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Update on EU Free Trade Agreements: EU – Central America Agreement partially effective as of 1 August 2013

As from 1 August 2013, the trade pillar of the European Union's (EU) Association Agreement with Central America became provisionally applicable for trade between the EU and Honduras, Nicaragua and Panama.

Two years ago, the EU concluded negotiations for its first region-to-region Agreement with the Central American countries (also including Costa Rica, El Salvador and Guatemala in addition to Honduras, Nicaragua and Panama). This Agreement consists of three pillars, trade being one of them. The Agreement (trade pillar) will also become applicable for trade between the EU and Costa Rica, El Salvador and Guatemala, once these countries have also completed their internal legislative procedures.

The trade pillar of this Agreement will largely eliminate customs duties for manufactured and fishery products, with complete liberalization at the end of a transitional period, which is 10 years for most products and 15 years for a small amount of products. In agriculture, duty tariffs for some key agricultural products will be largely eliminated whilst sensitive areas for local markets will be respected. It is expected that, once the Agreement is fully in place, EU exporters will save € 128 million a year on duty tariff eliminations and reductions alone.

Examples of the (ultimate) expected yearly duty savings for individual EU industries and sectors are:

- the automotive and car parts sector: up to € 21 million
- chemical, rubber and plastic producers: around € 24 million
- the pharmaceutical industry: more than € 8 million
- machinery and equipment industry: over € 14 million
- paper products and publishing: 4.5 million

The EU is Central America's second largest trading partner. The Central American Countries mostly export agricultural and fishery products (such as coffee, bananas, pineapples, sugar and seafood) and some industrial products (such as microchips and medicinal- and optical instruments) to the EU Member States. Conversely, the EU mainly exports pharmaceutical products, petroleum oil, cars and machinery to the Central American Countries. In 2012, the trade flows between the Central American Countries and the EU Member States was worth € 14 billion.

What does it mean for you?

Goods originating in the EU may benefit from lower duty rates upon importation into Honduras, Nicaragua and Panama. Conversely, goods originating in these Central American Countries may be eligible for improved EU market access.

What to do?

First of all, EU and Central American operators may assess whether their exports are eligible for the benefits from this new Agreement. As mentioned, only goods that can be considered as “originating” are eligible for the new Agreement’s improved market access. Therefore it is necessary to assess whether the exported products meet the product-specific origin criteria and the rules laid down in the Agreement.

Finally, in order to demonstrate that these rules and criteria are met and the goods concerned qualify as originating in the EU or in the Central American Countries, exporters will have to obtain movement certificates EUR.1 from their relevant authorities or be qualified as approved exporter status in order to issue invoice declarations EUR.1 themselves.

Deloitte can assist you with determining your potential benefits from this new Agreement and can help you with ensuring that you actually obtain these benefits.

Contact

Any questions concerning the items in this publication? Please contact your usual tax consultant at Deloitte or:

- Klaas Winters, **klwinters@deloitte.nl**, +31 (0)88 288 2125
- Johan Hollebeek, **jhollebeek@deloitte.nl**, +31 (0)88 288 1992
- Jos Sijbers, **jsijbers@deloitte.nl**, +31 (0)88 288 1952
- Fernand Rutten, **frutten@deloitte.com**, + 32 2 600 66 06
- Nick Moris, **nmoris@deloitte.com**, + 32 2 600 66 03
- Julien Pauwels, **jpauwels@deloitte.com**, +32 2 600 66 25
- Tom Verbrugge, **tverbrugge@deloitte.com**, + 32 2 600 66 20

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Wilhelminakade 1
3072 AP Rotterdam
Netherlands

Berkenlaan 8b
1831 Diegem
Belgium