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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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INTRODUCTION

Chile, with its strong democratic institutions, sound economic policies and support for multilateralism is a close and like-minded partner for the EU, and a key ally in Latin America. On global economic and trade issues, Chile is an important partner e.g. in the World Trade Organisation (WTO) or in the Organisation for Economic Co-operation and Development (OECD). More broadly, Chile and the EU share a broad spectrum of values, ranging from democracy, human rights and good governance to sustainable development, the fight against climate change or the essential role of the United Nations (UN).

Relations between the EU and Chile were initially built on the 1996 Framework Cooperation Agreement, which was replaced subsequently by the EU-Chile Association Agreement, signed in 2002 and fully in force since 2005. The Association Agreement provides the legal framework for our strong bilateral political, trade and cooperation relations.

The trade pillar of the Association Agreement entered provisionally into force on 1 February 2003. It is a comprehensive free trade agreement (FTA), which at the time was the most ambitious FTA concluded by the EU.

The process for the implementation of the EU-Chile FTA, notably though the work of the various Special Committees, the Association Committee and the Association Council established under the Agreement, has worked very well.

However, since the EU-Chile FTA entered into force there have been substantial economic changes in the EU and in Chile. There have also been significant trade policy developments in the world, and both parties have concluded highly ambitious and comprehensive agreements with third partners, which go well beyond the provisions of the EU-Chile FTA.

Against this backdrop, between 2006 and 2010 the EU and Chile attempted to advance trade relations through the revision of the EU-Chile FTA review clauses on agriculture and on services. However, partly due to this narrow sectoral approach, it was not possible to find a balanced and mutually satisfactory outcome.

Hence, at the EU-CELAC Summit in Santiago in January 2013 the EU and Chile agreed to explore the options for a comprehensive update of the EU-Chile Association Agreement. Bilateral contacts took place and an EU-Chile Working Group was set up in 2015 to this effect.

After two EU-Chile Working Group meetings (October 2015 and January 2016), in early 2016 the EU and Chile agreed to move forward with a joint scoping exercise. The aim was to test the degree of convergence on the scope and on the level of ambition of a potential modernised FTA so as to increase the likelihood of a successful outcome of a modernisation process. This was in line with the Communication *'Trade for All - Towards a More Effective, Transparent and Responsible Trade and Investment Policy'*,[1] in which the Commission had announced its intention to pursue the modernisation of the EU-Chile FTA and to request negotiation authorisation and directives to this effect.

[1] http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

The scoping exercise with Chile was completed officially on 31 January 2017, and resulted in an EU-Chile Joint Scoping Paper. It reflects the pursuit with Chile of the key objectives of EU trade policy established by the Treaties, and the priorities highlighted in the *'Trade for all'* Communication. As in the case of other scoping exercises, it does not prejudge the work under the impact assessment or the decision by the Commission to request negotiation directives. The Joint Scoping Paper does not set out the EU priorities in a potential future negotiation. These priorities will be set out in the Council negotiating directives, should the Council decide to authorise negotiations.

In preparation for a potential Commission decision to request authorisation from the Council to launch negotiations with Chile, Commission services conducted work to assess the impacts of a possible modernisation of the EU-Chile FTA (see Annex 1), including through a public stakeholder consultation, which elicited 32 responses (see Annex 2). An external ex-ante study on the possible modernisation of the EU-Chile FTA was carried out by an independent consultant (ECORYS/CASE) and concluded in January 2017 (see Annex 5).

The aim of this Impact Assessment is to support the decision on whether to propose the start of negotiations, and what should be the broad outlines and the general level of ambition of a possible future Agreement. When the negotiating directives are approved by the Council and negotiations are underway, a more detailed analysis will be undertaken in the framework of a Sustainability Impact Assessment (SIA). SIAs, using quantitative and qualitative approaches, complement impact assessments by conducting a more in-depth analysis of the likely impacts of the future Agreement on the three pillars of sustainable development and on human rights. They also include wide-ranging, continuous stakeholder consultation. SIAs are carried out by external consultants and their findings feed into the negotiation process. They help steer the negotiations, provide recommendations and propose flanking measures to maximise the benefits of the Agreement and prevent or minimise any potential negative impacts.

The potential decision of the Commission would take the form of a recommendation for a Decision of the Council (authorising the opening of negotiations for the modernisation of the EU-Chile Association Agreement). The Commission recommendation would be accompanied by draft negotiating directives, which, when adopted by the Council, would provide guidance to EU negotiators, subject to review within the relevant Council Committees during the course of negotiations.

1. WHAT IS THE PROBLEM AND WHY IS IT A PROBLEM?

1.1. What is the issue that may require an action, what is the size of the problem?

1.1.1. Overview of the current EU-Chile trade relations

In 2015 bilateral trade in goods stood at €16.6 billion. The EU was Chile's third largest trading partner, representing 14.4% of Chile's total trade, and the second export destination, whilst Chile was the EU's 38th trading partner, representing 0.5% of total EU trade. Regarding trade in services, in 2014 the EU exported € 3.3 billion to Chile and imported € 1.7 billion. The EU remains Chile's first Foreign Direct Investment (FDI) provider. Total EU FDI flows in 2014 stood at € 7.4 billion and EU FDI stocks stood at € 38.9 billion.

Main EU export categories in bilateral trade in goods in 2015 were machinery and transport equipment (52%), chemical products (15%) and manufactured goods (13%). Main EU import categories were crude materials except fuels (28%), manufactured goods (26%) and food and live animals (25%). By Member State the main partners in bilateral trade were Germany (20.6%), Spain (16.6%), Italy (12.5%), The Netherlands (12.3%) France (9%), United Kingdom (8.5%) and Belgium (6.8%).

1.1.2. What are the problems?

What are the general issues at stake?

The *Trade for All* Communication has three key policy messages that are also applicable to EU bilateral trade and investment relations with Chile:

- To be effective: trade needs to actually deliver on its promise of new economic opportunities. This means addressing the issues that affect today's economy, and providing the means and information necessary to ensure SMEs, consumers and workers can take full advantage of - and adapt to - more open markets. It also means improving implementation and enforcement of our trade rights.
- To be transparent: opening up negotiations to more public scrutiny by publishing negotiating directives and key negotiating texts from negotiations.
- To be based on values: first of all, safeguarding the European social and regulatory model at home. It also calls for using trade agreements and preference programmes as levers to promote, around the world, European values like sustainable development, human rights, fair and ethical trade and the fight against corruption. The EU also leads a reform of investment policy globally, which is taking into account these non-economic societal values.

As highlighted in the *Trade for All* Communication, an ambitious programme of multilateral and bilateral negotiations is needed to deliver the full potential from trade. The opening of negotiations to modernise the EU-Chile FTA is one of the concrete initiatives listed in the Communication.

What are the specific problems?

a) Outdated EU-Chile FTA rules-based provisions do not allow bilateral trade and investment to reach its full potential

Fourteen years after entry into force, the EU-Chile FTA - considered a very advanced FTA when it entered into force in 2003 - does not address some of the important trade and investment issues included in the most recent Agreements concluded or currently under negotiation by the EU or by Chile with third parties, such as the Comprehensive Economic and Trade Agreement (CETA) with Canada, the FTA being negotiated by the EU with Japan, the modernisation of the EU-Mexico FTA or the Trans-Pacific Partnership[2].

As a result, economic operators are currently subject to an excessive administrative burden due to remaining non-tariff barriers and outdated customs procedures and rules of origin, which is particularly burdensome for SMEs. There is only partial coverage of investment protection (through Bilateral Investment Treaties), whilst protection and enforcement of IPR remains insufficient, and with no protection of Geographical Indications on foodstuffs. This view is shared by many public consultation respondents, who consider that there is a clear need to modernise the existing FTA to achieve a broader and more ambitious Agreement.

b) Unfulfilled market access in agriculture, services and public procurement

In contrast to the 100% tariff liberalisation brought about by the EU-Chile FTA on industrial products, trade liberalisation on agriculture and food was more limited, with a number of products subject to partial liberalisation or excluded.

It should be noted, however, that Chile has benefited greatly from the trade liberalisation offered by the EU, especially on fruits, wine and certain fish, where Chilean exports to the EU have increased substantially since 2003. EU exports of agricultural products have also grown, but there is still scope for the EU to exploit its export potential on agriculture, as 6% of agricultural tariff lines were excluded from the tariff concessions offered by Chile (including dairy products, vegetable oils, sugar and wheat flour, as well as some types of fish, currently subject to partial liberalisation).

The public consultation provides mixed results, with some respondents considering that partial liberalisation on agriculture (through quantitative measures and quotas) does not hinder trade, but others taking the view that both sides' export potential could be improved through further liberalisation of specific agricultural products.

The EU-Chile FTA includes market access commitments on services, and Chile's economy is generally considered to be quite open. Nevertheless, the Agreement contains some limitations or exclusions for the EU in some key sectors, in which the EU is highly competitive (e.g. financial services). Thus, EU exporters of services are not able to take full advantage of the potential of the Chilean market. Some respondents in the public consultation highlight the existing barriers in Chile to trade in services.

The current Agreement includes market access commitments on public procurement, a key priority for the EU, covering both central and sub-central entities. Nevertheless, it has limited coverage of State-owned enterprises and undertakings with special or exclusive rights, and

[2] The Trans-Pacific Partnership was negotiated by the US, Canada, Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru and Vietnam. It has not yet entered into force.

EU operators currently forego important procurement opportunities. Many respondents in the public consultation who expressed an opinion on the matter highlight the difficulties faced by EU companies in accessing public procurement in Chile.

c) EU bilateral trade and investment with Chile faces increased competition from third countries

Bilateral trade in goods since the provisional entry into force of the EU-Chile FTA in 2003 has increased 11% per year on average. However, despite this *prima facie* strong bilateral growth rate, the EU has progressively lost market share in Chile to other trading partners, including China and the US. Between 2003 and 2009 the EU was Chile's first trading partner, but it was overtaken by China in 2009 and by the US in 2011.

This increased competition from third countries is highlighted in the public consultation, especially on investment, where some respondents point to the preferential treatment provided to investors from other jurisdictions in comparison to the EU.

An external ex-post assessment of the impact of the EU-Chile FTA commissioned by DG TRADE in 2012[3] concluded that the EU-Chile FTA had helped to prevent the EU market share in Chile from falling substantially further, thereby mitigating the crowding-out effect of FTAs concluded by Chile with 3rd parties.

The 2017 external ex-ante report on the modernisation of the EU-Chile FTA (Annex 5) concludes that despite the apparent positive evolution in bilateral trade, when analysing the evolution of Chile's trade with the rest of the world it becomes apparent that the EU and Chile have been operating under progressively less attractive conditions on bilateral trade. The study notes that, due to the ambition and geographical coverage of Chile's above-mentioned FTAs, trade preferences between Chile and the EU are at risk of losing progressively their relevance; and hence to be subject to comparatively less attractive conditions for bilateral trade and investment in the years to come.

d) Limited possibilities to promote a greater contribution of trade and investment to Sustainable Development

The EU-Chile FTA does not include provisions on trade and sustainable development, therefore limiting the potential contribution of the FTA to foster a positive impact on environmental, labour and social conditions. This limitation is strongly reflected in the public consultation, with respondents heavily in favour of provisions to promote adherence to internationally agreed principles, labour rights and environmental provisions.

The 2012 ex-post assessment of the impact of the EU-Chile FTA concluded that the impact of the agreement on the use of natural resources and the degradation of the environment had been marginal. However, the increased use of fertilizers for fruits, vegetables and wine exports was significant and this, together with increased exports of salmon, molluscs and wood products, might have contributed, in a limited way, to different forms of air and water pollution.

[3] http://trade.ec.europa.eu/doclib/docs/2012/august/tradoc_149881.pdf

1.2. What are the drivers of the problems?

There are a number of underlying factors affecting EU-Chile trade and investment relations that could be addressed by trade policy. The main factors that are susceptible to change through trade policy measures and/or regulatory coherence are listed below.

The problem drivers fall under two distinct categories, namely the shortcomings of the existing provisions of the Agreement, and the new issues included in the most recent FTAs negotiated by the EU, and which are missing in the current Agreement.

More generally, there are **changes in the global economy** that impact EU-Chile bilateral trade. Chile has concluded numerous and important FTAs and trade agreements since 2003, including with the US (2004), China (2006) and Japan (2007). More recently, Chile has joined the Pacific Alliance and has signed the Trans-Pacific Partnership, which, although currently on hold, could come back in another form, including without the US. In the Americas, since the entry into force of the EU-Chile FTA the EU has concluded ambitious and comprehensive FTAs with Central America, with Colombia, Peru and Ecuador, and more recently with Canada. Moreover, the EU is negotiating a modernisation of the EU-Mexico FTA and negotiations for an EU-Mercosur FTA have gained momentum.

1.2.1. Shortcomings of the existing provisions

The following problem drivers are based on the issues raised identified by Commission services or by Member States and business in the context of market access work with Chile, and are complemented by the public consultation and the findings of the external study in Annex 5.

- **Limited liberalisation of trade in agriculture and food products.** While there is full elimination of tariffs for industrial products in the EU-Chile FTA, liberalisation of trade in agriculture and food products is partial. The EU granted partial liberalisation through tariff quotas on around 200 tariff lines, and excluded from liberalisation approximately 500 tariff lines. Chile excluded 6% of agricultural tariff lines from its tariff concessions, including dairy products, vegetable oils, sugar and wheat flour, as well as certain fish, currently subject to partial liberalisation.

- **Rules of origin require updating.** The EU-Chile FTA provisions on customs procedures are based on a framework of cooperation between the two parties and rely on an outdated set of rules of origin (RoOs), which pre-dates the EU RoOs reform launched in 2003. This leaves the RoOs of the Agreement at odds with the new set of EU standard RoOs, and creates an unnecessary burden for economic operators (in particular SMEs), which have to adapt to the variable geometry of the different sets of RoOs in force. This divergence will become even more burdensome for economic operators when other ambitious EU FTAs with third countries (e.g. Canada, Vietnam) enter into force. Updating the rules of origin is also of increasing importance, as Chile is signing agreements on cumulation of origin with other trading partners. Rules for certification and verification of origin also need to be updated, so as to reflect newer and more efficient practices agreed by Chile or the EU in other FTAs. Ten respondents[4] in the public consultation highlight the need to update rules

[4] Two each from business interests in the fishing and aquaculture and base metals and metal products sectors; two from public administrations linked to EU Member States; and four from cross-sectoral business associations.

of origin in order to bring them in line with those agreed by the EU with other countries in recent trade agreements.

- **Customs and trade facilitation provisions are outdated**. Provisions on customs procedures rely largely on cooperation and are not adapted to the most recent international developments on trade facilitation such as the World Trade Organisation (WTO) Trade Facilitation Agreement[5]. Some respondents in the public consultation point at problems with current customs procedures and border enforcement.

- **Non-tariff barriers (NTBs) are not addressed fully.** A number of NTBs prevail in the agriculture sector. For instance, some specific EU exports such as beef and fresh fruits and vegetables have been denied access to the Chilean market due to sanitary and phytosanitary-related issues and other requirements (see detailed qualitative analysis in the external study, in Annex 5, for further detail). There is also scope to **strengthen and widen TBT provisions in line with more recent practice**. A more comprehensive chapter, building on the WTO TBT Agreement would address more effectively the unnecessary obstacles to trade stemming from standards, technical regulations, conformity assessment procedures and metrology. This could address, for instance, double certification for electronic products and burdensome conformity requirements for cosmetics and hygiene products, which are currently problematic for economic operators. A number of respondents in the public consultation highlight the obstacles to bilateral trade that result from divergent standards, technical regulations or conformity assessment procedures.

