difficult it is to reach a bi-regional agreement with a group of countries with heterogeneous interests and different

[18] Roy (2012)
[19] http://ec.europa.eu/trade/policy/countries-and-regions/regions/caribbean

approaches inside of the group. Even if the coordination of these approaches is successful, they often contradict the negotiating partner's positions. These circumstances explain the rather long history of the planned Association Agreement between the two Communities.

Mercosur was founded in 1991 by the Treaty of Asunción and originally was composed of Argentina, Brazil, Paraguay and Uruguay. Venezuela joined the group later. These countries have been important trading partners of the EU, which is why shortly after the birth of the Latin American bloc in 1995 the two Communities signed an Interregional Framework Cooperation Agreement with the intention to further develop their relations and to achieve a higher level of liberalisation. FTA negotiations were launched in 1999. Differences among EU Member States on regionalism versus multilateralism[20] slowed down the negotiations, as did differences between EU offensive interests in manufacturing and defensive interests in agriculture. The pace of negotiations was also slowed down by economic difficulties within Mercosur.[21] Finally the process was suspended in 2004.

Talks were re-launched in 2010 since the future agreement is of great interest to the EU, due to the high tariffs in Mercosur, which is the EU's eighth trading partner. The Association Agreement would cover not only trade in industrial and agricultural products but also services, improvement of rules on government procurement, intellectual property, customs and trade facilitation, technical barriers to trade. Until now, rounds have focused on the part of the agreement related to rules and the two partners are still working on the preparation of their market access offers. Until now no date has been set for the exchange of market access proposals.[22]

The agreement would be highly relevant for both the EU and the CEE countries, not only because of substantial levels of trade in goods but also because of strong interests in services and investment. Among the members of the Latin American group Brazil is the biggest or the second biggest trading partner of the CEE states in the region. Nevertheless, some of the Central and Eastern European countries (especially those with important agricultural sector and high level of agricultural export to the EU members) may be cautious about the extent of liberalising agricultural market.

Table 6: CEE countries in trade between the EU and members of Mercosur

Countries	Exports	Imports
	2012, billion euro	
CEE total	1.9	2.5
EU total	50.7	56.3
CEE in total EU (%)	3.7	4.4

Source: Eurostat, own calculations, Éltető (2014)

Argentina

The bilateral relations between the EU and Argentina are governed by the Trade and Economic Cooperation Framework Agreement. It entered into force in 1990. The agreement is managed by a Joint Commission through periodic meetings. This country is the second market for the EU in Mercosur but also one of the important partners in Latin America. The EU exports mainly manufactured products and chemicals, while imports include primarily agricultural products and raw materials. The product structure of the CEE countries is rather similar to that of the EU.

EU companies and investors face certain difficulties related to Argentina's economic policy and protective measures of the past few years.[23] In this situation any easing of the barriers seems beneficial and desirable, although difficult to achieve.

[20] The trade policy documents of the Commission referred to in he first chapter of the paper clearly reflect this dilemma.
[21] Woolcock (2007)
[22] http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur
[23] http://ec.europa.eu/trade/policy/countries-and-regions/countries/argentina

Table 7: CEE countries in trade between the EU and Argentina

Countries	Exports	Imports
	2012, million euro	
Hungary	35.46	11.26
Slovakia	25.57	3.35
Czech Republic	54.43	38.44
Poland	89.75	497.06
Slovenia	25.34	130.387
Romania	21.52	44.6
Bulgaria	4.95	10.15
Latvia	-	5.25
Lithuania	28.04	37.6
Estonia	-	2.53
CEE total (billion euro)	**0.3**	**0.78**
EU total (billion euro)	**8.6**	**10.0**
CEE in total EU (%)	**3.5**	**7.8**

Source: Eurostat, own calculations, Éltető (2014)

Brazil

Relations between the EU and Brazil are regulated by a bilateral partnership agreement and a Strategic Partnership. By all measures, Brazil is the biggest partner of the EU in the Latin American region, regarding both trade and investments. For the CEE countries Brazil represents either the first or the second largest partner. The Brazilian market is relatively highly protected with high customs tariffs amounting to over 10% on average. Brazil is one of the most dynamic countries in the world economy. This explains the growing volume in EU and CEE trade during the period of economic crisis and recession in the EU.

