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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Joint Recommendation for a COUNCIL DECISION

authorising the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy to open negotiations and negotiate a modernised Association Agreement with the Republic of Chile

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Executive Summary Sheet

Impact Assessment on a Recommendation for a Council Decision authorising the opening of negotiations to modernise the EU-Chile Association Agreement

A. Need for action

Why? What is the problem being addressed?

The Commission Communication *Trade for All* sets out the new approach to EU trade policy. The aim is to make EU trade policy more effective in delivering economic results, more transparent, and based, not only on economic interests, but also on values. These overarching objectives include trade and sustainable development, facilitating trade and investment for SMEs and including modern investment protection provisions in bilateral agreements. These elements are missing in the trade part of the existing EU-Chile Association Agreement ('the EU-Chile FTA'), and are what prompted the initiative to modernise the EU-Chile FTA, which was included among the initiatives put forward by the Commission's *Trade for All* Communication.

Furthermore, there are some specific problems encountered by EU business in Chile. The EU-Chile FTA does not address appropriately certain important trade and investment issues, 14 years after its entry into force. Unfulfilled market access in agriculture, services and public procurement, and outdated provisions on rules (e.g. obsolete rules of origin, non-tariff barriers not fully addressed, limited intellectual property rights provisions) do not allow bilateral trade and investment to reach its full potential. Moreover, EU bilateral trade and investment with Chile faces increased competition from non-EU countries (especially China) due to Chile's prolific conclusion of FTAs in recent years with other trading partners.

What is this initiative expected to achieve?

The initiative is expected to

- (i) improve market access for goods, services and investment (including through access to government procurement);
- (ii) ensure a single, effective investment protection framework for all EU investments, enforced through an Investment Court System;
- (iii) ensure a high level of protection of intellectual property rights and the extension of the geographical indication protection for foodstuffs;
- (iv) reinforce dialogue and cooperation on regulatory frameworks and administrative practices to improve regulatory coherence; and
- (v) contribute to the shared objective of promoting sustainable development by including trade-related provisions on labour and environment. This will help promote smart, sustainable and inclusive growth and contribute to the creation of job opportunities and welfare gains.

What is the value added of action at the EU level?

The main objective of policy intervention is two-fold: to improve conditions for boosting EU trade and investment with Chile by addressing the shortcomings in the existing FTA, and to expand the coverage of the FTA to take account of the general EU trade policy objectives as set out in the *Trade for All* Communication. Under Article 3 read together with Article 207 of the Treaty on the Functioning of the European Union (TFEU) only the EU can negotiate trade agreements. Under Article 5(3) of the Treaty on European Union (TEU), the subsidiarity principle does not apply in areas of exclusive EU competence.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

The impacts of three policy options were analysed and compared:

1. No policy change (baseline scenario). This could lead to a relative deterioration in the bilateral trade relation, while not achieving the objectives.
2. Partial revision of the FTA, using the sectoral review clauses in the existing FTA on agriculture and on services. Discussions with Chile between 2006 and 2010 proved this approach unfeasible. Furthermore, it would be unsuited to meet broader EU trade policy objectives. It was therefore not developed further in the impact assessment analysis.
3. Comprehensive modernisation of the FTA, implying negotiation of a broad range of issues that both parties wish to address (as reflected in the outcome of the scoping exercise with Chile (finalised in January 2017): market access in agriculture, trade in services, investment, technical barriers to trade,

intellectual property rights, public procurement, trade facilitation, competition, SME-specific provisions and trade and sustainable development. This option considered two possible sub-scenarios, one conservative and one more ambitious.

The preferred option for the EU would be a comprehensive modernisation of the EU-Chile FTA, as demonstrated by the analysis in the impact assessment.

Who supports which option?

The Commission and Chile support a comprehensive modernisation of the FTA. This is consistent with the outcome of the scoping exercise, which concluded that both sides share a strong interest in a comprehensive and ambitious modernisation process. To note that only one respondent to the public consultation (a food production enterprise) was against this option and almost all of the expressed opinions supported it. Finally, this option is consistent with the policy of both the EU and Chile to negotiate a modern and comprehensive FTA.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

The preferred policy option has a positive overall economic impact on the EU and Chile. This option is estimated to generate a change in real GDP of close to 0.002 % for the EU and 0.175% for Chile in the long run. Welfare gains in the long run would be EUR 718 million for the EU and EUR 534 million for Chile. Social impacts (notably wages and employment) are likely to be slightly positive in the EU and in Chile. Overall effects on economic and social human rights (adequate standard of living, right to work, work-related rights and abolition of child labour) would be positive.

What are the costs of the preferred option (if any, otherwise main ones)?

Concluding a comprehensive modernised EU-Chile FTA could potentially have a limited negative impact on the environment in Chile and an almost negligible one in the EU. In this context, it should be noted that the modernised FTA would include a chapter on trade and sustainable development with provisions that may help mitigate such a potential negative effect. Further trade liberalisation could lead to some transitional unemployment in specific sectors in Chile (reallocation of resources between contracting and growing sectors).

How will businesses, SMEs and micro-enterprises be affected?

SMEs would gain from a comprehensive modernisation of the EU-Chile FTA on a number of levels: non-tariff barrier cost reduction, simpler customs procedures and rules of origin, increased regulatory cooperation as well as convergence towards international standards. In addition, it would include provisions to enhance SMEs' access to information and to improve transparency.

Will there be significant impacts on national budgets and administrations?

No significant impacts are expected from a modernised FTA on national budgets and administrations. The impact on the EU budget, due to the loss from tariff revenue, would be around EUR 3.87 million, based on the projected value of duty income in 2025.

Will there be other significant impacts?

No

D. Follow up

When will the policy be reviewed?

After the conclusion, entry into force and implementation of the modernised FTA, it would be monitored with the help of monitoring indicators. Regular consultations with stakeholders would ensure effective follow up of its implementation. The FTA would be evaluated after being in force for sufficient time to ensure the availability of meaningful data.