- **Market access limitations remain for key EU services sectors.** The EU-Chile FTA contains market access limitations or exclusions on some key sectors, where the EU is highly competitive, such as financial services, telecommunications, business services, postal and courier, transport (including maritime) or distribution services. For example, very strict requirements prevail for foreign banks and insurance companies wishing to open branches in Chile. Public consultation respondents who expressed an opinion highlight the lack of recognition of EU qualifications and diplomas in Chile, a 15% additional tax applied by Chile on foreign services providers, and Chile's requirement for 85% of employees in companies to be of Chilean nationality, as key problems.

- **The Agreement lacks comprehensive investment liberalisation disciplines.** In addition to disciplines on establishment (GATS mode 3) for services sectors, the EU-Chile FTA offers only national treatment for establishment in non-services sectors. Three respondents[6] in the public consultation pointed to barriers in FDI, the main Chilean one being the requirement for companies with over 25 employees to employ 85% of Chilean nationals. The same three respondents indicated that investors from other jurisdictions were granted preferential treatment.

[5] The Trade Facilitation Agreement, emanating from the 9th Session of the WTO Ministerial Conference held in December 2013 in Bali, contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building. https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm.

[6] An investment management company based in Chile, a government department in one of the EU Member States, and a cross-sectoral business association representing business interests in the EU services sector.

- **Public procurement market access does not cover all entities**. The EU-Chile FTA has limited coverage of State-owned enterprises and undertakings with special or exclusive rights, with the result that EU operators, at present, forgo important procurement opportunities. CODELCO, for instance, Chile's largest State-owned enterprise and one of the world's most important copper producers is not covered by the current FTA.

- **Procurement rules are outdated** There is a list of 10 identified barriers to access the Chilean public procurement market that could be addressed through a modernisation of the existing FTA.[7] More generally, the provisions require some updating in order to adopt modern rules that would allow, for instance, the promotion of green procurement and the use of e-procurement. Ten of the thirteen respondents in the public consultation who expressed an opinion highlight the difficulties for EU companies to access Chile's public procurement.

- **Intellectual property rights provisions are very limited.** Current IPR provisions are largely limited to respecting the WTO Agreement on Trade-related aspects of Intellectual Property Rights (TRIPs) and key international conventions. Contrary to more recent agreements the EU-Chile FTA lacks enhanced enforcement provisions, which are key to protecting the rights of EU operators, including in the digital environment (which is not covered in the TRIPs Agreement) and at the border. Seven respondents[8] in the public consultation draw attention to current problems with the protection and enforcement of IPR in Chile.

- **The EU still lacks protection of its geographical indications (GIs) on foodstuff products** In the case of GIs, which are of importance to the EU, the current FTA only affords protection to EU wines and spirits GIs, but not to foodstuff GIs. Three respondents[9] in the public consultation highlight current problems with the protection of GIs on foodstuffs, for instance for cheese.

1.2.2. New trade issues missing in the existing Agreement

- **Modern standards of investment protection not available for all EU investors.** Currently, investment protection is only partly covered by the Bilateral Investment Treaties (BITs) in force between 16 EU Member States and Chile.[10] However, the BITs do not cover investment from all Member States, and differ in their level of ambition, resulting in an unlevel playing field and, potentially, in investment flows diversion. They are also not in line with key elements of EU investment policy, such as support for an Investment Court System.

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[7] This includes, among others, national component requirements, discrimination against experience abroad, local presence requirements for registration of suppliers, limitations to register workers from an office abroad, requests for official translations into Spanish or for documents in original form. Furthermore, all foreign SMEs are requested to pay the same registration fees as large companies, whereas Chilean SMEs benefit from a lower price.

[8] Including single sector business associations representing the computers/telecoms and pharmaceuticals sectors and the music recording industry; a cross-sectoral business association representing business interests in the EU; and two linked to public administrations in EU Member States.

[9] Three respondents indicated particular problems with respect to GIs, including: one answering in a personal capacity; one government department from an EU Member State; and one cross-sectoral business association representing business interests in the EU.

[10] Austria, Belgium/Luxembourg, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Poland, Portugal, Romania, Spain, Sweden and United Kingdom.

- **Lack of Trade and Sustainable Development provisions.** The EU-Chile FTA does not include provisions on sustainable development and therefore limits the positive impact of the FTA on environmental, labour or social aspects, as well as on gender issues. Many public consultation respondents who expressed an opinion are in favour of including trade and sustainable development related provisions.

- There is no dedicated and binding bilateral mechanism to facilitate trade and investment for **SMEs**. Currently, some SMEs forego export opportunities due to lack of knowledge on the market access requirements. A dedicated mechanism would include information-sharing arrangements on market access requirements that would help to solve this issue. Numerous respondents[11] in the public consultation highlighted the particular problems encountered by SMEs in exporting or importing between the EU and Chile.

1.3. Problem tree

The chart on the following page relates the problems identified to the underlying causes, grouped thematically, and links them to the actual or potential consequences for the EU and Chile, in the form of a "problem tree".

[11] Respondents indicated particular problems in the areas of: rules of origin as applied by both the EU and Chile; customs procedures as applied by Chile; technical barriers to trade arising from policies applied by both the EU and Chile; services sectors, especially in Chile; establishment of companies in Chile; and policies for public procurement in Chile.

EU – CHILE: PROBLEM TREE

CONTEXT: CHANGES IN GLOBAL ECONOMY IMPACTING ON EU-CHILE BILATERAL TRADE

- Recent entry into force, conclusion or on-going negotiations of EU FTAs with other partners such as Canada, Vietnam, Japan, and Mexico
- Chile has an increasing number of FTAs in place with 3rd countries (Latin America, USA, China, Japan, etc.)

DRIVERS

TRADE IN GOODS

- Partial liberalization of trade in agriculture and food products
- Rules of origin are by now outdated
- Customs and trade facilitation provisions are outdated, and do not take account of the WTO Trade Facilitation Agreement
- NTBs/TBT barriers are not fully addressed

SERVICES AND INVESTMENT MARKET ACCESS

- Limitations on market access remain for key EU services sectors.
- The agreement lacks comprehensive investment liberalization disciplines

PUBLIC PROCUREMENT

- Access to Chile's public procurement market has restricted coverage of state-owned enterprises (SOEs) and undertakings with special or exclusive rights
- Provisions on public procurement are outdated (eg, e-procurement not available)

INTELLECTUAL PROPERTY RIGHTS (IPR)

- IPR provisions do not cover all IPR rights, and do not ensure sufficient enforcement
- EU geographical indications (GIs) only cover wines and spirits – foodstuffs are not protected.

NEW TRADE ISSUES NOT COVERED BY EXISTING AGREEMENT

- Modern standards of investment protection not available for all EU investors
- No provisions on trade and sustainable development (trade and environment, social and labour issues) or on gender
- No dedicated and binding bilateral mechanism to facilitate trade and investment for SMEs

PROBLEMS

EU BILATERAL TRADE AND INVESTMENT WITH CHILE FACES INCREASED COMPETITION FROM THIRD COUNTRIES

OUTDATED RULES-BASED FTA PROVISIONS DO NOT ALLOW BILATERAL TRADE AND INVESTMENT TO REACH ITS FULL POTENTIAL

UNFULFILLED MARKET ACCESS IN AGRICULTURE, SERVICES AND PUBLIC PROCUREMENT

LIMITED POSSIBILITY TO PROMOTE POSITIVE CONTRIBUTION TO SUSTAINABLE DEVELOPMENT THROUGH THE EXISTING AGREEMENT

1.4. How would the problem evolve, all things being equal?

The identified problems would persist and increase, as Chile would progressively implement new FTAs with other partners. European stakeholders, manufacturers, service industries, traders and their workforce, as well as consumers and regulators, would forgo potential additional benefits if no policy action is taken.

1.5. Has any fitness check/retrospective evaluation been carried out of the existing policy framework? What was concluded from the evaluation / fitness check?

a) Evaluation of the economic impact of the trade pillar of the EU-Chile Association Agreement (ITAQA Sarl, 2012)[12]

The study, commissioned by DG TRADE and prepared by ITAQA Sarl in 2012, evaluated ex-post the impact of the EU-Chile FTA. Using an econometric analysis, it concluded that tariff cuts had had a significant impact on bilateral trade flows. Simulations showed that in the absence of an Agreement (i.e. applying MFN tariffs), Chile's exports to the EU in 2009 would have been 20% lower, and EU exports to Chile in 2010 would have been cut by at least 40%. The study pointed at the declining EU share in Chile's total trade since the entry into force of the Agreement, despite a substantial increase in bilateral trade flows, suggesting that, in the absence of an FTA, EU exporters could have been significantly crowded out from the Chilean market, due to the significant number of FTAs signed by Chile.

Due to methodological challenges the study did not provide an assessment on the impact of non-tariff measures. Building upon a Computable General Equilibrium (CGE) model the report concluded that the sectors that had benefited most from the FTA had been fruit, wine, fisheries and fish processing on the Chilean side, and machinery, transport equipment and chemical industries on the EU side. Compared to a counterfactual state without the Agreement, Chilean exports to the EU were assessed to be 20% higher and EU exports to Chile 60% higher. The higher sensitivity of EU exports to tariff changes was due to differences in price elasticity and stronger substitutability of the main EU exports. In terms of aggregate economic gain the CGE model estimated a +0.23% real income gain for Chile.

The study encountered serious limitations when attempting to analyse quantitatively the FTA impact on bilateral trade in services, which had increased steeply since the entry into force of the Agreement. Comparing the FTA provisions with the level of commitment of the Parties under GATS, it concluded that EU services exports had increased more after the FTA entry into force in those sectors where commitments had brought a higher degree of (consolidated) liberalisation. Chile's services exports to the EU had performed relatively well in several sectors where FTA commitments had significantly improved those made in GATS.

[12] http://trade.ec.europa.eu/doclib/docs/2012/august/tradoc_149881.pdf

Overall, the study concluded that the impact of the Agreement on the use of natural resources and on environmental degradation had been marginal. However, the increased use of fertilisers for fruits, vegetables and wine exports had been significant and this, together with increased exports of salmon, molluscs and wood products, might have contributed, in a limited way, to different forms of air and water pollution.

Finally, the study estimated the social impact of the EU-Chile FTA on Chile. The CGE analysis concluded that reallocation between sectors (largely in favour of fruits and wine sectors) for low and medium skills was small. In the agriculture sector, although small farm households might have lost out relative to larger-scale farming enterprises (increasing intra-sectoral inequality), globally they had benefited from the increase in overall agricultural income and from the reduced inequality in terms of market access between agriculture and other sectors, which had been brought about by the EU-Chile FTA.

2. WHY SHOULD THE EU ACT?

The main objective of policy intervention in this case is two-fold. First, the initiative aims to create more favourable conditions for further increasing trade and investment between the EU and Chile by addressing shortcomings in the existing FTA. Secondly, the initiative aims to expand the coverage of the Agreement to take account of the new economic realities and to enhance the contribution of trade policy to other policy objectives including sustainable development and the particular needs of SMEs.

This objective is in line with the Foreign Affairs Council conclusions on trade of 21 November 2014[13] which underlined that *trade in goods, services and investment can make a significant contribution to achieve the aims at the core of the 'Strategic Agenda for the Union in times of change'* and expressed that *building on the tangible progress made in the EU's bilateral trade agenda, efforts should be devoted to pursuing agreements with key partners*.

The intervention is also fully in line with the Communication '*Trade for all - Towards a More Effective, Transparent and Responsible Trade and Investment Policy*[14]' which highlighted the need to move forward our bilateral relationships in order to deliver jobs and growth by tackling trade and investment barriers in a comprehensive way while securing the EU's high level of social and environmental protection and contributing to other policy objectives, including sustainable development and the particular needs of SMEs.

According to Article 5(3) of the Treaty on European Union (TEU), the subsidiarity principle does not apply in areas of exclusive EU competence. The common commercial policy is listed among the areas of exclusive competence of the Union in Article 3 of the Treaty on the

[13] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/145908.pdf
[14] http://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

Functioning of the European Union (TFEU). This policy includes the negotiation of trade agreements pursuant to Article 207 TFEU.

In line with the principle of proportionality, all reasonable policy options are presented below in order to assess the likely effectiveness of such policy interventions.

3. WHAT SHOULD BE ACHIEVED?

3.1. General objectives

The EU general objective as regards economic and trade relations derives from the TFEU, which in Article 3(1) (3) establishes the EU exclusive competence for the common commercial policy. Furthermore, Article 206 provides that the overall objective of EU policy as regards economic and trade relations is to '*contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers*'.

As established by Article 205 of the TFEU, the common commercial policy also serves the more general objectives of the Union's External Action as described in Article 21 of the TEU.

The general objectives of this initiative are in line with the general EU policy and include concretely:

- promoting smart, sustainable and inclusive growth through the expansion of trade[15], investment and relevant rules,
- creating job and labour opportunities and welfare gains[16],
- increasing consumer benefits (e.g. in terms of choice, availability, price and maintaining high standards),
- improving Europe's competitiveness in global markets, and
- reinforcing cooperation on trade-related issues with a like-minded partner.

3.2. Specific objectives

With regard to future EU-Chile economic and trade relations, the general objectives set out above would translate into the following specific objectives:

- realise untapped market opportunities in goods, services, investment and government procurement from the EU and Chile by further eliminating, reducing or preventing unnecessary barriers,

[15] COM(2010) 2020, "Europe 2020: A strategy for smart, sustainable and inclusive growth", March 2010. "Trade, Growth and World Affairs". Trade Policy as a Core Component of the EU's 2020 Strategy", 2010, available at: http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf

[16] 36 million jobs in the EU depend directly or indirectly on trade.

- ensure a single, effective investment protection framework for all EU investments, enforced through an Investment Court System,
- ensure a high level of protection of IPR,
- reinforce dialogue and cooperation on regulatory frameworks (including technical regulations and conformity assessment procedures) and administrative practices to improve regulatory coherence,
- increase opportunities through specific mechanisms and simplified procedures for small and medium-sized enterprises, and
- contribute to the shared objective of promoting sustainable development and broader EU values such as human rights, inter alia by including trade-related provisions on labour, environment and gender.

These objectives are consistent with the findings of the public consultation, with respondents indicating as key general priorities in the FTA modernisation exercise: increased market access on agriculture and fisheries, removing barriers and facilitating investment, increased access to public procurement, updating rules of origin, increasing IPR protection and enforcement, reducing non-tariff barriers, further regulatory cooperation, addressing digital trade and ensuring that the Agreement contributes to sustainable development.

3.3. Consistency of the objectives of this initiative with other EU policies

The objectives described above are fully consistent with, and indeed stem from the principle that the European Union should *encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade*[17].

The objectives are also in line with the Trade for All Communication of 2015, which underlined the need to move bilateral relationships forward in order to deliver jobs and growth by tackling trade and investment barriers in a comprehensive way while securing the EU's high level of social and environmental protection and contributing to other policy objectives, including sustainable development and the particular needs of SMEs. In particular the Communication indicated that "*The Commission will request negotiating directives to modernise the FTA with Mexico and Chile after completing the scoping exercise. These agreements should be comparable to, and compatible with, our FTA with Canada (…)*".

In terms of contribution to the multilateral trading system, deep and comprehensive FTAs can usefully reinforce the benefits to be derived from the multilateral process, in particular by providing improvements in trading conditions, not just for the partners who are parties to bilateral agreements but also by providing benefits via most favoured nation treatment (MFN) to other WTO members, where this results from the agreement in question.

