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THE EUROPEAN COMMUNITY AND CENTRAL AMERICA

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THE EUROPEAN COMMUNITY AND CENTRAL AMERICA *

INTRODUCTION

In the context of its overall relations with Latin America, the European Community seeks a special link with Central America founded on the one hand upon European historic ties with the countries in the region and on the other upon the Community's active support for the Central American regional integration process. While the Community does not currently possess contractual trade relations on a bilateral basis as such with these countries, it does foster relations in a number of areas of development cooperation such as financial and technical assistance, food aid, trade promotion, the system of generalised trade preferences and aid to regional integration.

At the political level, the European Community is following developments in the region with great attention. A number of heads of state, foreign ministers and other important figures from Central America have recently visited Community institutions: they include President Rodrigo Carazo of Costa Rica; Mr. Sergio Ramirez, Member of the Nicaraguan Junta; Ministers from Honduras, Costa Rica and Nicaragua, and the President of the Central American Bank for Economic Integration, while between 1975 and today three Members of the Commission have paid official visits to the region.

The European Commission intends to step up the Community's contacts with Central America by increasing trade and continuing its development aid. In this context the Commission will be paying special attention to developments in the region's human rights situation and will further support efforts to achieve regional integration in Central America.

This note covers the Community's relations with the five member countries of the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) together with Panama (1) and the two independent states in the Caribbean region (the Dominican Republic and Haiti) which (2) are not associated with the Community under the Convention of Lomé.

* including also the DOMINICAN REPUBLIC and HAITI
(1)but not Belize which, following recent independence, is due to become the 61st associate of the Community under the Lomé Convention.
(2)together with Cuba, which is not considered here.

TABLE 1

GENERAL INDICATORS

CENTRAL AMERICA

(Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama)

Population (1980) : Latin America (20 countries) : 329 million, of which
Central America : 20 million.

Land area : Latin America (20 countries) : 20 million km², of which
Central America: 0,5 million km².

European Community imports (million ECU - 1979):

	<u>Total imports</u>			from	
				<u>Central America</u>	
Coffee	3.482,4	=	100 %	583,0	= 16.7 %
Bananas	587,3	=	100 %	230,6	= 39.3 %

Central American exports (millions of US \$ - 1979):

Total 5.776,7 = 100 % of which (bananas 493,2 = 8.6 %) = 40.5 %
(coffee 1.838,6 = 31.9 %)

Destinations of Central American exports (1979)

United States	:	34.9 %
European Community (9)	:	24.0 %

Private investment from Community countries (million ECU - 1978):

<u>Total in developing countries:</u>	720	=	100 %
of which Central America	8	=	1.1 %
<u>Total in Latin America</u>	: 450	=	100 %
of which Central America	8	=	1.8 %

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CENTRAL AMERICA TODAY

With an area roughly equivalent to that of France and a population of 32.7 million inhabitants, the six isthmic republics of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) together with the Dominican Republic and Haiti represent less than 2.5 percent of the land surface and 10 percent of the population of Latin America as a whole. Unlike other regions of the sub-continent, Central America must be considered relatively poor in raw materials, with 40.5 percent of its overall exports comprising two tropical products (coffee and bananas).

Mindful of the historic unity which existed over much of the isthmus in pre-Columbian and colonial times, five of the Central American republics in 1960 established under the aegis of the Organisation of Central American States (ODECA), the Central American Common Market (CACM), with the objective of integrating the region's economies by means of a full customs union and common policies similar to those adopted by the European Community in Europe.

Economic and social disparities and a series of political changes in countries within the area have both modified the course of integration thus far and destabilised the region as a whole, with far-reaching international implications.

THE EUROPEAN COMMUNITY AND CENTRAL AMERICA

Overall economic relations

For the European Community, Central America represents today a leading supplier of tropical products. In 1979, 39 percent of the Community's banana imports derived from the region, and 17 percent of its coffee. However, in the Community's overall trade / see Appendix B / the region plays only a minimal role (0.5 % in 1979) and likewise of its total overseas investment only a small fraction is placed in the Central American countries (some 0.3 percent in 1978).

Conversely, Europe constitutes for Central America a region of considerable economic and political importance. After the United States, the Member States of the Community represent the second largest market and second investment source for Central America, with 24 percent of the latter's exports going to the Ten in 1979 (cf. 35 percent to the United States) and with some 20 percent of foreign investment coming from Community countries in 1975 (cf. 73 percent from the United States). Moreover, a substantial proportion of the region's development aid, both private and public, originates in Europe / see Appendix A /.