Imports of EU countries including CEE members consist to a large extent of agricultural goods and raw materials, but a steadily growing share of manufactured products also merits attention. EU countries traditionally are exporting manufactured products, transport equipment, and chemicals.[24]

Table 8: CEE countries in trade between the EU and Brazil

Countries	Exports	Imports
	2012, million euro	
Hungary	261.55	127.59
Slovakia	79.97	27.95
Czech Republic	319.13	86.03
Poland	373.88	392.62
Slovenia	41.98	398.9
Romania	170.29	355.46
Bulgaria	34.56	143.74
Latvia	5.05	2.23
Lithuania	14.81	29.48
Estonia	37.26	36.46
CEE total (billion euro)	**1.34**	**1.6**
EU total (billion euro)	**39.6**	**37.3**
CEE in total EU (%)	**3.4**	**4.3**

Source: Eurostat, own calculations, Éltető (2014)

[24] http://ec.europa.eu/trade/policy/countries-and-regions/countries/brazil

Paraguay

The legal basis of relations between the EU and Paraguay is provided by the Framework Cooperation Agreement signed in 1992. The follow-up of the agreement is exercised by regular meetings of the Joint Commission. From the point of trade and investment Paraguay is a rather modest partner of the EU.[25] For the CEE countries Paraguay is not among the important partners. Exports tend to zero, the level of imports is also rather low.

Table 9: CEE countries in trade between the EU and Paraguay

Countries	Exports	Imports
	2012, million euro	
Hungary	-	-
Slovakia	-	-
Czech Republic	-	-
Poland	-	-
Slovenia	-	36.6
Romania	-	-
Bulgaria	-	-
Latvia	4.75	-
Lithuania	-	-
Estonia	-	-
CEE total (billion euro)	**0.005**	**0.04**
EU total (billion euro)	**0.5**	**1.0**
CEE in total EU (%)	**0.8**	**1.0**

Source: Eurostat, own calculations, Éltető (2014)

Uruguay

As in the case of many Mercosur countries, the EU and Uruguay signed a Framework Cooperation Agreement in 1992. Until now it serves as the basis of cooperation.

The volume of EU trade with this country is modest, but (especially in EU exports) is showing signs of growth. In recent years EU exports of services have been growing fast.[26] For the CEE states Uruguay is the third Mercosur member in terms of the intensity of trade.

In the case of this country the future Mercosur-EU agreement is likely to upgrade both trade and investment relations.

Table 10: CEE countries in trade between the EU and Uruguay

Countries	Exports	Imports
	2012, million euro	
Hungary	13.49	14.58
Slovakia	-	-
Czech Republic	9.81	-
Poland	10.57	17.02
Slovenia	-	-
Romania	-	-
Bulgaria	-	4.79
Latvia	-	-

[25] http://ec.europa.eu/trade/policy/countries-and-regions/countries/paraguay
[26] http://ec.europa.eu/trade/policy/countries-and-regions/countries/uruguay

Lithuania	7.8	-
Estonia	2.66	-
CEE total (billion euro)	**0.04**	**0.04**
EU total (billion euro)	**1.7**	**1.2**
CEE in total EU (%)	**2.4**	**3.3**

Source: Eurostat, own calculations, Éltető (2014)

Venezuela

There is no bilateral trade or cooperation agreement between the EU and Venezuela. This country has been an observer in the negotiations of an EU-Mercosur Association Agreement as a candidate country to Mercosur.[27]

According to the EU Commission's website, the '*business climate in Venezuela remains challenging for EU operators due to the Venezuelan government's economic policy*'.[28] Despite this, trade flows are rather intense. This is true also for CEE countries, especially on the export side.