The objectives are also fully consistent with the objectives set out by the European Commission's Communications ‘Small Business Act for Europe’ (2008) and ‘Small Business, Big World’ (2011). Supporting SMEs economic activities outside the EU is also embedded in

[17] Article 21 para 2 (e) TEU.

the Union's overall competitiveness strategy as outlined in the Europe 2020 Communication on Industrial Policy.

The objectives also comply with the principles established in the TEU stipulating that the Union's policies and actions should aim to *consolidate and support human rights*[18] and to *help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources*[19] in the manner set out in Chapter 5.

The objectives are consistent with other EU policies and with the Charter for Fundamental Rights. Finally, the objectives are fully consistent with the Juncker Commission's top priority to get Europe growing again and to increase the number of jobs without creating new debt[20], with the Investment Plan[21], and with the specific priorities set out by the Commission Work Programme for 2017[22].

4. WHAT ARE THE VARIOUS OPTIONS TO ACHIEVE THE OBJECTIVES?

With a view to attaining the objectives set out in Chapter 3, this chapter outlines three different scenarios. The impact analysis carried out in Chapter 5 of this report will assess the opportunity and feasibility of the various options, with a view to providing clear indications on what would be the best option to follow.

4.1. Policy option A: No policy change (baseline scenario)

The first option would be to continue to operate under the existing framework, with possible incremental improvements of its functioning and effectiveness (e.g. updating the rules of origin to reflect the changes in the Harmonised System run by the World Customs Organisation, or addressing some specific trade irritants).

Thus, the analysis of this baseline scenario is essentially based on the developments in bilateral trade relations likely to result from the evolution of the EU and Chile economies and from global economic conditions.

The economic modelling tool (see Chapter 5 and Annex 4) projects this baseline scenario into the long term (2025) for it to be comparable with policy option C.

[18] Article 21 para 2 (b) TEU.
[19] Article 21 para 2 (f) TEU.
[20] http://ec.europa.eu/priorities/jobs-growth-investment/index_en.htm
[21] http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm
[22] http://ec.europa.eu/atwork/key-documents/index_en.htm in particular No12 in annex 1 http://ec.europa.eu/atwork/pdf/cwp_2017_annex_i_en.pdf

4.2. Policy option B: Use of the sectoral review clauses on agriculture and services

The existing Agreement includes sectoral review clauses foreseen in Article 74 (evolution clause for agricultural products), Article 100 (review on services) and Article 101 (review on movement of natural persons (services –mode 4)).

An EU-Chile FTA revised along such lines would entail keeping the existing framework without any possibility to redesign the provisions not covered by the review clauses (e.g. TBT, IPR including GIs, public procurement, competition), or to incorporate new ones (e.g. investment protection, trade and sustainable development).

This option has been discarded and it is not developed further in this report, as numerous discussions with Chile between 2006 and 2010 proved that it was not possible to achieve further liberalisation through a narrow sectoral approach. Chile was very interested in further liberalisation on agriculture but it was not possible to reach a balanced outcome in this sensitive area. In contrast, on services, it was not possible to reach an ambitious result in areas of EU interest (e.g. financial services). It was also complicated to reach a balanced result on movement of natural persons (mode 4). The difficulty of moving forward with an isolated sectoral approach was in fact part of the reason why the EU and Chile started discussing the possibility to upgrade the agreement in a comprehensive manner.

In addition to being unfeasible for the above-mentioned reasons, policy option B would be unsuited to meet the EU broader trade policy objectives.

4.3. Policy option C: comprehensive modernisation of the EU-Chile FTA

Under option C, the EU and Chile would enter into negotiations to comprehensively modernise the EU-Chile FTA. Such an approach would cover issues and sectors other than the two foreseen in the review clauses and would also allow synergies between different areas.

In line with recent and on-going established policies both in the EU and in Chile, Option C would enable the parties, *inter alia*, to **further liberalise services and investment, to establish a single and coherent investment protection framework, to address more efficiently non-tariff measures (including TBT aspects), to spur regulatory coherence, to provide higher standards of protection and enforcement of IPR, to improve access to public procurement markets (including for SMEs)** and to promote the contribution of trade and investment to sustainable development.

As the more recent FTAs concluded by the EU, Option C would include an ambitious **Trade and Sustainable Development** chapter with robust labour and environmental protection provisions, which would refer to ILO Conventions, other ILO instruments and multilateral environmental agreements. The chapter would also include specific provisions encouraging trade practices and schemes that support and promote sustainable development (e.g. corporate social responsibility, voluntary sustainability assurance schemes etc.). Furthermore, there would be a dedicated institutional set-up including governmental and civil society

involvement so as to foster transparency, accountability and dialogue, as well as a tailored mechanism to address disputes involving third party assessment.

In order to take account of existing sensitivities, Option C is divided into two different possible sub-scenarios, differing only on the degree of ambition in the liberalisation of **trade in goods**:

C1: Conservative, partial liberalisation scenario

C2: Ambitious, including full liberalisation of import tariffs

Overview of the different assumptions of options C1 and C2 in trade in goods

	Option C1	**Option C2**
Tariffs	Full liberalisation by EU of remaining tariffs in agricultural goods except for sugar, beef, lamb, pig, turkey and poultry, which retain the status quo. Full liberalisation by Chile of all remaining tariffs in agricultural goods.	Full liberalisation by both parties of remaining tariffs in agricultural goods.
NTBs non-agriculture goods	5% reduction rate by Chile No change by EU	10% reduction rate by Chile No change by EU
NTBs services	1% reduction by Chile No change by EU	3% reduction by Chile 1% reduction by EU

In terms of **tariffs**, option C2 includes full elimination by both Parties of remaining tariffs in agricultural goods. Option C1 includes full elimination by the EU of remaining tariffs in agricultural goods except for sugar, beef, lamb, pig, turkey and poultry, which retain the status quo (tariff rate quotas). Option C1 foresees full elimination by Chile of all remaining tariffs in agricultural goods. In terms of **non-tariff barriers (NTBs) for non-agriculture goods**, option C1 includes a 5% reduction rate by Chile (based on ad-valorem equivalent), whilst Chile's reduction under option C2 is at a 10% rate (based on ad-valorem equivalent).

Due to lack of reliable datasets the effect of a reduction of NTBs in the agricultural sector was not modelled. A qualitative analysis of agricultural NTBs is provided in the external Ecorys/CASE study in Annex 5.

As regards **NTBs on services** (based on existing estimates by the World Bank)[23], and considering that the existing Agreement has already achieved a significant level of services bindings, option C1 estimates a 1% reduction and option C2 a 3% reduction by Chile. As regards the EU, option C2 estimates a 1% reduction in NTBs and option C1 no reduction.

[23] Jafary, Y., and Tarr, D. G. 2014. Estimates of Ad Valorem Equivalents of Barriers Against Foreign Suppliers of Services in Eleven Services Sectors and 103 Countries.
https://openknowledge.worldbank.org/bitstream/handle/10986/20620/WPS7096.pdf?sequence=1&isAllowed=y

5. WHAT ARE THE IMPACTS OF THE DIFFERENT POLICY OPTIONS AND WHO WILL BE AFFECTED?

This chapter analyses the impacts of the different policy options outlined in Chapter 4 on different levels. It first examines the overall economic impact resulting from the different policy options for the enhancement of EU-Chile bilateral trade and investment relations. It then looks at impacts on specific sectors, SMEs and Least Developed Countries (LDCs), and assesses environmental, social and human rights impacts. The administrative and budgetary impacts are also covered, as well as the administrative capacity of Chile's customs to implement the new Agreement.

The analysis focuses on the impacts for the EU and for Chile. It does not present detailed results at EU Member State level, which might be misleading for methodological reasons. First, an assessment by Member State would be challenging to conduct due to lack of data, and would not lead to further insights on the overall benefits of the trade agreement. For example, estimates of the level of non-tariff barriers (NTBs) in goods at Member State level by sector are not available; hence, the impact of reducing sector-specific NTBs would differ across Member States depending on their sector-specific trade exposure and the specific products that face problems in trading. Secondly, international trade in goods statistics are accurate at EU level. At Member State level trade can be over-estimated or under-estimated mainly due to the "Rotterdam effect": a Member State receiving a good from a non-EU country is not necessarily the Member State of final destination, and a Member State sending a good to a non-EU country is not necessarily the Member State of origin of the good.

The analysis in this chapter is based on the economic modelling performed by the Chief Economist Unit of DG TRADE, the study carried out by the external consultant (Ecorys/CASE), commissioned by DG TRADE (Annex 5), and the assessment and information available to the Commission services, including the stakeholders' input to the public consultation.

Regarding the impact on sustainable development in all three dimensions (economic, environmental and social) and on human rights, the analyses combine quantitative estimates modelled by the Chief Economist Unit in DG TRADE under scenarios C1 (conservative) and C2 (ambitious) – i.a. GDP, sectoral output, consumer price indexes, real wages, welfare impact and CO_2 emissions – with complementary analyses provided by the external consultant study. In particular, the external study assesses the effects of both scenarios on employment (combining quantitative and qualitative methods), on the environment (combining also quantitative and qualitative work), and identifies the key human rights issues and likely impacts, with particular attention paid to impacts on gender under each scenario.

5.1. Model and assumptions

The quantitative analysis is based on the economic modelling carried out by the Chief Economist Unit of DG TRADE, complemented in some areas (e.g. CO_2 emission) by the external study. For the simulations made in the quantitative analysis, the global quantitative

CGE (Computable General Equilibrium) model GTAP (Global Trade Analysis Project) and its most recent database V9, with a base year of 2011 were used.

The description of the analytical model used, including its limitations, can be found in Annex 4. However, main features should be highlighted at this stage, to help the reader understand the results:

- The general model projects trade flows in the longer term (2025), factors in the measures impacting on trade flows and makes a calculation using a series of assumptions on the impact of reduced bilateral barriers on trade flows. FTAs are made up of market access liberalisation measures covering goods, services and investment, and rule-based provisions. It is not possible to model rules, such as intellectual property rights, including GIs. While rules included in FTAs would surely increase the level of certainty for business and decrease risk for business, it is very difficult to capture those effects through a model. The modelling, therefore, looks at tariff liberalisations that would result from the FTAs, reductions of NTBs and binding of market openings in services.
- To understand output results, it is necessary to consider that the model cannot expand the factors of production (as might be the case in real life), but instead pulls them across to the most efficient sector. This partially explains the decline in output in some sectors when production increases in other sectors.
- The model works with a so-called 'fixed employment closure', meaning that the overall number of jobs is set so as not to change, and labour market adjustments take place through wage changes. This approach is commonly used for this type of analyses since there is no established theoretical framework linking the functioning of labour markets to CGE models. However, the fixed employment closure approach provides information on shifts between sectors thus indicating in which sectors employment is likely to increase and decrease as a result of the new Agreement.
- The modelling provides figures for the impact of reduction of non-tariff barriers (NTBs) on trade in goods. However, as robust estimates could not be established for reductions of NTBs for trade in agricultural products, a qualitative assessment of agricultural NTBs has been provided in the external study. This would mean that the likely impact of NTB reduction as modelled by the CGE simulation for EU exports is probably underestimated.
- For cross-border services, the assessment of likely NTB reduction is more difficult than for goods. This is mainly due to the nature of trade liberalisation of services, which usually takes place through binding, i.e. a commitment by the negotiating partner not to raise the levels of existing barriers, thus removing uncertainty in terms of risks for economic operators. This impact is difficult to estimate since it is not a traditional cut in trade barriers. At the same time, it is acknowledged that removing uncertainty through binding has a value. Previous empirical work in this area has found that, on average, binding corresponds to a 3% reduction in trade costs (which is the reduction assumed by the CGE modelling on NTBs applied by Chile on services under the ambitious scenario).
- The model does not contain data as regards the economic impacts of liberalisation in the areas of public procurement and investment nor on the impact of rules regarding investment protection, protection of intellectual property rights, including GIs, given the difficulty in the quantification of these impacts.

All limitations duly considered, the **CGE model remains the best tool in the methodological toolbox of economists to quantify** the impact of trade agreements. In this context, it should be mentioned that administrations around the world, including in EU Member States, rely on CGE modelling to analyse the impact of trade policies. The Chief Economist Unit of DG Trade actively engages in exchanges with the research community to stay at the forefront of methodological progress in trade policy analysis. Recently advanced approaches have not been able to offer convincing alternatives. Essentially, all the limitations of the CGE model identified above are inherent to competing approaches too.

5.2. Policy option A: No policy change (the baseline scenario)

Given the results achieved so far under the EU-Chile FTA, and the scope of the agreement, it is reasonable to assume that no further reduction of regulatory trade costs may be expected from the operation of the Agreement, and that we should not expect it to foster any substantial further growth of bilateral trade and investment volumes. Thus, no significant additional gains in overall welfare attributed to the EU-Chile FTA may be expected in the EU or in Chile in the short to medium term. The only possible changes in EU-Chile trade and investment relations would be those resulting from changes in the two economies, bilateral trade relations with third countries, the multilateral trading system and the world economy at large.

The status quo would also imply that important policy areas, such as investment protection, trade and sustainable development, digital trade and SMEs would not be addressed.

Overall, the status quo would mean a comparatively deteriorating environment for EU exports and investment relative to third countries with which Chile has concluded more recent ambitious FTAs.

The economic modelling tool, within its limits, projects this baseline scenario to the simulation horizon by using projections e.g. with respect to GDP growth[24]. This baseline scenario is compared with the policy scenarios options C1 and C2 that are based on the same long-term projections and include the parameters of the policy choices as defined in the respective scenarios. So, for example, the EU export as projected by the model in the long term in option A is compared to the relative change under options C1 and C2 in the equivalent projection horizon. The figures for gains in trade provided for option C2 can, thus also be interpreted as an estimate of untapped trade potential.

5.3. Policy Option C: Comprehensive modernisation of the EU-Chile FTAs

The impact of policy option C on key indicators, described below, illustrates the expected change relative to option A (no policy change) with a similar long-term projection.

[24] Cf. annex 4 for additional details and the sources of the projections used.

GDP and bilateral trade

In the long run, the modernisation of the EU-Chile FTA is estimated to have a positive impact on real GDP. Chile would see a positive change in real GDP of 0.090% in the conservative scenario and of 0.175% in the ambitious one. As expected, the impact on EU real GDP would be almost negligible, but in a positive direction: a 0.001% increase in the conservative scenario and a 0.002% in the ambitious one. In absolute values, the gains in real GDP in the long run for the EU would be € 196 million in the conservative scenario and € 391 million in the ambitious one. Chile would accrue real GDP gains of € 304 million and € 592 million under the respective scenarios.

Bilaterally, EU exports to Chile would increase more than EU imports from Chile. EU exports grow at 9.91% and 21.46% respectively, in the conservative and ambitious scenarios. Chile's exports to the EU, on the other hand, would increase just 0.72% in the conservative scenario, and 1.60% in the ambitious scenario.

Because of the dynamic baseline described above, the expected increase in bilateral trade under policy options C1 and C2 can be considered an **estimate of the untapped trade potential**. Table 3 in Annex 4 ('Expected increase in EU exports of goods and services by sector under policy options C1 and C2') outlines the estimated untapped potential in the different goods and services sectors. Quantitative estimates on investment and public procurement are not available due to lack of sufficiently robust methodologies. However, the qualitative analyses included in the external study (Annex 5), and the concrete barriers set out in section 1.2 provide a good approximation to the untapped potential in these areas.

The unusually small increase in EU imports from Chile may be partly explained by the assumption that NTB reductions are asymmetric (only Chile reduces NTBs on non-agricultural goods). In the longer run, however, one could also consider a reduction in the EU NTBs faced by Chilean importers, if they start adopting EU standards and technical specifications.