Over and above stepping up traditional trade and investment, however, the European Community has sought to improve the quality of its relationship with individual countries of the region by means of special export promotion schemes, including the adoption of its Generalised System of Preferences (GSP), together with financial and technical aid, food aid, disaster relief and - not least - assistance to the regional integration process in the isthmus.

Recent internal difficulties in Central America have re-focused the world's attention on the region and reminded Europeans of the need to contribute to the consolidation of the region's stability.

The European Community and Central American integration

Clearly an important means of creating stable conditions for prosperity and growth in Central America is through integration. Despite the disruptions already mentioned, the authorities of the CACM countries are committed to the integrationist objectives for which several organs have been established, notably the Permanent Secretariat for Central American Economic Integration (Secretaría Permanente de Integración Económica Centroamericana/SIECA), with its seat in Guatemala City.

With its own goals of integration, the European Community continues to support equivalent endeavours, in other parts of the world, especially when these involve regional groupings of developing countries. In the case of Central America, the Community has since 1975 attempted to strengthen its relations with the Central American countries on a regional as well as bilateral basis. In that year Sir Christopher Soames, then Vice-President responsible for external relations, was the first Member of the European Commission to pay an official visit to Central American Common Market institutions. He was later followed by Mr. Wilhelm Haferkamp and Mr. Claude Cheysson, respectively in charge of external relations and development cooperation. Taking into account the relatively advanced state of economic integration in the Central American isthmus (with 20 percent of the region's total trade conducted with either member of the CACM), the long-term objective of a region-to-region approach is highly desirable.

Institutional links

In Brussels the Ambassadors of the Central American Isthmus (the five CACM states and Panama) accredited to the Community have, as a regional grouping (GRUCA), twice (in 1979 and 1980) held exchanges of view with the European Commission. At the same time contacts with SIECA have been intensified, notably in the framework of the Community's aid to regional integration and role within the GATT multilateral trade negotiations (Tokyo Round).

In 1978 the Central American Ministers of Economic Affairs entrusted to SIECA the task of studying the possibility of an economic cooperation agreement with the European Community analogous on the one hand to that now operating between the Community and the five ASEAN countries (3) and on the other to that envisaged between the Community and the Andean Pact (4). Internal difficulties in Central America and the Community's concern for the human rights situation in certain countries of the region have, however, thus far hindered further initiatives with regard to an economic cooperation agreement.

(3) Indonesia, Malaysia, Philippines, Singapore, Thailand

(4) whose five members are Bolivia, Colombia, Ecuador, Peru and Venezuela

THE COMMUNITY'S DEVELOPMENT COOPERATION

Notwithstanding the above-mentioned difficulties, the European Community has continued to expand its development cooperation with Central America and Caribbean states not associated through the Lomé Convention. Although the Community's development aid to these countries is, in terms of volume, somewhat less than that accorded to the Caribbean countries "associated" with the Ten under the Lomé Convention (5), it represents nevertheless 59 percent (1980) of total aid granted to Latin America. In according favourable treatment to this important region, the Community has taken account of the relatively low level of economic development of the Central American countries in terms of Latin America as a whole and also of the especially high incidence of natural disasters in this tropical region. While development aid has been directed to specific countries in the region, it has been channelled with a view to medium-term results on a regional scale.

Financial and technical assistance

With regard to financial and technical aid, the Community has been guided by both economic and political considerations. This has resulted in the strengthening of aid granted to Honduras and Nicaragua, which in 1979/80 received respectively 11 million ECU (6) and 5.3 million ECU that is about 50 percent of the aid accorded to Central America as a whole, which totalled 33.5 ECU. Other funds were granted to Haiti and the Dominican Republic. In 1981 further aid is envisaged for Honduras and Nicaragua, while assistance to the Dominican Republic is being maintained at the present level.

Food aid

In the light of economic and political conditions currently obtaining in the various countries of the region, the Community makes a distinction between direct aid and indirect aid designed to alleviate food shortages. In 1981, the Community's direct food aid will again favour principally Honduras and Nicaragua, which in 1980 received 50 percent of all Community food aid destined for Central America. Indirect food aid, channelled through non-governmental bodies, is also being given to El Salvador and Haiti. It is noteworthy that the sale of food products on the Nicaraguan and Honduran markets is linked to specific development projects, namely the financing of Nicaragua's literacy campaign and of silo construction in Honduras.