Table 11: CEE countries in trade between the EU and Venezuela

Countries	**Exports**	**Imports**
	2012, million euro	
Hungary	58.54	-
Slovakia	49.91	-
Czech Republic	16.25	-
Poland	79.55	-
Slovenia	-	12.1
Romania	30.84	-
Bulgaria	-	-
Latvia	-	-
Lithuania	-	-
Estonia	-	-
CEE total (billion euro)	**0.24**	**0.01**
EU total (billion euro)	**6.5**	**4.5**
CEE in total EU (%)	**3.7**	**0.2**

Source: Eurostat, own calculations, Éltető (2014)

3. The CEE countries and Hungary in the system of EU-LAC relations[29]

3.1. Political considerations

Before the political and economic transformation (i.e. before 1989-1990) the Central and Eastern European countries (those that were independent states), including Hungary, maintained a large system of bilateral political cooperation with Latin American countries and a broad system of diplomatic representation. Relations were based primarily on economic interests, but in many cases followed ideological motivations as well. During that time, the maximum number of Hungarian embassies reached 14. After the change of regime in Central and Eastern Europe all countries limited

[27] Its full membership is pending on the ratification from the part of Paraguay
[28] http://ec.europa.eu/trade/policy/countries-and-regions/countries/venezuela
[29] This chapter is based among other sources on personal consultations with Hungarian diplomats who requested to preserve their anonymity.

their presence in Latin America and underrated the region in their foreign and economic policy agenda. This was due to several reasons: an ideological shift in their approach to diplomatic relations, the heavy financial burden of maintaining the existing network of embassies in a period of austerity, but most of all to their strong and almost exclusive focus on the ongoing process of integration into trans-Atlantic institutions (especially NATO) and the EU. As a consequence, their interest towards the Latin American countries and their diplomatic network substantially weakened. Until 2014, Hungary had only four embassies in Latin America. This year, the fifth embassy was reopened in Santiago de Chile. Similar process took place in the case of most CEE countries. Many of them did not have consistent foreign policy approach towards Latin America. The Hungarian government made public such a policy only in 2011.

Membership in the EU necessarily 'imported' the problem of developing Latin American relations in the foreign policy of the CEE countries, and as one of the elements of the Common Commercial policy also began to matter in their trade policy approach. Participation in the EU working groups and committees opened the opportunity and at the same time pushed them to elaborate and reconsider their position on the issue, especially in the working group on political relations (COLAC) and in the Trade Policy Committee (TPC). Nevertheless, according to our consultation partners, except some questions (like developing political links with Cuba), the CEE countries are mainly and clearly policy-takers. Although they may have common political interests (economic interests are more dispersed), common actions and positions are not typical.

The CEE countries' position (and that of Hungary) concerning the bi-regional system of EU-LAC relations is to some extent ambivalent. On the one hand, the EU's ambitions to develop the framework and to upgrade the relations are in line with their general foreign policy interests. Latin American countries (at least some of them) as economic partners showing dynamic growth cannot be neglected. Moreover, some of the Latin American countries, especially regional powers, are increasingly active in addressing global political and economic issues (climate change, poverty, migration, organised crime, drug trafficking etc.), sometimes even taking initiatives at international fora. The LAC region represents a considerable voting power in the UN and in other international organisations. Its position influences the most important global political and economic decisions that affect the international community as a whole. No country is in a position to ignore the Latin American and Caribbean states.

On the other hand, some criticism can be formulated concerning the bi-regional framework from a CEE point of view. The EU-LAC and the recent EU-CELAC framework is a "soft" one. It may initiate but is weak in practically implementing cooperation between partners. Individual countries can hardly achieve profit from these initiatives. The interests inside both regional groups are manifold and decisions to develop cooperation are not more than guidelines that often are not relevant for the CEE countries. EU-CELAC summits and CELAC itself do not have enforcing power. The same is true for the EU, as most of the cooperation field falls outside Community competence. Moreover, there is a feeling among some CEE countries that the initiatives elaborated by the Commission are motivated and influenced mainly by representatives of a few directly interested Member States and serve first of all their interests, not those of the CEE countries. Additionally, there is a sentiment that the feedback coming from the Commission to Member States is occasionally incomplete. This situation leads to limited interest and activity of the CEE countries in the bi-regional framework in order to benefit from the cooperation established by the EU-CELAC partnership. The same is valid for the cooperation chapters and cooperation objectives of the FTAs and Association Agreements.