It should also be noted that Chile's total exports (as opposed to bilateral exports) increase by 0.15% in the conservative scenario and by 0.21% in the ambitious scenario, whereas EU total exports increase by merely 0.01% and 0.02% respectively, which is to be expected given the difference in size between the economies of the EU and Chile.

Table - Estimated impact on GDP and bilateral exports (long term)

Variable	Scenario	EU	Chile
Real GDP (% change)	Conservative	0.001	0.090
	Ambitious	0.002	0.175
GDP gain (€ million*)	Conservative	196	304
	Ambitious	391	592
EU-Chile bilateral exports (% change)	Conservative	9.91	0.72
	Ambitious	21.46	1.60

*USD converted to EUR at 1EUR=1.1095 USD

5.4. Impact on sectoral competitiveness

The CGE modelling estimates growth of EU exports to Chile for all 31 sectors of the CGE modelling under both scenarios. The impact on Chile's exports per sector is more mixed, with a considerable variation in the export behaviour across sectors. Some sectors increase their exports significantly (e.g. cereal, fruits, vegetables, rice, dairy, fishing, other food, beverages), but this is largely cancelled out in the final average by other sectors that contract. It should be noted, however, that the fact that a sector is seen to reduce its exports does not necessarily mean that bilateral trade barriers pose a problem. This is frequently observed as a consequence of stronger liberalisation in certain sectors, which grow at the expense of drawing resources (labour, capital) from other sectors of the economy.

One *prima facie* counterintuitive result across Chilean sectors is the expected reduction in exports of ruminant meat (beef lamb) and other meat products (pig, turkey, poultry) as a result of further liberalisation. This is explained by the fact that none of the current tariff-rate quotas on meat granted by the EU in the context of the EU-Chile FTA is used fully. As a result, the model considered a 0% baseline import duty, which is why we do not observe a positive effect after liberalisation. On the contrary, there is a slight decrease in Chile's meat exports. This would be the result of a re-allocation of resources between sectors, i.e. other sectors growing at the expense of the meat sector.

In terms of relative change of sectoral output in the long term, the impact on the EU is, as expected, negligible, given the difference in size between the EU and Chile. The impact on sectoral output in Chile is mixed, with fruit and vegetables, beverages, dairy, non-metal products and utility sectors growing at the expense of others (e.g. machinery, motor vehicles and transport equipment, coal, fibers and crop). It should be underlined that these expected sectoral changes are expressed in percentage, and the impact in absolute terms may differ. For instance, the CGE modelling foresees a reduction of motor vehicles and transport equipment output in Chile around 1%. However, in absolute terms the impact would be almost negligible, as Chile has no vehicle production and no significant component production.

It is worth noting that, in the services sector, the modernised Agreement is expected to have a positive impact on all the services sub-sectors considered in the CGE modelling, both in the EU and in Chile, although the impact on the EU is almost negligible.

Further details on the impact of the modernised Agreement on sectoral output and on sectoral exports is presented in Annex 4.

5.5. Impact on SMEs

In general terms SMEs should gain from the modernisation of the EU-Chile FTA on a number of levels: NTB cost reduction, simpler rules of origin, increased regulatory cooperation between the EU and Chile as well as further convergence towards international standards. A modernised FTA would also create an opportunity to strengthen existing cooperation to help SMEs to increase their exports.

However, the small size of Chile's economy compared to the EU means that the impact of a modernised EU-Chile FTA on all EU SMEs, even under the ambitious scenario, would be generally negligible. Nevertheless, EU SMEs would benefit from the overall export growth of an ambitious trade liberalisation (21.46% in 2025), in particular in sectors where tariffs and NTBs will be eliminated.

In the case of Chile, on the other hand, the impact of the modernisation could have noticeable effects on SMEs. Considering the importance of SMEs for overall employment, it is important to identify in which sectors of the Chilean economy SMEs are predominant, and to match this data with the CGE estimates on the impact of a modernisation of the EU-Chile Agreement on these sectors.

SMEs in the Chilean economy are particularly concentrated in three sectors, which account for 60% of the total: recreational & other services, communication & business sectors, and construction. In terms of employment, in 2014 the recreational and other services sector alone absorbed almost 50% of the total SME workforce. Communication and business services, transport and construction absorbed a further 29% of the SME workforce.

The 31 sectors of the CGE modelling cover other services (including recreation), communication and transport. In terms of sectoral output, the CGE modelling estimates a 0.36% increase in the other services sector in Chile in a conservative scenario and a 0.52% increase in an ambitious one. As regards the communication sector, it estimates a 0.28% increase in a conservative scenario and a 0.40% output increase in an ambitious one. Finally, regarding transport, it estimates a 0.07% output increase in the conservative scenario and a 0.11% output increase in the ambitious scenario.

Although the CGE model does not cover all of the sectors that absorb the majority of SMEs in Chile mentioned above, the data on other services (which includes recreation), on communication and on transport provides a good approximation; and appear to indicate that a modernised Agreement with increased liberalisation would likely have overall a positive impact on a majority of SMEs in Chile.

This conclusion is consistent with the results of the public consultation, with many respondents[25] highlighting the positive impact that a modernised agreement would likely have on SMEs.

5.6. Impact on third countries, in particular Least Developed Countries (LDCs)

Third countries are generally impacted to a negligible degree, with some countries enjoying a marginal positive impact (Turkey, Colombia, Japan, EU neighbours) and others suffering a

[25] Significant numbers held the view that the benefits for SMEs of modernizing the existing agreement would include: higher output/employment due to higher exports (in both the EU and Chile); cheaper production costs through cheaper imports (in both the EU and Chile); trade facilitated with 3rd countries due to convergence of standards (in both the EU and Chile); benefits of increased technology transfer (especially in Chile); the possibility to move from lower to higher value-added products (in both the EU and Chile); lower costs for importation requirements (in both the EU and Chile); and possibilities for increased co-operation among SMEs (in both the EU and Chile).

marginal negative impact (including US, Canada and most Latin American countries). Results of the CGE modelling are presented in the table below. Least Developed Countries are not at all affected in a conservative scenario, while under the ambitious scenario there would be a negligible impact (albeit in a positive direction).

Table - Change in exports (% change, long term)

	Conservative	Ambitious
EU28	0,01	0,022
Chile	0,145	0,21
Turkey	0,08	0,083
USA	-0,003	-0,005
China	-0,001	0
Canada	-0,002	-0,003
Mexico	-0,004	-0,008
Mercosur	-0,005	-0,01
Colombia	0,017	0,049
Peru	-0,006	-0,014
Central America	-0,002	-0,005
Latin America	-0,005	-0,009
EFTA	-0,001	0
LDC	**0**	**0,001**
PVS	0	0
Australia & New Zealand	-0,002	-0,002
Japan	0,001	0,003
Korea	-0,001	-0,001
Singapore	-0,001	0
Rest of TPP	-0,002	-0,003
EU neighbours	0,001	0,003
Rest of the World	0	0,002

5.7. Environmental impact

The external study (Ecorys/CASE, 2017) has screened the potential environmental impact of a modernised agreement on all environmental impacts included in the EU Better Regulation Toolbox[26]. The study concludes that the environmental effects of both the conservative and the ambitious scenarios are likely to be limited in Chile, and almost negligible in the EU. Without mitigating measures, CO_2 emissions are likely to increase slightly in both regions

[26] Climate, air quality, water quality and resources, biodiversity, flora, fauna and landscapes, soil quality or resources, waste production/generation/recycling, efficient use of resources (renewable and non-renewable, sustainable production and consumption, international environmental impacts, transport and use of energy, animal welfare, likelihood or scale of environmental risks and land use.

because of the scale and technique effects, and by the projected increase in transportation. Other environmental issues that may require attention due to the expected increase in agricultural activities in Chile are water (due to higher water requirements), increase in some of the drivers of biodiversity loss in Chile (linked to agricultural activities and associated use of land, water, fertilisers and pesticides), and land use. Increase in agricultural output may add pressure to the ongoing land conversion in central and northern Chile. Further trade liberalisation is likely to improve animal welfare by increasing attention in Chile to the welfare of animals in the meat and dairy sub-sectors.

Many of the respondents in the public consultation who expressed an opinion tend to consider that a modernised Agreement would have a positive impact on environmental concerns overall, and in particular on air pollution, waste, energy use and mix, biodiversity and the greening of the economy.

As noted in section 4.3, Trade and Sustainable Development chapters in recent EU FTAs include provisions on environmental protection and the fight against climate change. Provisions foresee engagement with partner countries based on enhanced dialogue, transparency and civil society involvement. Provisions also allow for independent and impartial review. Such engagement would help to raise awareness of the policy objectives, to draw more attention to ratification of the relevant conventions and to enhance the quality of their implementation.

5.8. Social impact

5.8.1. Impact on real wages and welfare

Real wages

According to the CGE modelling, real wages would increase for both trade partners under the two scenarios, although the impact in the EU is, once again, almost negligible. In the case of Chile, in the conservative scenario real wages would increase around 0.346% for unskilled and 0.191% for skilled labour. In the ambitious scenario real wages of unskilled labour and skilled labour would increase by around 0.610% and 0.370% respectively.

Table – Estimated change in real wages (long term, % change)

	Conservative		Ambitious	
	Unskilled	Skilled	Unskilled	Skilled
EU	0,003	0,003	0,006	0,006
Chile	0,346	0,191	0,610	0,370

Welfare

In terms of welfare (an economic indicator that compares the change in consumer utility), the impact on the EU and on Chile is expected to be positive. In absolute values, the EU gains vary between € 269 million (conservative) and € 712 million (ambitious) in 2025. Chile's welfare gains would be € 369 million in the conservative and € 529 million in the ambitious scenario.

Table – Estimated welfare gains in the long term (€ million) (*)

	Conservative	Ambitious
EU	269	712
Chile	369	529

(*) USD converted to Euro at 1 EUR=1.1095 USD.

5.8.2. Impact on employment

Sectoral employment

The CGE modelling estimated impact on sectoral output in Chile is mixed. Some key sectors, notably fruit and vegetables, beverages, dairy, non-metal products and utilities are expected to grow at the expense of others. Sectors expected to contract include machinery, motor vehicles, metal products, gas, fibres and crops and meat.

As a result of re-allocation of resources between sectors we may expect labour (and capital) shifts from contracting to growing sectors (e.g. the fruit & vegetables sector growing at the expense of the meat sector). This is confirmed by the CGE simulations results on sectoral labour demand. Increase in labour demand in the EU would be lower than 0.1% in every sub-sector in both scenarios, except for the oil sub-sector in the ambitious scenario, where a 0.16% increase in labour demand is expected. Table 5.1 in the external study (Annex 5), provides further details on the expected changes in labour demand in the EU by sub-sector category, showing that the impact on labour demand in the EU would be largely negligible for all sub-sectors.

In the case of Chile, variations in labour demands would be more significant, especially in the dairy sub-sector, where labour demand would increase by almost 5% for both unskilled and skilled workers in both scenarios, in the oilseeds, vegetable oils and fats sub-sector by around 2%, and in the vegetables, fruits and nuts sub-sector by around 1.5%. Such increases in labour demand come partially at the expense of the meat, cereals, and the plant and animal fibres and other crops sub-sector. However, a net positive labour demand effect in the agricultural and food sub-sector of around 1% for both unskilled workers and skilled workers is expected.

The public consultation yields positive conclusions on the likely social impact of a modernised Agreement. Of those respondents who expressed an opinion, many consider that the modernisation would increase employment, improve the quality of jobs, and raise wages and household incomes.

5.8.3. Impact on labour standards

Overview of the core labour standards situation in Chile

Chile has ratified all eight core conventions that make up the ILO's 1998 Declaration on Fundamental Principles and Rights at Work, but still faces issues in consistently implementing their directives in domestic labour law and practices. A review of cases filed against Chile at the ILO's Commission on Freedom of Association and Committee of Experts on the Application of Conventions and Recommendations (CEACR) panels shows that freedom of association is often breached in Chile, including through union motivated dismissals, interference in the right to strike, and non-compliance with collective bargaining agreements. Discrimination against women at the workplace is also widespread, and in some cases backed by law.

Impact of the modernisation on labour standards

Trade and Sustainable Development chapters in recent EU FTAs (described in sections 4.3 and 5.7) include commitments to adhere to core ILO standards and conventions and to their effective implementation in law and in practice, as well as the pursuance of high levels of labour protection, and the effective enforcement of and non-derogation from domestic laws in these areas, in order to prevent a 'race to the bottom'. They also include specific provisions encouraging trade practices and schemes that support and promote sustainable development, such as Corporate Social Responsibility.

The internationally recognised ILO core labour standards related to freedom of association and the effective recognition of the right to collective bargaining, the effective abolition of child labour, the elimination of all forms of forced or compulsory labour as well as the elimination of discrimination in respect of employment and occupation would therefore potentially be impacted positively by a revised FTA, since the Parties would be bound by the Agreement to effectively implement and uphold core labour standards.

The labour provisions in the Trade and Sustainable Development chapter of a modernised EU-Chile FTA would also consider how both Parties can further cooperate in promoting the ILO Decent Work Agenda as provided by the ILO Declaration on Social Justice for a Fair Globalization of 2008 and its four pillars on promoting jobs, guaranteeing rights at work, extending social protection and promoting social dialogue. Particular attention should be paid to developing and enhancing measures for occupational safety and health and for working conditions and living wages, as expressed in the 2008 ILO Declaration on Social Justice for a fair Globalisation and in related ILO Conventions as well as other international commitments. Particular attention should also be paid to labour inspections through effective implementation of relevant ILO standards.

5.9. Impact on consumers

The potential enhancement of trade and investment relations with Chile may impact on consumers in various ways, including in terms of expenditure, prices, and choice.

The CGE modelling estimates that by 2025 a modernised EU-Chile FTA would increase the consumer price index in Chile by 0.20% in the conservative and 0.23% in the ambitious scenario. As expected, given the considerable difference in size the impact in the EU would be negligible in a conservative scenario and a mere 0.01% in an ambitious scenario. It should be noted however that (as explained in more detail in section 5.1 and in Annex 4), one of the limitations of the CGE modelling is a fixed employment closure, with labour market adjustments therefore taking place through wage changes. This means that an increase in wages automatically translates into higher consumer prices. Thus, the CGE modelling results on consumer prices should be taken with caution, as they may overestimate the increase in prices.

Table – Estimated change in Consumer Price Index (long-term, % change)

	Conservative	Ambitious
EU	0,00	0,01
Chile	0,20	0,23

As explained in sub-section 5.8.1, in terms of welfare (an economic indicator that compares the change in consumer utility), the impact on the EU and on Chile would be positive. In absolute values, the EU gains would vary between € 269 million (conservative) and € 712 million (ambitious) in 2025, whilst Chile's welfare gains would be € 339 million in the conservative and € 529 million in the ambitious scenario. Moreover, expanding trade will provide a wider choice for consumers in the EU and in Chile.

The 2017 ex-ante study (Annex 5) concludes that consumer welfare is expected to increase. Although in Chile the relative increase in consumer prices for goods typically purchased by low-income earners could, at first sight, possibly impact income inequality, this does not appear to be the case, as the purchasing power of low skilled workers (who may be safely assumed to be more than proportionately represented among low-income earners) increases at a higher rate than the overall consumer price index.

EU policy not to lower standards for safety, environment and other considerations will also ensure that the current level of protection is upheld. Therefore the FTA is not expected to have any immediate impact in this area. However, the intended improvements to regulatory cooperation could result in higher protection in these areas in the future. Expanding trade would provide more choices for consumers in the EU and in Chile. Consumers could also benefit indirectly from cooperation on consumer protection.