Disaster relief

The general criteria adopted by the Community in its aid programmes for Central America and non-associated Caribbean countries apply equally to the relief of natural disasters and of political events in the area, with a similar distinction being drawn between official government channels and private non-governmental organisations. Emergency aid has been given to a number of countries following natural catastrophes (for instance hurricanes David and Frederick) and civil catastrophes (Nicaragua in 1979, El Salvador in 1981).

(5) Bahamas, Barbados, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Vincent, Trinidad and Tobago, Surinam.

(6) 1 Currency Unit (1979/80) = US \$ 1.34.

Aid to regional integration

Despite the aforementioned obstacles to the political, economic and social unification of Central America, the European Community has provided a modest assistance to regional integration as such, principally through SIECA and other regional organs and also through export promotion schemes intended to increase the volume and value of Central American exports to the Community's market of 270 million consumers. These have taken the form of European buyers' missions to the region, various information activities and assistance by the European Commission to Central American exporters in European commercial and industrial fairs.

The Generalised System of Preferences

The Community's Generalised System of tariff Preferences (GSP), in operation since 1971, applies to all countries in the Central American and Caribbean areas as to other developing countries in Latin America and the world.

This system has evolved year by year to include today, in the context of the Tokyo Round, a number of important tropical products. With regard to exports under the scheme from Central America, the Community has adopted rules of origin favouring processing in more than one country of the region and, thus, the integration process of the region itself. Nonetheless it should be stated that the potential of the Community's GSP is by no means fully utilised by the Central American countries (7).

TOWARDS THE FUTURE

Given its integrationist vocation, the European Community both welcomes and supports the economic integration goals set by the institutions of the Central American Common Market and individual Governments of the region. While fully respecting the sovereignty of all the countries in the area, the Community's regional aid and development cooperation will continue to take account of political and human rights factors in the region, thus ensuring that its bilateral efforts are of direct benefit to the populations concerned. Financial and technical assistance and food aid are, together with increased trade, deemed to be the principal instruments of current cooperation in the Community's relationship with the non-associated countries of Central America and the Caribbean, but it may be appropriate in the medium term for the Community to support the quest for alternative energy production in a region which is poorly endowed with petroleum. Progress towards the formulation of an economic cooperation agreement between the Community and Central America will of course be closely related to the evolution of the regional integration process in the Isthmus.

(7) for further details of this scheme, see in the same series (external relations) Note N° 41/81 on "The Generalised System of Preferences of the European Community".

1980 - COMMUNITY AID TO LATIN AMERICA AND CENTRAL AMERICA (1)

million ECU

	Central America + Caribbean	Total Latin America	C.A. / L.A. %
Food aid	20,81	52,52	39,6
Financial and technical aid	20,10	29,80	68
Export promotion	1,36	3,22	43
Aid to regional integration	0,05	0,30	17
Training (scholarships & traineeships)	-	0,04	-
Non-governmental organisations	0,75	2,80	27
Emergency aid	0,65	0,65	100
TOTAL 1980	43,74	84,74	51,4

(1) Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Dominican Republic and Haiti

EC (9) TRADE WITH CACM COUNTRIES (1)

+ DOMINICAN REPUBLIC + HAITI

(trade balance)

(million ECU)

	1 9 7 7			1 9 7 8			1 9 7 9			1 9 8 0		
	Exp.	Imp.	Balance	Exp.	Imp.	Balance	Exp.	Imp.	Balance	Exp.	Imp.	Balance
Costa Rica	94	177	- 83	108	174	- 66	98	189	- 91	92	186	- 94
El Salvador	101	337	- 236	106	169	- 63	91	280	- 189	60	233	- 173
Guatemala	144	257	- 113	167	211	- 44	139	220	- 81	130	264	- 134
Honduras	47	111	- 64	55	107	- 52	68	127	- 59	69	132	- 63
Nicaragua	75	165	- 90	54	124	- 70	24	118	- 94	36	85	- 49
Panama (2)	241	131	+ 110	263	104	+ 159	308	195	+ 113	334	148	+ 186
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Dominican Republic	81	63	+ 18	74	58	+ 16	74	56	+ 18	102	54	+ 48
Haiti	34	47	- 13	35	44	- 9	37	43	- 6	37	64	- 27
TOTAL	817	1.288	- 471	862	991	- 129	839	1.228	- 389	860	1.166	- 306

(1) Central American Common Market + Panama + Dominican Republic + Haiti

(2) Panama, which joined the CACM last (1980) is the only country in which there is a traditional trade balance surplus for the E.C.

Source: Eurostat - Monthly bulletin.

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