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Region in Free-trade Negotiation with Canada

by LADB Staff

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The countries of the region that comprise the Grupo CA-4, Guatemala, Nicaragua, El Salvador, and Honduras, have begun a ninth round of free-trade negotiations with Canada. The players took their seats without concrete expectations of a signing date. The current round, taking place in Ottawa, takes up issues that had been left pending.

Irving Guerrero, Honduran undersecretary of foreign trade, said that the goal is a good treaty, rather than meeting a deadline. "We have all this year to negotiate," Guerrero said, speaking of a process that began in 2001 in the hope of seeing signatures at the end of 2002. The plan was to have a treaty in effect by now, but Central America was looking for bigger fish and got hooked on US President George W. Bush's bait, the Central America Free Trade Agreement (CAFTA). This round promised to be thorny because some of the most difficult issues had been left for last in favor of quick progress on less volatile matters. Consequently, the sides now faced questions of market access, controversy resolution, labor issues, and rules of origin. This last proved to be the thorniest.

Goods manufactured in Central America's maquilas have met strong resistance on the Canadian side. Canada opposes access to clothing made under conditions that it considers to be subsidies, which are the elements of foreign-trade zone production, and also objects to the origin of materials. Central America maintains that it has the right to the subsidies until 2010, by decision of the World Trade Organization (WTO). Canada also wanted the goods to be made either of regional fibers or Canadian. The condition is consistent with the free-trade agreement (FTA) Canada has already signed with Costa Rica (see NotiCen, 2001-05-03). Regional manufacturers found the requirement unrealistic, because there are not sufficient regional or Canadian stocks of synthetics, like polyester, nylon, and rayon, to support the volume of production.

The strategy of saving the worst for last has resulted in agreement on as much as 95% of the goods and services under consideration. But the current round found Canada unwilling to lift tariffs on clothing imports, insisting instead on an eight-year rollback with the imposition of quotas on exempt goods. The maquila sector is of the greatest importance to the C-4 (see NotiCen, 2001-12-20). Honduras and Guatemala have been the most adamant in resisting Canada's position. Nicaragua has so far been silent on the issue, and El Salvador is alone in showing some willingness to accept the quota system, providing that quotas are ample, and restrictions on origin are something they could live with.

Officials of the other governments, declining to be named, have tried to convince maquila operators in their countries to lean toward the Salvadoran position. These sources have told their clothing sectors that there are other strategies possible for gaining market access and had suggested to them that Canada might be willing to reduce the eight-year tariff period to five.

Going into the talks, there was no evidence that these advocates had been successful. Another idea was to seek quotas equal to current levels of production, now pegged at about US\$80 million annually. That, too, appeared to have fallen on deaf ears. The manufacturers came back painting a picture of an FTA without textiles, whereby the region could sell horchata (a rice drink), tropical fruit, and other nostalgic items to emigrants in the frozen north. They warned that, if government negotiators could not get consensus among regional manufacturers, they would have to decide the issue for themselves and face the consequence of opposition from the industry.

Concurrently with these warnings finding their way to the media, El Salvador's Economy Minister Miguel Lacayo was saying that the governments had gotten consensus from the manufacturers and were proceeding with a final offer to the Canadians. His claims came tumbling down around him when Guatemalan, Honduran, and Nicaraguan manufacturers announced their refusal to sign on to a treaty that did not guarantee entry of their products into Canada without tariffs and without restrictions of any kind. In a role reversal, Guatemala is playing a cooperative role with its neighbors in these negotiations, while El Salvador is out on a limb.

In CAFTA negotiations, by contrast, Guatemala has infuriated its partners by presenting proposals out of line with the rest, while El Salvador is a model of leadership and solidarity (see NotiCen, 2003-05-15 and 2003-06-19). Guatemala is, in these talks, accusing El Salvador of "political intent" in its recalcitrance, while in the negotiations with the US, Guatemala stands accused of kowtowing to US interests to get recertified as a stalwart in the drug wars.

Marco Cuevas, of the Asociacion de Exportadores de Productos no Tradicionales (Agexpront) of Guatemala, objects to concessions on the point of quotas not only because "it is negative to accept quotas because they limit free trade," but also because it would set a ruinous precedent for the CAFTA talks. Cuevas was backed up in his view by Jose Molina of the Asociacion de Maquileros de Honduras, who added that capitulation in the matter would also negate the legitimacy of the system of subsidies the sector enjoys. "The offer from Canada does not reflect the interests of the country because it does not accept the current bases of the free-trade zones, nor the decision of the WTO," he said. The standoff on the textile and clothing issue pretty much ensures that Guerrero's prediction of protracted negotiations will prevail over Lacayo's. The Salvadoran minister, in trying to drum up support, characterized this round as the last one prior to signing.

There are other problems that will take some time to iron out. The most serious is the labor issue. Rigoberto Monge, Salvadoran negotiator representing the private sector, said that at least two more sessions will be necessary to deal both with the textiles and with a Canadian reversal on labor rights. He said that all parties had agreed last year not to link free trade with labor violations and not to include labor issues in the current treaty. They had agreed, instead, to deal with labor rights in a separate accord.

In July 2002, Duane Van Becelaere, Canadian negotiator, was quoted as saying, "The actions that can be undertaken in these agreements, about labor and environment, are only to be sure that the governments are complying with their own laws. We are not looking to apply trade sanctions for labor or environmental practices." The Canadians appear to have changed their minds about that.

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