The outcome of the public consultation is consistent with these results. Of the 32 responses received, a third of respondents expect a positive impact on EU consumers, whilst half expect a positive effect on Chilean consumers[27].

5.10. Impact on human rights

The modernisation of the EU-Chile FTA would be part of the modernisation of the Association Agreement as a whole. Both sides have expressed their commitment in the scoping process to the respect of human rights and fundamental freedoms. The outcome of the preparatory work on the modernisation of the political chapter indicates that the Parties will base the new Agreement on values of human rights, democracy, rule of law and good governance. It also indicates that the existing dialogue on human rights (outside the FTA pillar) should be maintained.

Both the EU and Chile are committed to high standards of protection for human rights (as proclaimed in the main UN conventions on human rights, the Charter of Fundamental Rights of the European Union, the European Convention on Human Rights, or the American Convention on Human Rights); and both Chile and EU Member States are signatories to all the main international conventions.

The EU and Chile conduct a regular Human Rights Dialogue where major issues of concern for human rights are discussed, in particular gender and violence against women, children's rights and rights of vulnerable groups (including indigenous peoples and LGBTI). The EU and Chile also cooperate fully in multilateral fora on protection of human rights.

The establishment in the political chapter of respect for human rights as an essential element of the new Agreement is a key feature for ensuring proper compliance with human rights under the future agreement.

Notwithstanding the fact that human rights will be addressed more generally in the political and cooperation part of the agreement, **the Trade and Sustainable Development chapter of the trade pillar of the modernised Agreement would include core labour rights** (see section 5.8.3), as this is a subset of human rights that may be affected by a modernised trade and investment framework.

As highlighted in the *Guidelines on the analysis of human rights impacts in impact assessments for trade-related policy initiatives*, impact assessments should focus on the

[27] Among various types of possible **positive** impacts/benefits for EU consumers identified by respondents: prices, choice and availability of goods or services (a third of respondents); quality and safety of goods or services, information available to consumers, and protection and enforcement of consumer rights (about a quarter of respondents). Among the various types of possible **positive** impacts/benefits for Chilean consumers identified by respondents: choice and availability of goods and services (a half of respondents); prices, quality and safety of goods and services (a third of respondents); and information available to consumers (a quarter of respondents).

potential impacts of the different trade policy options under consideration. The external study (Ecorys/CASE, 2017) has identified the specific human rights likely to be affected by modernisation of the FTA and has analysed the potential impact upon them of the particular trade measures under consideration. The main findings are presented below.

In addition, the forthcoming sustainability impact assessment (SIA) will provide a more detailed analysis and assessment, taking into account a more extensive consultation of stakeholders in this context and possible recommendations as to maximising the benefits of the proposed Agreement and minimising potential negative effects.

Overview of human rights situation in Chile

Chile has signed and ratified sixteen of eighteen international human rights treaties of the United Nations (UN). Chile participated in the Universal Periodic Review by the Human Rights Council of the UN in 2009, during which a report assessing the human rights challenges Chile was facing at that time was filed. A second Universal Periodic Review in 2014 further detailed the administrative reforms and changes that were implemented by Chile in response. A number of human rights issues were mentioned: past use of torture, extrajudicial killings and enforced disappearances; police conduct, and repression of the right to assembly; discrimination against women; the recognition of rights of indigenous populations; and discrimination against sexual minorities.

Both Universal Periodic Reviews praised Chile for the work the government continues to do on addressing the human rights violations of past governments, while at the same time they recognized areas where the use of force by police should be addressed.

The rights of women, sexual minorities and indigenous peoples are still not fully secure, often due to stigma, institutionalized discrimination, and legislative bottlenecks to resolve them, although Chile was praised for its 2012 Anti-Discrimination law.

Impact of the modernisation on human rights

Among the current human rights issues in Chile - use of force by police, gender discrimination, the rights and recognition of indigenous peoples, and the rights of sexual minorities - all but two are essentially questions of domestic legislation. Both gender discrimination and the rights and recognition of indigenous peoples are two areas where the intensification of trade and investment with the EU through a modernised Association Agreement could influence the human rights panorama, at least at the margins.

Specifically in relation to **gender discrimination**, the issue at hand is twofold: the equal participation of women in the work force, and significant gap in equality of opportunity between men and women for permanent employment. Women's seasonal and temporary employment is largely centred in the fruit export sub-sector, a major source of EU imports from Chile. Intensification of trade in this sector could increase employment for women, but

as such work is largely unskilled or temporary it would not impact the gender gap in pay, nor would it address the imbalance in opportunities for permanent employment for women.

As for the **rights of indigenous peoples**, although increased investment in mining could heighten land conflicts at the core of indigenous rights claims – in part because mining interests are in geographic regions covered by such claims – mining has been so far a marginal source of conflict. Moreover, the modernised Agreement is expected to result in very modest changes in mining activities in Chile (well below 1%), which is not surprising, as these products are already free of tariff, and investors are largely covered by BITs. Thus, the effect on indigenous peoples is expected to be negligible.

In the context of the broader social or sustainable development commitments in trade agreements, which also include corporate social responsibility (CRS), the modernised Agreement could also foment the contribution of private businesses in promoting and furthering labour rights, complementary to the role of the states.

Generally speaking, participants in the public consultations considered that the reduction of trade and investment barriers between the EU and Chile would have no significant impact on human rights, with some suggesting that this was due to the already highly developed social and human rights standards in both the EU and Chile. Respondents considered in particular that the availability and the affordability of essential goods and services would be positively impacted.

Summary of potential impacts

The table below summarises the potential impact on human rights. The possible impact on the right to an adequate standard of living and on the right to work are based on the CGE modelling results on GDP, welfare, real wages and employment. The possible impact on work-related rights and child labour draws from the detailed impact analysis on labour standards included in the external study (Annex 5) and summarised in section 5.8.3. The possible impact on the right to a clean environment is based on the environmental impact analysis carried out in the external study and summarised in section 5.7. Finally, the negligible expected impact on the rights of indigenous peoples and on gender equality is also based on the analysis carried out in the external study.

Nevertheless, it is important to underline that this analysis does not consider the possible positive impact of the Trade and Sustainable chapter and the potential trade and gender provisions of a modernised Agreement. The dialogue and activities, based on the commitments in the chapter, together with involvement of civil society, will provide the means to address relevant trade-related issues covered by the chapter, as well as to develop a positive agenda. Experience with similar chapters in other agreements suggests that a useful role can be played by international organisations such as ILO in relation to relevant multilateral agreements and conventions.

Particular rights		**Options C1 and C2**
Right to an adequate standard of living	EU	Direct effect: 0 Indirect effect: 0/+
	Chile	Direct effect: + Indirect effect: +
Right to work	EU	Direct effect: 0 Indirect effect: 0/+
	Chile	Direct effect: + Indirect effect: +
Work-related rights and child labour	EU	Direct effect: 0 Indirect effect: 0
	Chile	Direct effect: + Indirect effect: +
Right to a clean environment	EU	Direct effect: 0 Indirect effect: 0
	Chile	Direct effect: -/0 Indirect effect: -/0
Rights of indigenous peoples	EU	Direct effect: 0 Indirect effect: 0
	Chile	Direct effect: 0 Indirect effect: 0
Gender equality	EU	Direct effect: 0 Indirect effect: 0
	Chile	Direct effect: 0 Indirect effect: 0

5.11. Governance impact

The trade pillar of the existing EU-Chile Association Agreement includes some very basic provisions on transparency and provisions on anti-corruption, but does not include provisions on anti-fraud.

A modernised EU-Chile FTA would include transparency rules that would ensure proper involvement and consultation of stakeholders, and publication of rules and measures impacting trade and investment. Enhanced rules for public procurement would prescribe transparency, fairness, legal predictability and judicial review and would thus have a positive impact. In line with the longstanding EU policy on trade agreements, a dedicated set of commitments under a specific Trade and Sustainable Development chapter of the modernised EU-Chile FTA would ensure the necessary promotion of environmental and labour standards. Anti-fraud provisions are included in comprehensive FTAs negotiated recently by the EU, and would be the case for the modernised EU-Chile FTA as well.

5.12. Administrative impact

Administrative impact can be defined as the costs incurred by economic operators and public authorities in meeting legal obligations stemming from a new framework for trade and investment relations with Chile. For example, these could be obligations to provide

information on their action or production, either to public authorities or to private parties, register and enforce certain obligations and rights, carry out cooperation activities etc.

The details of implementation and associated administrative cost would depend on the negotiated provisions. The administrative impact of the two sub-options C1 and C2 can be assumed to be of similar magnitude, with a somewhat more important impact under option C2 due to more intense cooperation of regulatory bodies as more changes to NTBs are foreseen.

Although the modernisation of the EU-Chile FTA may require improved administrative and legislative procedures to implement the new provisions on both sides, the institutional structures under the existing Agreement are already quite developed, and the need to set up additional institutional structures is therefore expected to be limited.

Moreover, modernisation of the EU-Chile FTA would also create simplification benefits and would reduce administrative costs in both the EU and Chile. The elimination of NTBs and cooperation in the area of harmonisation of standards could greatly reduce such administrative costs and create mutual benefits.

5.13. Assessment of administrative capacity of Chile's customs to implement the agreement (notably on application of rules of origin)

Chile has full administrative capacity to properly implement the provisions of the modernised agreement. On the basis of Commission services' practical experience with Chilean authorities for implementing the existing preferential agreement, which has been very positive, it can be concluded that Chile has the capacity to implement a modernised version of the FTA.

The protocol on the definition of the concept of originating products and methods of administrative cooperation contains provisions relating to proofs of origin, arrangements for administrative cooperation and mutual assistance. Products originating in Chile are granted preferential tariff treatment when they comply with the provisions of this protocol and when covered by a proof of origin, which may be either a EUR.1 certificate issued by customs or competent governmental authorities, or an invoice declaration made out by approved exporters. Subsequent verifications may be carried out at random or whenever the customs authorities of the importing country have reasonable doubts on the originating status of products or on the authenticity of submitted documents. The verification process is based on administrative cooperation between the importing and the exporting authorities, the latter being in charge of verification and of visiting the premises of the exporter. These procedures have been established practice in the management of the origin protocol with Chile since the entry into force of the current agreement.

Issues related to the interpretation, management and correct implementation of the protocol are regularly discussed between the EU and Chile officials in the framework of the Special Committee on Customs Cooperation and Rules of Origin. Moreover, a key element of EU trade agreements is the reliance and trust placed on the partner country to verify, on request

from the EU, the originating status of their goods so that they can benefit from preference when entering the EU. In this regard figures show that in 2013 a total of 69 verification requests were sent by the EU to Chile, of which only 10 were based on reasonable doubt, the rest being routine requests. In all cases the proofs were found to have been correctly issued.

All this would indicate that the procedures and practices in place by the Chilean authorities are of a sufficient capacity to correctly apply and control the application of the Agreement as regards the rules of origin for their exported goods at least under the schemes of proof and verification currently applicable under the EU-Chile FTA.

Looking at the long list of Chilean FTAs, it can be noted that Chile is also used to different schemes of proof and verification, implying official and also self-certification approaches in relation with the proofs of origin. With regard to the verification schemes, Chile is used to systems based on customs cooperation but also on direct visits to the premises of the exporters. Therefore Chile has experience in the different types of schemes for proof and verification that could be agreed during the modernisation exercise of the EU-Chile FTA.

CHILE	**2012**		**2013**		**2014**	
	Request sent "at random"	**Requests sent based on "reasonable doubts"**	**Request sent "at random"**	**Requests sent based on "reasonable doubts"**	**Request sent "at random"**	**Requests sent based on "reasonable doubts"**
Total number of verification requests sent to CL	33	28	20	8	59	10
No reply after 10 months	1	5	2	0		
Correct proofs	32	23	17	8	59	10
Wrong proofs	0	0	1	0		

5.14. Impact on the budget of the European Union

Modernising the EU-Chile FTA would have very limited effects on the budget of the EU, notably through the loss of own resources in the form of customs duties, as most of the tariff lines are already eliminated and a modest increase in Commission staff resources to address new areas of the modernised Agreement.

Based on the projected value of duty income in 2025 the loss from tariff revenue is estimated at € 3.34 million in the conservative scenario and € 3.87 million in the ambitious scenario.

Table - Impact on the EU budget (*)

	Conservative	Ambitious
Modernised EU-Chile FTA	€ 3.34 million	€ 3.87 million

(*)Foregone customs revenue at full implementation of the modernised FTA in € million. Original calculation in USD and converted at 1 €=1.1095 USD.

6. HOW DO THE OPTIONS COMPARE?

This Chapter links both the positive and negative impacts of each policy option described in Chapter 5 directly to the objectives mentioned in Chapter 3. The comparison of the different policy options has been conducted according to criteria of effectiveness in achieving the operational objectives, efficiency, and coherence with overarching EU policy objectives. The analysis has taken into account not only the trade and economic impacts (including on SMEs and on specific sectors) of each alternative; but also their environmental, social and human rights impacts, as well as the budgetary and administrative impacts.

6.1. Positive and negative effects of the policy options

Option A: Baseline

The **baseline option** calls for maintaining the existing framework, with possible incremental improvements. However, the EU-Chile FTA entered into force in 2003 and its expected benefits have already been achieved. Therefore, the possible effects achieved under the baseline option are expected to be marginal and would not translate into perceptible growth of bilateral trade and investment volumes. No significant further gains in overall welfare attributable to the EU-Chile FTA would be expected in either the EU or in Chile.

Likewise, the baseline option would not have any additional environmental or social effects (positive or negative). Clearly, the baseline scenario - with no fresh policy action - is ineffective in reaching the desired policy objectives. If bilateral trade between the EU and Chile is compared to the bilateral trade volumes, which each could now enjoy with a more ambitious FTA (comparable to those recently concluded with third partners), it could even be considered that the baseline scenario represents a negative outcome for both parties.

In this context, the baseline option could effectively lead to an overall reduction of the share of bilateral trade in total trade of both the EU and Chile. Furthermore, the baseline option is not consistent with overall EU policy objectives calling for further trade liberalisation as an instrument for increasing economic growth. It is also worth noting that the vast majority of respondents to the online public consultation are in favour of upgrading the EU-Chile FTA, and therefore do not support the status quo.

Option C: Comprehensive modernisation of EU-Chile FTAs (with conservative and ambitious liberalisation assumptions)

As regards **option C**, comprehensive modernisation of the EU-Chile FTA, the conservative scenario (C1) aims at the degree of elimination of remaining tariffs and a reduction of the costs stemming from NTBs that has been found to be achievable in certain recent agreements. The more ambitious scenario (C2) will lead to higher reduction of the costs of NTBs. Such reductions in the costs of trade are likely to allow both the EU and Chile to achieve considerable benefits.

Such benefits include increases in GDP and welfare, increases in exports, overall increases in employment, increases in wages for both less skilled and more skilled employees, together with increases in competitiveness and an improved standing for both the EU and Chile with respect to other global competitors. While the figures, relative to the size of the EU economy, might at first sight appear modest, they nevertheless represent interesting gains in absolute terms. The above-mentioned figures, estimated through the CGE modelling, are highlighted throughout this report and in Annex 4.

It is also important to note that the problems presented in Chapter 1 could only be addressed through a comprehensive and ambitious modernisation of the Agreement. Concluding an ambitious modernised FTA may be considered to have potentially negative impacts on the environment arising from an increase in trade and production. However, this should be seen in light of the overall policy and regulatory framework in which trade and production take place, e.g. the overall impact on global emissions is mitigated by emission ceiling commitments by both Parties. The limited expected environmental effects should also be mitigated by a long-term increase in trade in environmental goods and services, as well as the possible synergy effects resulting from increased cooperation and dialogue on key environmental issues.