The cooperation activity of CEE countries is therefore based mainly on bilateral actions. The CEE states select only those political fields of cooperation that have relevance for them and neglect the others. At the same time, the selected fields are in line with and do not contradict the bi-regional objectives.

In recent years, Hungary has made a certain shift in developing its international relations. This process took place under the so called policy of global opening. This policy focuses on trying to diversify economic and trade relations, as well as on upgrading bilateral political ties with non-EU countries, including Latin America. Steps were made to strengthen the Hungarian presence in the region through reopening former embassies (Santiago de Chile), opening consulates (São Paolo), extending the network of honorary consuls. A new forum has been created to animate cooperation between Hungary and Latin America, the Hungary-Latin America Forum. It had its first meeting in 2012. The second is to be held in 2014. It focuses on three selected fields of cooperation: economy (improving the environment of cooperation, with special regard to SMEs), science and higher education. The future and time may prove if these steps can bring the expected results. Nevertheless, already successful programs have been launched in the field of higher education. In the bilateral framework called Sciences without Borders several hundreds of scholarships have been granted to Brazilian students. Parallel to that, under a Hungarian initiative, named Stipendium Hungaricum, Hungary has offered scholarships for another 250 Latin American students. Besides selected cooperation fields, in its bilateral Latin American policy, Hungary also tries to focus on selected countries: from economic point of view on Mexico and Brazil, from political considerations on leading political powers, like Brazil, and on countries with important Hungarian Diaspora (Venezuela, Argentina and Brazil).

3.2. Economic considerations

As Chapter 2 demonstrates, economic and trade interests of the CEE countries are limited and are concentrated only on a few countries. The EU's agreement of the EU concluded with Mexico and Chile have been "inherited" by the CEE countries. The agreements concluded in the period after their accession have only weak relevance for them, leading them to play a role of policy-takers.

Mexico is one of the most important partners of the CEE countries. The EU-Mexico FTA opened the way for eliminating industrial customs duties but is limited in the field of agricultural free trade, in investments and services, where it envisages only review clauses. For industry, the agreement facilitates export activities of European producers, where in most cases Eastern European companies are subcontractors of their Western European mother companies. The direct trade effect is limited. On the other hand, potentially increased competition can result from the opening of the EU's industrial market. In some subsectors (e.g. the automotive industry), CEE companies have to face the competition of Mexican subcontractors. Agricultural concessions of the agreement do not have major disturbing effect for the CEE countries. The growing Mexican interest to upgrade the existing agreement (highly motivated by TTIP negotiations) would not provoke resistance of the CEE governments, except probably one field of further cooperation: investment protection. However, the EU, including the CEE countries prefer to discuss these questions with Mexico after the visible outcome of the TTIP negotiations anyway.

The agreement under negotiation with Mercosur seems to be more problematic for the CEE countries. There are difficulties on both sides that explain the deadlocks and slow progress in the negotiation process. On the Mercosur side the major difficulties are related to the dissimilarity of the members from the point of view of economic philosophy and trade policy attitudes, as well as internal shortcomings of the Mercosur trade policy regime. On the EU side, the divergence of interests concerning the extent, trade coverage and the pace of market opening, especially in the agricultural sector, is evident. Some Member States, among them certain CEE countries (mainly Poland, Hungary, Romania, Slovakia and some others) are opposing any substantial agricultural trade liberalisation. In a few sectors (like beef, pork, poultry, bio-ethanol etc.), there is a feeling that radical liberalisation would risk provoking serious difficulties for these countries. The picture in questions linked only indirectly to trade in goods (investment, IPR, non-tariff barriers etc.) at this stage is very unclear, thus, a detailed position of the CEE countries (and that of the EU) is expected to be elaborated later. The two parties until now have not presented workable trade offers. Nevertheless, the EU-Brazil Summit in February 2014 confirmed that parties were on track to exchange market access offers on goods, services, establishment and public procurement. A change in the negotiation format to one similar to that seen with the Andean Community seems to have been ruled out, since Mercosur rules stipulate that individual members may not negotiate trade agreements unilaterally.[30] Let us add that the EU mandate in force also excludes individual deals.