While the impact of specific trade measures in a modernised Agreement is generally expected to be positive for human rights, it is difficult to assess thoroughly at this stage, including on gender discrimination and the rights on indigenous people. Strong labour provisions in the Trade and Sustainable chapter of a modernised Agreement would help to mitigate any possible negative effect. Moreover, to fully appreciate the impact of a modernised Agreement on human rights, it should be kept in mind that this modernised FTA would be part of a modernised EU-Chile Association Agreement, in which provisions enjoining the parties to respect and cooperate on human rights play a prominent role outside the trade pillar.

6.2. Summary table of the effects of the different policy options

CRITERIA	OPTIONS		
	A	C1	C2
GENERAL OBJECTIVES	**0**	**+**	**+**
Promoting smart, sustainable and inclusive growth through the expansion of trade	0	+	+
Creating job and labour opportunities and welfare gains	0	+	+

Increasing benefits to consumers (i.e. in terms of choice, availability and price)	0	+	+
Improving Europe's competitiveness in global markets	0/-	0/+	0/+
Reinforcing cooperation on trade-related issues with a like-minded country	0	+	++
SPECIFIC OBJECTIVES	**0**	**+**	**++**
Increase market access for goods by further eliminating or reducing unnecessary barriers	0	+	++
Increase market access for services by further eliminating or reducing unnecessary barriers	0	+	++
Increase market access for investment by further eliminating or reducing unnecessary barriers	0	+	++
Ensure a high level of protection of investment	0	+	+
Achieve better access to Chile's public procurement	0	+	+
Ensure a high level of protection of intellectual property rights	0	+	+
Reinforce dialogue and cooperation on regulatory frameworks (including technical regulations and conformity assessment procedures)	0	+	++
Contribute to sustainable development by including trade-related provisions on labour and environment	0	+	+
OVERALL EFFECTIVENESS	**0/-**	**+**	**++**
Efficiency (time and resources spent in relation to estimated effectiveness)	0	+	++
Coherence with overarching EU policy objectives (for example, outlined in the EU 2020 strategy)	0/-	+	++
Gains from simplification effects (e.g. through NTB reduction)	0	+	++

6.3. Identification of a preferred policy option

When looking at the tabular presentation in sub-section 6.2, option C appears as the preferable option. Each of the two sub-scenarios of option C would be preferable to the baseline scenario (option A) for all criteria (general objectives, specific objectives and overall effectiveness).

Furthermore, the ambitious C2 scenario would be more beneficial for some of the specific objectives (market-access related) and in terms of overall effectiveness, including in terms of simplification gains, which would be particularly beneficial for SMEs.

Therefore, the preferred option for the EU would be to enter into a comprehensive and ambitious modernisation of the trade pillar of the EU-Chile Association Agreement – acknowledging the existence of some sensitivities for which appropriate treatment would be

considered, in accordance with the outcome of the scoping exercise – something which would also be consistent with Chile's political will to opt also for a high level of ambition.

This preference is consistent with recent and on-going established policies both in the EU and in Chile to negotiate modern FTAs of a deep and comprehensive nature.

7. HOW WOULD ACTUAL IMPACTS BE MONITORED AND EVALUATED?

7.1. Operational objectives

The operational objectives are to:

- provide further reciprocal and effective market opening for goods, services and investment (including through access to government procurement), based on a high level of ambition;
- tackling barriers in a comprehensive way, along with effective implementation and enforcement, without leaving room for new barriers to replace old ones, including for SMEs;
- ensure a high level, effective and coherent investment protection, enforced through an Investment Court System;
- ensure a high level of protection of IPR, both in the EU and in Chile;
- reinforce dialogue and cooperation on regulatory frameworks (including standards, technical regulations and conformity assessment procedures) and administrative practices to improve regulatory coherence;
- contribute to the shared objective of promoting sustainable development, inter alia by including trade-related provisions on labour and environment; and
- support and promote EU values and standards such as human rights, labour rights and environmental, health and consumer protection, as well as gender issues.

7.2. Future monitoring and evaluation

Monitoring and evaluation of the specific objectives will have to use several means of data collection, as not all objectives are equally quantifiable and some monitoring may depend on a qualitative evaluation based for example on feedback from stakeholders obtained through a survey. Moreover, the monitoring needs would depend on the outcome of the negotiations with Chile, and those identified in this impact assessment would need to be updated when the negotiations are concluded.

Monitoring can be facilitated by short and medium-term analysis of the measurable indicators mentioned below: changes in the relative value of bilateral exports and imports as well as the change (number, value and share) in public procurement tenders secured by EU companies in Chile. Concerning the operational objectives, the same is valid for monitoring of tariff reductions and changes of trade flows, as these become apparent in tariff schedules and trade statistics. A more complex set of indicators is necessary for monitoring reductions in the

cost of NTBs. Convergence of standards and changes in regulations and law can be analysed in a qualitative manner by gathering information on the legal and administrative measures, on their implementation and on any related impact on trade and investment activities.

The increase in transparency or the availability of information as well as the general perception of a reduction in the cost of doing business could be analysed by surveys among stakeholders.

MONITORING INDICATORS

Operational objectives	Indicators	Unit of measurement	Source of data	Target
Provide reciprocal and effective market opening for goods, services and investment (including through access to government procurement), based on a high level of ambition	Value of bilateral trade in goods and services and of investment flows Value of EU share in total Chile trade Number of public procurement tenders won by EU bidders, value of bids	Bn €, % change % change Number of tenders won, Bn €, % change	Eurostat Chilean statistics	Increase the value and share of bilateral trade Increase in value and number of tenders won by EU bidders in Chile
Tackling barriers in a comprehensive way, along with effective implementation and enforcement, without leaving room for new barriers to replace old ones, including for SMEs	Number of trade and investment barrier cases resolved	Number of trade and investment barriers resolved	DG TRADE (Macflow Database)	Reduce the number of trade barrier cases
Ensure a high level of investment protection	Value of investment	Number of investors' complaints	DG TRADE Chilean government departments	FDI increases
Ensure a high level of protection of IPR, including Geographical Indications	Number of protected GIs Exports of GI products	Number of protected GIs Volume and change in exports of GI protected products	DG TRADE/DG AGRI Chilean government departments	Increase the number of protected GIs
Reinforce dialogue and cooperation on regulatory frameworks (including standards, technical regulations and conformity assessment procedures) and	Number of policy areas where regulatory coherence has been improved	Number of policy areas	DG TRADE, Chilean government departments	Greater regulatory coherence achieved in more policy areas

administrative practices to improve regulatory coherence				
Contribute to the shared objective of promoting sustainable development, inter alia by including trade-related provisions on labour and environment Ensure labour rights & environmental, health and consumer protection, as well as respect for human rights in the EU-Chile trade context.	Monitoring of ratification and implementation of relevant international conventions Qualitative indicators in the policy areas, e.g. from SDG reporting.	Number of positive assessments	Monitoring reports of International Organisations DG TRADE, other Commission services, EEAS Chilean government departments	Increased number of areas with satisfactory situation

Note: The frequency of measurement for all operational objectives is annual. The baseline for all operational objectives is 2017.

As regards **evaluation**, in line with the commitment made in 2015 Communication *Trade for All – Towards a more responsible trade and investment policy*, there will be an in-depth ex post evaluation of the effects of any modernised agreement concluded with Chile when the agreement will have been in force for sufficient time to ensure availability of meaningful data.

***

ANNEXES

ANNEX 1 - PROCEDURAL INFORMATION

The Directorate-General for Trade is the lead service for this Impact Assessment Report (Agenda planning: 2015/TRADE/039).

An Interservice Steering Group (ISG) was created on 9 December 2015 inter alia for the purpose of this Impact Assessment.

The services invited to join the IASG were: the General-Secretariat, DG AGRI, DG BUDG, DG CLIMA, DG CNECT, DG COMM, DG COMP, DG DEVCO, DG DIGIT, DG EAC, DG ECFIN, DG ECHO, DG EMPL, DG ENER, DG ENV, DG ESTAT, DG FISMA, DG GROW, DG HOME, DG JUST, JRC, DG MARE, DG MOVE, DG NEAR, OLAF, DG REGIO, DG RTD, DG SANTE and DG TAXUD. The EEAS has also been involved.

The ISG met seven times on 16 December 2015, 13 May 2016, 28 June 2016, 4 October 2016, 13 January 2017, 18 January 2017 and 9 February 2017.

The evidence used for the impact assessment included input by stakeholders to the public consultation (see Annex 2), a quantitative econometric modelling simulation (see Annex 4) and external expertise via the study commissioned to feed into the impact assessment (see Annex 5).

The draft Impact Assessment Report was submitted to the Regulatory Scrutiny Board (RSB) on 15 February 2017 and was examined during the RSB meeting of 15 March 2017.

Brief overview on how have the Recommendations of the Board been integrated in the revised Impact Assessment Report:

Recommendations of the Regulatory Scrutiny Board	**Modifications to the Impact Assessment Report**
The report fails to clearly describe the policy context and the main objective(s) of the initiative: whether it aims to address specific shortcomings of the existing EU-Chile Association Agreement or if it its part of a broader strategic agenda to modernise EU FTAs with partner countries.	• The following sections have been modified to better reflect the dual objective as well as the different categories of problems and problem drivers: Chapter 1 (sections 1.1.2, 1.2, 1.2.1 and 1.2.2), Chapter 2, Chapter 3 (section 3.1).
The report does not prioritise the problems it identifies and does not describe how big they are.	• Section 1.1 has been modified to better differentiate between general issues and specific problems. • Section 1.2 has been modified to (i) present in more detail the general context, and (ii) differentiate between the shortcoming of the existing provisions and the new issues missing in the existing Agreement. • Specific shortcomings in section 1.2.1 have been described in more detail, including concrete

	examples. • An extra paragraph has been included in the Introduction to clarify the aspects of the analysis that would fall under the framework of a Sustainability Impact Assessment (e.g. flanking measures) rather than the Impact Assessment.
The report does not present distributional consequences in sufficient detail. The level of ambition in terms of social and environmental standards is unclear.	• Additional paragraphs have been included in sections 4.3, 5.7, 5.8.3 and 5.10 to clarify the scope and the concrete issues on environment, social and labour matters that would be tackled by the Trade and Sustainable Development chapter of a possible future Agreement. • An additional paragraph has been included in section 5.9 on consumer protection. • As explained in Chapter 5 it is not feasible to disaggregate expected impacts by Member State. However, a brief overview of bilateral trade flows by key Member States and by key sectors has been included in section 1.1.1. • A reference to the table in the external study (Annex 5) on the % change in labour demand in the EU by sub-sector has been included in section 5.8.2.
The reporting of the consultation results lack specificity	• Additional detail has been included throughout the Report (mainly in footnotes) to better explain which stakeholder groups expressed which views. • References in the main text to 'a majority' have been eliminated. • Information from the regular dialogues that the Commission maintains with Chile and with business is reflected in the report, for instance in the description of the specific problem drivers, most notably the shortcomings of the existing provisions.
The report insufficiently qualifies the results of the modelling exercise and other supporting evidence, and does not fully address contradictions across evidence sources.	• Section 4.1 has been amended to clarify the similarities and the differences between the conservative and the increased liberalisation scenario (C1, C2), and an overview table on the differences included. • Sections 4.1, 4.3, 5.1, 5.2 and 5.3 have been amended to better explain why the CGE model remains the best available tool, despite the limitations, and to clarify that the baseline (policy option A) is dynamic, with a similar long-term projection (2025) as for policy option C. It is further explained that, as a result, the untapped trade potential is the expected increase in bilateral trade under policy options C1 and C2.

ANNEX 2 - STAKEHOLDERS CONSULTATIONS

The information and views in this Annex do not necessarily reflect the official position of the European Commission. It summarises the input by the stakeholders who participated in the public consultation on the future of economic and trade relations between the EU and Chile.

1. Background

The public consultation[28] was designed to gather detailed views relating to the future trade and economic relationship between the EU and Chile, respectively to feed into the Impact Assessment Report on a possible modernisation of the trade part of the Association Agreement between the EU and Chile.

Between 8 June and 8 September 2016, the Commission carried out an online public consultation, which was launched on the DG TRADE website and posted on 'EU Survey'[29] (the Commission's online tool for conducting such public consultations). Stakeholders – interested parties within the EU and in third countries - were invited to answer 48 questions. The Commission received 31 submissions from a range of respondents. Stakeholders' responses were published, unless otherwise explicitly indicated by the respondent.

2. Overview of respondents

Altogether, 32 responses were submitted via the online EU Survey tool.

Responses were received from a range of respondents, including single sector business associations, businesses, public administrations, and individuals responding in their personal capacity. Respondents were stakeholders from the EU and Chile who feel they could be affected by the negotiations to modernise the trade pillar of the EU-Chile Association Agreement.

From the 26 respondents that identified the sectors which they represented, the most came from the **food sector** (8) (fishing and aquaculture, food production, and farming). Other sectors contemplated in the submissions pertained to the metals, construction, pharmaceutical, and information technology and communication sectors, as well as the recording industry.

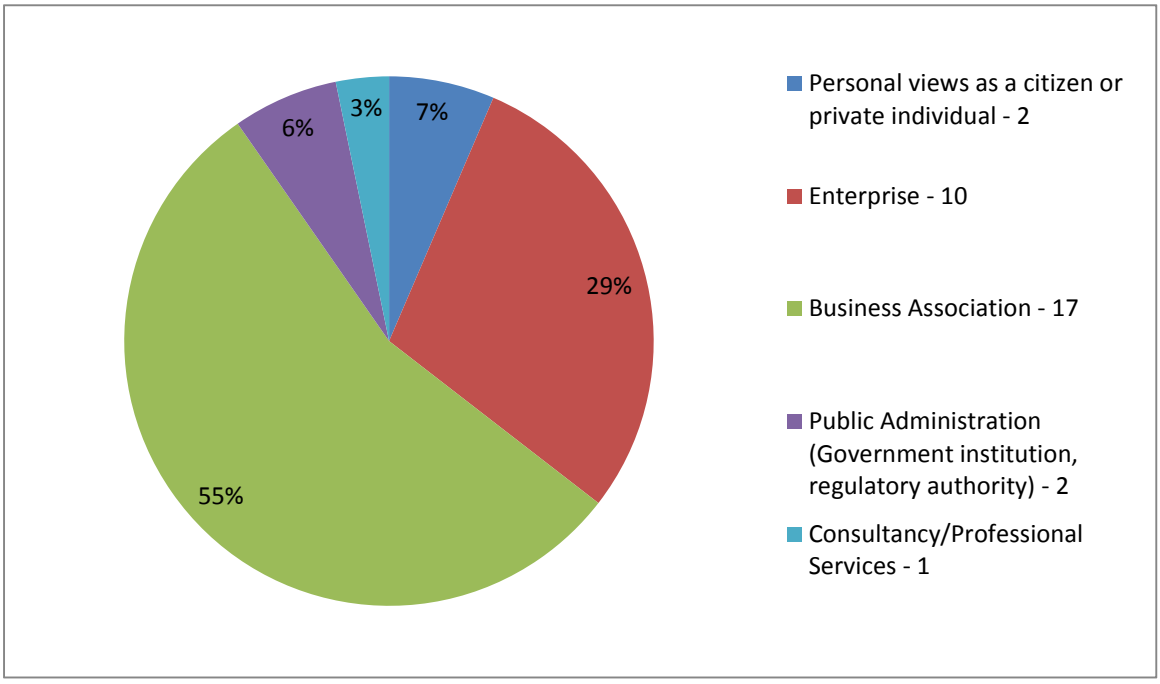
Over half of the respondents (17) were from business associations. Enterprises (9), public administrations (2), personal views from citizens or private individuals (2), and consultancy or professional services (1) compose the remaining types of respondents.

[28] Public online consultation on a possible modernisation of the trade part of the EU-Chile Association Agreement, http://trade.ec.europa.eu/consultations/index.cfm?consul_id=209

[29] https://ec.europa.eu/eusurvey/runner/EU_Chile_association_agreement

Notably absent are any submissions from trade unions, or from NGO's.

Figure 1: Breakdown of respondents by category[30]



In terms of **geographical distribution**, 11 respondents identified they were located in one of the MS of the EU; 2 respondents identified themselves as being located in Chile. None of the respondents identified themselves as being from a third country.

About a third of respondents (10) indicated that they are involved in trade between the EU and Chile, a number of which (3) stated that they had cross-border investments in the EU or Chile. A Chilean respondent claimed interest in exploring the possibility of cross-border investment in the EU.

3. Limitations of the consultation

Firstly, as in any such online public consultation, the replies submitted by the respondents cannot be seen as representative of the views of all stakeholders. This is intrinsic to this method of consultation, particularly when one considers that the number of questions and the length of the questionnaire have to be balanced with the aim of collecting as comprehensive information as possible in a period of three months.

Secondly, the response rate to this public consultation was modest. This fact impacts on the possibility to claim that the responses provide any strong evidential support for policy action, or inaction, in any given direction.

[30] Figure resulting from the analysis of the online submissions on the EU Survey website.

It is nevertheless important to note that some of the submissions, in particular from the single sector business associations, are representing the views of a significant number of member organisations. Looking at some of the single sector business associations from the food sector, for example, one is answering on behalf of 155 member organisations and businesses active in the European fresh fruit and vegetables supply chain, another represents 267 member businesses in the fish canning industry in Spain.

Thirdly, it is noteworthy to recall that this Impact Assessment Report aims to support the Commission's proposal to modernise the trade part of the Association Agreement between the EU and Chile, without knowing the final outcome of the negotiations. The potential economic, social, human rights, and environmental impacts of the eventual agreement will be examined by means of an independent Sustainability Impact Assessment (SIA), which will be carried out by external consultants as the negotiations are carried out.

The SIA's will rely on a wide-ranging consultation of stakeholders – notably civil society – in the EU and in the partner country. The SIA's will be finalised ahead of the initialling of the agreement and its findings will feed into the negotiating process. The SIA's will aim to: (a) assess the likely effects of the agreement on sustainable development and human rights in the EU, Chile, and other relevant countries, particularly Least Developed Countries (LDC's); and (b) to make recommendations and propose flanking measures to maximise the benefits of the agreement and prevent or minimise potential negative impacts.

4. Summary of stakeholders' contributions by issue

4.1. Current state of openness to trade between the EU and Chile

Fourteen respondents, mainly from business associations and companies, considered that the current state of openness to trade between the EU and Chile is not satisfactory, with a clear need for improvements to be made. On the other hand, ten thought otherwise. The remaining respondents, especially individuals, did not express an opinion on this matter.

All but one of the respondents were aware of the existence of an FTA between the EU and Chile. Over half of the submissions indicated that the EU-Chile FTA brought partly satisfying results, considering that further improvements could be made. Seven submitters noted that the FTA brought satisfactory results to them, whilst two respondents claimed it had not brought about satisfying outcomes.

In what pertains to the achievement of the objectives of the existing EU-Chile FTA, submissions, mainly from business associations and individual companies, tended to indicate that they were only partly achieved. This tendency was particularly pronounced on the questions of whether the FTA had facilitated trade in goods, liberalised trade in services, or enhanced dialogue and strengthened cooperation between the Parties on matters of mutual interest.

On whether the FTA achieved a growing structured and economic relationship between Chile and the EU, slightly over half of responses were affirmative, while no one replied negatively. Moreover, the majority of respondents considered that the objective of expanding and diversifying EU-Chile trade was either achieved (10), or partly achieved (15).

Respondents, once again mainly business associations and individual companies, clearly indicated that the EU and Chile should modernise the existing FTA in order to achieve a broader and more ambitious agreement. The only respondent, a food production enterprise, that replied negatively to this question considered that the current FTA brought satisfactory results and that all of the objectives had been achieved.

4.2. Overview of priority sectors

Respondents were asked to identify priorities for an ambitious modernisation of the present trade relationship between the EU and Chile. They indicated the following general priorities:

- market access in agriculture and fisheries;
- removing barriers to Foreign Direct Investment;
- a revision of rules of origin to reflect latest developments in EU trade policy;
- the recognition of EU engineering and architecture qualifications in Chile;
- a strong protection and enforcement of Intellectual Property Rights;
- the reduction of tariff barriers (for all sectors, goods and services) and non-tariff barriers to trade (SPS and TBT);
- regulatory cooperation, including in the services sector;
- a digital trade chapter;

4.3. Trade in Goods

Overall, respondents did not consider that import tariffs hinder trade between the EU and Chile. Despite this, some respondents indicated that they have experienced problems in the following sectors: seed products, security and defence, and stainless steel.

Similarly, submissions indicated that quantitative measures, such as quotas or licensing, do not hinder trade between the Parties either. Two respondents specified that export potential to Chile could be improved through the increase in the tariff quota for EU canned tuna, and specific dairy products.

As regards **rules of origin**, no specifics were given as regards problems caused by the rules applied in the existing EU-Chile FTA. Despite this, seven respondents stated that they be could be improved upon by reviewing the rules of origin requirements and certifications procedures in order to take into account the latest developments in EU trade agreements with other countries.

Some respondents noted potential issues with current practices in **customs procedures and border enforcement**, referring to documentary requirements and onerous procedures to request preferential treatment.

Differences between EU and Chilean **regulations or standards** have been indicated by a number of respondents as hindering trade between the two Parties. Some of the problems highlighted refer to divergent standards, technical regulations, conformity assessment procedures, and sanitary and phytosanitary (SPS) measures.

4.4. Trade in Services

Some respondents indicated that there are barriers in Chile to trade in services between the EU and Chile. A common theme that can be extracted from these submissions pertains to the issue of the supposed lack of recognition of European engineering and architect qualifications in Chile, which impedes the provision of such services by EU economic operators.

One respondent, a business association, noted that the "additional tax" (*impuesto adicional*) that is applied, by Chile, to service providers from abroad makes the provision of their services more costly, thus favouring local companies. In the same spirit, another respondent, a public administration stakeholder, stated that they encountered difficulties with the Chilean requirement that enterprises with more than 25 employees have to have 85% personnel of Chilean nationality.

Beyond the above mentioned issues, a business association stated that they would welcome the extension of Chile's mode 4 commitments, and considered that, given Chile is a Party to TPP, TiSA, and a large number of FTA's, the modernised FTA ought to bind all existing commitments.

4.5. Investment

Three respondents considered that there are barriers to flows of direct investments between the EU and Chile. On the Chilean side, the main restrictive measure highlighted refers to the aforementioned requirement for 85% of Chilean nationals to be employed by firms with over 25 employees. No European barrier was specified by any of the respondents. The majority of respondents did not express an opinion on this matter.

Three respondents indicated that, both in the EU and Chile, investors from other jurisdictions were given preferential treatment.

4.6. Intellectual property rights (IPRs)

Six respondents considered that there are problems with the protection and enforcement of IPRs in Chile, while none identified such problems in the EU. Some of the issues raised concerning Chile include:

- the high rate of unlicensed use of software, which includes unauthorised pre-installation of software by hardware retailers, and in-house and external providers of IT services;
- an uneven playing field for competing content services due to deficiencies in the IPR system;
- the length of data exclusivity for biological products (5 years);
- GI protection.

4.7. Public procurement

Of the thirteen respondents that expressed an opinion, ten considered that there are difficulties for companies from the EU to access public procurement in Chile. In this regard, the modernisation of the Agreement was seen by respondents as an opportunity to open up the Chilean public procurement market further for EU companies, in particular in the following sectors: sanitation, construction and construction-related services, and other services such as banking insurance, telecommunications, security services, catering, security services and accounting.

One of the problems that were emphasised was that only companies that are registered in Chile can participate in public procurement. The time span for submitting offers for Chilean procurement was also considered by some as being too short. Furthermore, the non-recognition of EU academic titles and degrees was highlighted once again, this time as an impediment to the participation in public procurement procedures.

On the other hand, difficulties were identified for Chilean companies to access public procurement in the EU. The highlighted difficulties mostly referred to the lack of transparency on procurement opportunities, and vague technical specifications. Respondents did not specify further the difficulties faced in the EU procurement market.

4.8. Competition Policy

Whilst some respondents considered that the regulatory system ensures fair competition in the EU and in Chile, a number of them expressed a contrary opinion.

Those that underlined issues in the EU noted these pertain to abuses of dominant positions, and vertical or horizontal restrictions of competition. One submission from an enterprise claimed that there is an uneven regulatory scenario for telecom operators *vis a vis* internet-based service providers which, despite often providing equivalent services, are subject to less regulatory obligations. According to the same respondent, this concern also includes consumer protections issues, including the protection of personal data.

The main issues identified by respondents that concerned competition policy in Chile were abuse of dominant positions, and enterprises being granted special or exclusive rights or

privileges. One respondent, an enterprise, highlighted issues in private concessions in sanitation works.

4.9. SMEs

Respondents were invited to express their opinion on what aspects of trading between the EU and Chile pose particular challenges for SMEs in either the EU or Chile. In this light, tariff barriers, rules of origin, customs procedures, and technical barriers to trade were underlined. The following topic areas also received noteworthy attention by respondents as posing challenges for SMEs: services, establishment of companies, and public procurement.

As regards the potential benefits a modernised EU-Chile FTA ought to bring to SMEs, respondents considered these would be more output and more employment as a result of a higher level of exports, cheaper production costs through cheaper imports, facilitated trade with other countries resulting from the convergence of standards, technology transfer, lower costs for import requirements, the possibility to move from lower to higher value added products/services, and the possibility for increased business cooperation between SMEs.

4.10. Consumers

When asked whether there could be an impact on consumers as a result of further liberalisation of trade between the EU and Chile, eleven expected a positive result for EU consumers; sixteen expected a similar impact on Chilean consumers. None of the submissions expressed any expectations for negative impacts on consumers.

Specifically, respondents considered that positive impacts could be expected in the following areas:

- prices of goods and services;
- choice and availability of goods and services;
- quality of goods and services;
- information available to consumers; and
- protection and enforcement of consumer rights.

4.11. Trade and Sustainable Development

Respondents were invited to provide their opinion on whether there could be an impact on social issues, such as labour or human rights or gender related issues, from the reduction of barriers to trade and investment between the EU and Chile. Of the seven that expressed an opinion, most considered that social issues such as the number of jobs, the quality of jobs, wages, and household incomes would be positively impacted, both in Chile and in the EU. Only one respondent considered that there could be a negative impact.

A respondent from a business association elaborated that a modernised FTA between the EU and Chile should pay particular attention to the informal labour sector in Chile.

Respondents generally either expressed no opinion or tended to consider that reduction of trade and investment barriers between EU and Chile would not have a significant impact on human rights. respondent stakeholder from a business association explained that, since social conditions in both the EU and Chile are, all in all, highly developed, the direct impact of a modernised FTA, although positive, will be limited.

There were some categories, however, that respondents felt would be positively impacted, in both the EU and Chile: the availability of essential goods and services, and; the affordability of essential goods and services.

Similar considerations were given by respondents to the questions of whether there would be an environmental impact from the reduction of barriers to trade and investment between the EU and Chile. Those that expressed an opinion tended to consider that a modernised FTA would have a positive impact on environmental concerns overall and in particular on air pollution, waste, energy use and mix, biological diversity, and the greening of the economy. As with social issues, only one respondent claimed that they expected some negative environmental impacts from the modernisation of the EU-Chile FTA.

One of the submissions from another business association stressed the desire for the modernised EU-Chile FTA to have a strong chapter on sustainability, similar to the one in the EU-Vietnam FTA.

Respondents emphasised that the EU and Chile should cooperate further in order to promote adherence to internationally agreed principles, rights, and agreements on labour and the environment.

4.12. Other issues

Sixteen respondents considered that the EU and Chile ought to include specific provisions on energy and raw materials, which would include measures aimed at transparency, ensuring non-discrimination and limiting anti-competitive practices. Similarly, twenty-one respondents were receptive to the idea that a revised trade agreement between the EU and Chile should include provisions on improving future regulatory coherence, such as measures providing for cross-cutting disciplines in order to develop and implement more efficient and compatible regulations.

ANNEX 3 - WHO IS AFFECTED BY THE INITIATIVE AND HOW?

Based on the proposed policy choice in question, i.e. an ambitious and comprehensive modernisation of the trade pillar of the EU-Chile Association Agreement, this Annex aims at:

- setting out the practical implications (such as key obligations or timescale) of the initiative for a representative enterprise and/or public administration (or particular groups or individuals if directly regulated),

- describing the actions that the enterprise or public authority might need to take in order to comply with the obligations under the proposed intervention and indicate wherever possible the likely costs to be incurred in meeting those obligations.

In the specific case of an Impact Assessment Report concerning negotiating authorisation/ directives, it is not possible at this stage to have a clear picture of the final provisions to be concluded at the end of the negotiating process.

Moreover, free trade agreements are not sectorally or timely limited. They potentially cover all economic activities as from entry into force and theoretically indefinitely. In this respect, the Communication 'Trade for all - Towards an More Effective, Transparent and Responsible Trade and Investment Policy' highlights that EU trade policy is for all: consumers, employees, small and medium sized enterprises, and the poorest in developing countries.

Finally, trade operators can always use the non-preferential treatment.

In this context, at this very early stage, only a general and simplified attempt can be made to summarise the likely implications for the various groups of stakeholders:

- **Exporting producers of industrial goods**: will benefit from new trade opportunities and cost savings due to liberalisation and reduction of NTBs. Liberalisation of trade in services will also further support the economic integration in manufacturing.

- **Exporting producers of agricultural products**: as for industrial goods, the producers will benefit from new trade opportunities and cost savings due to liberalisation.

- **Small- and medium sized enterprises** will benefit from new trade opportunities and cost savings due to liberalisation, as well as from provisions covering regulatory cooperation and other rules. See the related part of the Impact Assessment (section 5.6).

- **Traders** will benefit from lower trade costs due to reduction or elimination of tariff and non-tariff trade barriers, and from increased trade opportunities due to the various ways of liberalisation under the agreement.

- **Service providers** will also benefit from trade liberalisation, enabling new economic opportunities and cost savings.

- **Workers** of the above mentioned businesses will also benefit from the new economic opportunities.

- **Consumers**: see the related part of the Impact Assessment (section 5.10).

- **Authorities**: see the related parts of the Impact Assessment (section 5.13).

- **Customs authorities**: as there is an established practice for implementing FTAs in the EU and in Chile the impact of the new Agreement will be marginal in this context.

- **Third countries, notably LDCs**: see the related part of the Impact Assessment (section 5.7).

ANNEX 4 - ANALYTICAL MODELS USED IN PREPARING THE IMPACT ASSESSMENT

AGGREGATION

The geographical and sectoral disaggregation chosen for the CGE simulations is shown in the two tables below. These aggregations have been validated by the members of the ISG before running the simulations. It is important to note that the model disaggregation is limited by the data source that is the elements and level of disaggregation of the model database[31].