[30] Grieger (2014)

By accession, the CEE countries have inherited the existing EU system of the GSP treatment. After accession, they were able to take part in and to influence the reform. Hungary's strong standpoint in this process advocated for excluding those countries classified as upper middle-income countries from the preferences (e.g. Brazil, Argentina). This request, supported by many Member States was finally accepted. In the case of countries with FTAs or Association Agreement already in force, the former unilateral GSP concessions lost their relevance and were replaced by the free trade provisions of the agreements. Some countries without FTA (e.g. Equador, Bolivia, Paraguay) may keep their benefits from the revised GSP system. This situation has not produced new trade effects for the CEE countries.

Through their accession to the EU, the CEE countries also became part of the EU's development policy. They contribute to its most important financial element, the European Development Fund (EDF) with a minor key. They are also entitled to take part in the development actions. The development funds of the EU to different degree are accessible for the Latin American countries. In the 2014-2020 Multiannual Financial Framework (MFF) total contribution key of the CEE countries represents 5.35%, which is not very high. The national development actions of the CEE countries (except ad hoc humanitarian actions) are focusing on regions other than Latin America and the Caribbean. The EU has elaborated a number of thematic instruments and programs covering also the Latin American and Caribbean countries. These are, according to the recently accessed website of the Commission,[31] the following: the European Instrument for Democracy and Human Rights, the Nuclear Safety Cooperation Instrument, DCI-Environment and management of natural resources, DCI-non-State actors and local authorities development, DCI-Food security, DCI-Migration and asylum, DCI-Investing in people, DCI-Restructuring sugar production, the EU food facility, and the Instrument for Stability. Personal consultations have shown that these instruments and programmes in relation to Latin America do not have practical meaning and relevance for Hungary, and probably neither for most of the CEE countries. Thus, the latter states are not among the (active) participants. Nevertheless, in the implementation of the EU's development policy in general, the Hungarian authorities advocate for a more efficient aid policy of the EU, which can be achieved by stronger concentration of the resources and programmes, by better coordination and feedback, stricter monitoring and improved transparency.

Concluding remarks

The last decade has shown remarkable activity from both sides in developing relations between the Latin American and the Caribbean countries and the European Union. The growing interest of the partners to improve the political environment and trade policy elements of their cooperation can be explained by several factors.

First, in the second half of the 2000s (in the "post-Lamy" period) the EU started to rethink and renew its trade policy position. After years of passivity the EU and the Commission regained their previous activity, dynamism and openness towards bilateral or regional free trade agreements. Second, Latin American countries tried to diversify their system of preferential agreements, probably in order to counterbalance the traditionally strong ties with the United States and also the growing influence of Asian countries. The EU, in this respect, was and is a natural partner. Third, in the years of economic crisis and recession in the internal market EU members started to rely increasingly on the markets of countries in dynamic regions of the world economy. Fourth, many Latin American countries have been able to offer such dynamic markets. This led to extending already existing trade policy frameworks and to creating new ones.

The countries of Central and Eastern Europe, being new EU members, in many common policies played a role of policy-takers rather than policy-makers. Latin America, for several reasons, has not been in the focus of their trade policy aspirations. Nevertheless, they have been supportive in respect of improving trade conditions with this faraway region. They expect, as most of the Member States, better market access in Latin America for their direct exports (especially in Mexico and Brazil) and better access to raw materials. Since the level of direct trade is usually not substantial (except the two

[31] http://ec.europa.eu/europeaid/how/finance/thematic_en.htm

countries already mentioned), CEE companies as subcontractors of Western European producers expect to enjoy the benefits of liberalisation. On the other hand, market opening for Latin American products in sectors that are sensitive for the CEE countries (e.g. certain non-complementary type agricultural product groups) may result in a certain crowding-out effect from their traditional Western European markets. This may provoke cautiousness, reservation or even resistance from their part.

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