Sector number	Sector name	GTAP sectors
1	Cereals	2, 3
2	Rice	1, 23
3	Vegetables, Fruits, nuts	4
4	Oil seeds, vegetable oils & fats	5, 21
5	Sugar	6, 24
6	Plant & animal fibres and other crops	7. 8, 12
7	Bovine and other ruminant meats	9, 19
8	Other meat (poultry, pig)	10, 20
9	Dairy products	11, 22
10	Wood and paper products	13, 30, 31
11	Coal	15
12	Oil	16
13	Gas	17, 44
14	Minerals	18
15	Fishing	14
16	Other food products	25
17	Beverages and tobacco	26
18	Textile, apparel, leather	27, 28, 29
19	Chemicals, rubber, plastic	33
20	Petroleum, coal products	32
21	Metal products	35, 36, 37
22	Non-metallic minerals	34
23	Motor vehicles & transport equipment	38, 39
24	Machinery	41
25	Electronic equipment and other manufacture	40, 42
26	Electricity	43
27	Utility (construction, water)	46, 45
28	Transport	48, 49, 50
29	Communication and business service	51, 54,
30	Financial service and insurance	52, 53
31	Recreational and other services	55, 56, 57, 47

[31] GTAP 9, base year 2011

	Region	Remarks
1	EU	
2	Chile	
3	Turkey	
4	USA	
5	China	
6	Canada	
7	Mexico	
8	MERCOSUR	including Venezuela
9	Colombia	
10	Peru	
11	Central America	Guatemala, El Salvador, Nicaragua, Honduras, Costa Rica, Panamá
12	Latin America	Except Latin American countries included in the groups above
13	High income countries	Japan, Korea, EFTA
14	LDCs	Except Latin American LDCs included in the groups above
15	Other developing countries	

BASELINE

Step 1: Improving the market access representation

In order to build a comprehensive assessment of market access, the database has been amended introducing ad valorem equivalent (AVE) estimates of the non-tariff barriers in the manufacturing sectors.[32] NTBs for agri-food sectors are ignored in the simulations for lack of a robust methodology of quantifying these barriers and the impact of their reduction.[33] As a final amendment to the database, AVEs of TRQs in the meat sector have been corrected in order to more realistically reflect TRQ fill rates. Finally, the tariff rate in the oilseeds sector was corrected based on actual tariff data.

Additionally, FTAs that are not reflected in the GTAP database but have been concluded by either of the two partners meanwhile are introduced.

To introduce such changes into the model, at 2011, a specific closure has been adopted. This closure ensures that the consistency of the database remains after the introduction of these estimates. In other words, since the database contains the "picture of the world trade" at 2011,

[32] Ad valorem equivalents of NTB are introduced 'on' the standard tariff variable already in the model. This has the inconvenience that they create government revenue even if this is not the case in the 'real' world. To minimize this, only the part of the NTB that is eventually reduced (cf. the section on scenarios) is added to the model.

[33] This is not to say that there will be no ambition in the negotiations to achieve progress on SPS issues.

any change to the data will have broader effects and change other variables from their observed values when the model finds a new equilibrium. The "alter tax" closure overcomes this issue by allowing the introduction of new data minimizing the impacts of the changes on the value flows in the database.[34]

It is worth noting that a number of agreements are not included in the baseline, and therefore also not in the policy projections. It is not possible to model agreements that have not been finalised, such as the Regional Comprehensive Economic Partnership (RCEP), the Trade in Services Agreement (TiSA) and Environmental Goods Agreement (EGA). The Government Procurement Agreement (GPA) is not included in the model because there is no reliable methodology for modelling the impact of government procurement issues. The expansion of the Information Technology Agreement, to which all partners are members cannot be modelled, as the final schedule is not yet available. [35]

Step 2: Updating database to long term

Macro variables, GDP, population and labour force (skilled and unskilled) have been updated to 2025:

- GDP from the World Bank. To shock the GDP, usually endogenous, a standard swap with Total Factor Productivity has been implemented
- Population from the ILO
- Labour force from the ILO; The respective shares of skilled and unskilled labour CEPII
- Small increase in natural resources to reflect the developments around shale gas technology
- A productivity growth for energy inputs reflecting the implementation of the Kyoto and Paris agreements

SCENARIOS

In order to simulate a modernisation of the FTA between EU and Chile, two scenarios have been simulated, labelled "Conservative" and "Ambitious".

In both of these scenarios, tariffs in the NAMA and most agricultural sectors are reduced to zero. However, liberalization assumptions differ in other categories:

Agricultural TRQs upon import into the EU, simulated by an AVE tariff (cf. above), are left unchanged in the first scenario, but abolished, (i.e. the corresponding AVE tariff reduced to zero) along with tariffs in the second scenario ("Ambitious").

[34] GTAP technical paper No. 12 (https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=315)

[35] The fact that all these agreements are plurilateral ones is a coincidence, rather than a defining feature.

AVE of NAMA NTBs are reduced by 5% in the first scenario of their values in literature for EU exports to Chile. This increases to 10% in the second scenario ("Ambitious"). For imports from Chile to the EU, no NTB reductions are simulated. The reason for this assumed asymmetry is twofold. First, EU barriers in key NAMA sectors are already rather low vis-a-vis the two countries.[36] Second, past experience shows that as a result of NAMA negotiations, small partners are more likely to adapt their internal regulation than large partners like the EU.

For services, liberalization of NTBs also follows an asymmetric approach. In the first scenario, a 1% AVE cut is introduced for EU exports to Chile, but no cut for EU imports from Chile is simulated. In the second scenario, a 3% AVE cut is introduced for EU exports to Chile, and a 1% cut for EU imports from Chile.

In both scenarios, these cuts are embodying the effect of binding of existing liberalization. The starting point for the approach is the observation that FTA negotiations usually lead to only a binding of the existing level of liberalization in services trade (for the cases where this level is lower than the GATS commitments) as opposed to achieving new market access. However the insurance policy effect of binding current levels of liberalization has a positive effect on services trade, equivalent to some degree of 'real' market access. The methodology applied for this and other IA simulations aims to translate this insurance effect into liberalization parameter for CGE modelling. In an earlier study[37] such 'binding' has been quantified as being equivalent to a reduction of 3% in services barriers for the DDA negotiations among 46 participating countries.

RESULTS

GDP and welfare gains of the EU and Chile, which are extensively discussed in section 5.4 of the main report, are presented in table 1 of this annex. At this point it may be useful to mention that the database of the model is compiled in US dollars. Results for the end of the projection period (2025) are converted in Euros by the ECB/Eurostat rate recorded for 2015.

[36] EU requirements are largely based on international standards, and in most cases products can be placed on the EU market on the basis of the supplier's declaration of conformity.

[37] Decreux, Y. and L. Fontagné (2011), Economic Impact of Potential Outcome of the DDA.

Table 1: GDP and welfare results (long term)

Variable	Scenario	EU	Chile
GDP (% change)	Conservative	0.001	0.090
	Ambitious	0.002	0.175
GDP gain (€ million*)	Conservative	196	304
	Ambitious	391	592
Welfare gain (€ million*)	Conservative	269	369
	Ambitious	712	529
EU-Chile Bilateral exports (% change)	Conservative	9.9	0.7
	Ambitious	21.5	1.6

* US dollars were converted to Euros as $1.1095 to €1

Table 2 shows the results for total exports of both partner countries under the two scenarios. As has been the case for welfare and GDP, the percentage increases are a full order of magnitude smaller for the EU than for the two partners. This is quite natural given the relative size of the two economies.

Table 2: Change of the value of total exports (long term)

	Conservative	Ambitious
EU	0.01	0.15
Chile	0.02	0.21

Tables 3 and 4 display the relative changes in bilateral trade simulated under the two scenarios. In relative terms the EU's bilateral exports to Chile increase strongest in gas, fishing and coal sectors. It should however kept in mind that the baseline exports in these sectors are rather small. In absolute terms, exports expand most strongly in the sectors of machinery and motor vehicles. Imports on the other hand, increase most strongly in beverages and tobacco and fruit and vegetable sectors. Relative increases are strongest for the cereals, oilseeds and vegetable oils and dairy sectors, but here baseline trade is negligible.

Table 3: EU exports to Chile and the effects of the two scenarios (long term)

Sector	Conservative	Ambitious
Rice	1%	2%
cereals	15%	17%
veg_fruit	3%	3%
oil_seeds	17%	18%
sugar	14%	14%
fiber_crop	1%	1%
ruminant_meat	1%	2%
other_meat	2%	3%
dairy	44%	45%
wood_paper	16%	35%
fishing	48%	125%
coal	23%	52%
oil	315%	1717%
gas	3%	7%
minerals	10%	10%
other_food	4%	5%
bev_tob	0%	1%
textile	16%	34%
chemicals	8%	16%
oil_pcts	7%	13%
metal_pcts	10%	19%
no_metal_pct	10%	20%
motor_equip	12%	25%
machinery	17%	36%
ele_other	23%	51%
electricity	0%	0%
utility	5%	13%
transport	2%	7%
communication	3%	9%
financial	3%	9%
other_serv	4%	10%
TOTAL	10%	21%

Table 4: Chilean exports to the EU and the effects of the two scenarios (long term)

Sector	Conservative	Ambitious
rice	7%	7%
cereals	48%	48%
veg_fruit	5%	5%
oil_seeds	71%	71%
sugar	-1%	20%
fiber_crop	-2%	-2%
ruminant_meat	-2%	-2%
other_meat	-3%	-3%
dairy	74%	73%
wood_paper	-1%	0%
fishing	0%	0%
coal	-	-
oil	-	-
gas	0%	1%
minerals	5%	5%
other_food	7%	7%
bev_tob	7%	7%
textile	-1%	-1%
chemicals	-1%	-1%
oil_pcts	1%	1%
metal_pcts	-1%	-1%
no_metal_pct	-1%	-1%
motor_equip	0%	0%
machinery	-1%	-1%
ele_other	-1%	-1%
electricity	0%	0%
utility	-1%	3%
transport	0%	4%
communication	-1%	3%
financial	-1%	3%
other_serv	-1%	3%
TOTAL	1%	2%

Table 5 shows percentage changes in sectoral output in the two countries under both scenarios. For the EU, only one sector exhibits changes in excess of 0.05%. This sector, the coal sector, is however insignificant in the EU in terms of its share in the total economy. Absolute changes are strongest in the services sector, although relative changes there are tiny.

For Chile, relative effects on output are somewhat more pronounced. They are strongest for the fruit and vegetable, oilseeds and vegetable oils and dairy sectors, whereas in absolute terms, the expansion of services sectors is much stronger, too. On the negative side, the

machinery sector faces the strongest relative contraction of output, whereas metal sector is the one that contracts most in absolute terms.

To interpret these output results, it is important to consider that the model cannot expand the factors of production (as it might be the case in real life). Instead, the CGE modelling pulls them across to the most efficient sector. In other words, growth in one sector always occurs at the expense of others. This partly explains the decline in output in some sectors, as a result of production increases in other sectors.

Table 5: Relative changes of sectoral output in the EU and Chile (long term)

	Conservative		Ambitious	
Sector	EU	Chile	EU	Chile
Rice	-0.01%	-0.15%	-0.01%	-0.15%
Cereals	0.00%	0.00%	-0.01%	0.00%
veg_fruit	-0.04%	2.71%	-0.04%	2.68%
oil_seeds	-0.01%	-0.07%	-0.02%	-0.07%
Sugar	0.00%	0.49%	0.00%	0.49%
fiber_crop	-0.01%	-1.15%	-0.01%	-1.35%
ruminant_meat	0.01%	-0.40%	0.01%	-0.35%
other_meat	0.01%	-0.27%	0.01%	-0.24%
Dairy	-0.01%	5.07%	0.00%	5.12%
wood_paper	0.01%	-0.27%	0.03%	-0.47%
Fishing	0.00%	0.00%	-0.01%	0.00%
Coal	0.10%	-0.85%	0.22%	-1.71%
Oil	-0.01%	-0.27%	-0.02%	-0.54%
Gas	0.00%	-0.11%	-0.01%	-0.07%
Minerals	-0.01%	0.29%	0.00%	0.30%
other_food	0.00%	0.24%	0.00%	0.25%
bev_tob	-0.01%	0.93%	0.00%	0.99%
Textile	-0.02%	-0.25%	-0.02%	-0.38%
chemicals	0.00%	-0.23%	0.00%	-0.36%
oil_pcts	0.00%	0.24%	0.01%	0.48%
metal_pcts	0.01%	-0.64%	0.01%	-0.79%
no_metal_pct	0.01%	0.41%	0.01%	0.73%
motor_equip	0.02%	-1.07%	0.05%	-1.78%
machinery	0.02%	-1.64%	0.04%	-2.89%
ele_other	-0.01%	-0.42%	-0.02%	-0.56%
electricity	0.01%	0.11%	0.01%	0.18%
Utility	0.01%	0.76%	0.02%	1.32%
transport	0.01%	0.07%	0.01%	0.10%
communication	0.01%	0.28%	0.01%	0.40%
Financial	0.00%	0.24%	0.01%	0.27%
other_serv	0.01%	0.36%	0.02%	0.51%

Table 6 shows the effects on consumers and workers. Real consumer prices, embodied by the consumer price index (CPI) are basically unaffected for the EU, but increase by about 0.2% in both scenarios for Chile.

Real wages which are corrected for the change in CPE and therefore represent a net effect on worker's purchasing power do not change significantly in the EU, but more so in the Chile. Unskilled workers tend to gain more than skilled workers, about 0.6% in the ambitious scenario.

Table 6: Change in Consumer Price Index (CPI) and real wages in the two scenarios (long term)

	Conservative			Ambitious		
	CPI	**Unskilled**	**Skilled**	**CPI**	**Unskilled**	**Skilled**
EU	0.00%	0.00%	0.00%	0.01%	0.01%	0.01%
Chile	0.20%	0.35%	0.19%	0.23%	0.61%	0.37%

Table 7 shows the impact of the two scenarios on CO2 emissions. For the EU these increases are negligible. For Chile, they amount, respectively, to 0.2% and 0.4% in the conservative and the ambitious scenario.

Table 7: Percentage change in CO2 emissions (long term)

	Conservative	Ambitious
EU	0.00%	0.01%
Chile	0.18%	0.37%

LIMITATIONS OF THE ANALYSIS

In terms of scenario assumptions, the main limitation is the fact that agricultural NTBs and potential reductions that can be achieved in the negotiations are not simulated. That will have the effect of understating the gain for the agricultural sector and its subsectors. However, various academic attempts to quantify agricultural s or their reduction under FTAs in the recent past have proven unable to deliver robust results, which is the major reason we refrain from a quantitative analysis of the latter.

The model used for the simulations contributing to the IAR, is the dynamic GTAP model. Although it does simulate international capital flows, it is not possible to implement and simulate changes in bilateral investment policies. Therefore, the model analysis could not quantify the potential effects stemming from the investment chapter of the modernization negotiations. Similarly, the effects of opening markets for public procurement at various levels of administration and the strengthening of intellectual property rights had to be left out of the analysis and their potential value is not quantified.

Finally, we chose, as is common practice in Impact Assessments, a neoclassical closure for the model. Technically this means that factor supply is exogenous. In more practical terms, this means that in particular it is assumed that employment is fixed and therefore, no

employment effects can be simulated. This choice reflects mainly the long-run perspective which we adopt when evaluating the effects of our trade agreements. It also reflects the widely recognized believe that trade, notwithstanding its significant positive effects on the economy, is not considered to have an effect on the so-called natural rate of unemployment.

ANNEX 5

EXTERNAL STUDY DRAFT FINAL REPORT

See link: http://trade.ec.europa.eu/doclib/html/155561.htm