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Central America in CAFTA Negotiations

by LADB Staff
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Round six of the Central America Free Trade Agreement (CAFTA) negotiations started on July 27 in New Orleans. This is the round that could trigger the Matthew effect, so called for the passage in the gospel of Matthew: "For to him who has will more be given, and he will have abundance; but from him who has not, even what he has will be taken away." What Central America has is the possibility of losing tariff-free access to the US market of most its goods (see NotiCen, 2000-10-12) under the provisions of the Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP).

Vice Minister of Economy Eduardo Ayala Grimaldi said, "What interests us most is textiles and clothing manufacture, our most important categories of exports, which are protected by the CBI." Other important exports, he said, for which the region must fight to preserve duty-free status, include shoes, gaskets, cardboard, candy, ethyl alcohol, snack foods, iron, and steel.

Research done by the Consejo Empresarial Centroamericano (Ceca) indicates that the present negotiating stance of the US eliminates the free pass for almost everything now covered by the two unilateral US initiatives. In agriculture, according to Rigoberto Monge, Salvadoran private sector negotiator, 332 items will enter the US duty free within five years. But 327 of those items already enter free under CBI. The US also proposes quotas on 371 other products, of which 159 are presently quota free. The US is also asking that 135 items have tariffs lifted over a 12-year period. All of these are currently tariff free.

Agriculture is not alone as a target of this apparent paradox. In the industrial sector, 219 of a total of 228 items, now duty free, will move to the five-year category for removal of tariffs. By contrast, the US has presented a list of 800 items for duty-free entry into the Central American market and has done so on a country-by-country basis, driving the wedge deeper into regional bargaining solidarity. Sources indicate that the US is seeking entry for 330 industrial items to Guatemala, 318 to El Salvador, 334 to Honduras, 388 to Nicaragua, and 269 to Costa Rica. The sources did not give figures for agricultural products, nor could they differentiate the products by country. The products the US wants to place in isthmus markets include plastics, tires, fertilizers, paper, fish, leather, shoes, cosmetics, toys, pipe, and construction items.

Central America wants to export to the US dairy products, rice, poultry, eggs, shoes, leather, manufactured leather goods, shrimp, fish, sausage, paper, cardboard and cardboard products, pork, plastics, and other items. The wedge that the US was able to pound between the countries was set in place by Guatemala in a prior round when it made a unilateral proposal, out of synch with the other countries. Since that time, Central American negotiators have attempted to bring Guatemala into line. There have been indications that they have accomplished this in consultations between rounds.

Now the fear among the business sectors is that their government negotiators will "keep on giving without receiving anything in exchange." In fact, fear is evident throughout the Central American

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delegations on this round. Guatemala fears that the coffee sector will not receive preferential treatment and will be subject to general US coffee policy, which ignores the superiority of the region's product (see NotiCen, 2003-05-09).

Said Fernando Montenegro of the Asociacion Nacional del Cafe de Guatemala (ANACAFE), "Central American coffee is of superior quality and this must be an advantage for its treatment." Fanny de Estrada, of the Guatemalan export sector, said it more clearly. "If we don't see an improvement in the offer of the United States, the region could reconsider the benefits of this treaty," she said.

Costa Rica fears the loss of duty-free status it already has on some products as a US reprisal against them for keeping their telecommunications sector closed to foreign investment. Costa Rica is unique in the isthmus in not having privatized the sector, and having given public assurances that it would not do so. Having passed the half-way mark in the scheduled nine rounds of negotiations, the Costa Rican private sector has seen no indications that the US intends to maintain or extend the benefits the sector now has.

Marco Vinicio Ruiz, Consejo Empresarial Centroamericano representative, told reporters that the US must understand the impossibility of opening telecommunications. A hopeful Adolfo Solano, a negotiations coordinator, chimed in that the US also excluded some categories of its own products from the talks, so maybe there would be no reprisal. Where Solano was hopeful, chief negotiator Anabel Gonzalez was upbeat if not entirely unequivocal. "This is going to be a round of results," said Gonzalez, "where we will see the fruit of the effort of the past months, because we are going to have significant advances in several chapters [of the CAFTA document] and it is even possible that some will be concluded if the US makes the necessary moves."

The closure could come, she said, in the areas of rules of origin, market access, services, technical normalization, and public sector purchases. "We will also have a good discussion on textiles and agriculture, where we are interested in emphasizing the subject of safeguards and the basis of proprietary export products," said Gonzalez. Gonzalez could not know that a world away and a few days hence, the US would be embroiled in another negotiation that would sound the death knell to any realistic hope that there would be any change in US agricultural subsidies (see SourceMex, 2002-05-22).

The US has wider interests

On July 27, as the CAFTA negotiations opened in New Orleans, US Trade Representative Robert Zoellick met with European Union (EU) Agriculture Commissioner Franz Fischler to discuss a common agricultural agenda with regard to the subsidies that both provide to their producers and which distort markets beyond the ability of developing nations' growers to survive. The sides failed to find common ground. The two economic giants will continue on their present course. The US has in the past responded both to Central America and to Mexico that it cannot reduce its subsidies as long as Europe does not do so. Fischler told reporters that, if some developing countries lose their special abilities to export to the EU and to protect certain domestic products, "they will be replaced by the most competitive countries like Brazil."

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As talks in New Orleans progressed, it became clear that the US was proposing a quota system for agricultural products. The idea, said Mario Salaverria, president of the Camaras Agraopecuarias de Centroamerica (Fecagro), was that the US would seek to export to the region duty free quantities of agricultural products equal to the shortfall between local production and consumption. Items would include basic grains, flour, soy oil, apples, and other products. Other products, like frozen vegetables, would enter the Central American market duty free. The US would in return open its markets to some Central American products now subject to tariff or exclusion, such as cheeses, sugar, fruits, meats and grains.

Excluding products like papaya and onions, Salaverria found the proposal "negotiable," but said his sector still insisted on elimination of US subsidies to its producers. Fecagro had also been informed, said Salaverria, that the US would offer to allow for a gradual entry of other agricultural exports in an attempt to accommodate the interests of local growers and to overcome the main sticking point, the subsidies that Central American agriculturists view as doom to their sector. That concession alone is unlikely to persuade the isthmus. The strategic emphasis is on continuation of CBI and GSP prerogatives.

Both Ayala Grimaldi and Gonzalez maintained that, in the end, the US would ease on the issue. Honduran official negotiator Melvin Redondo, meanwhile, saw no reason for complacency. "The CBI has always been a bargaining chip, and Central America must not only act defensively, but offensively," he said. Seeming to ignore the agricultural issue, El Salvador's Minister of Economy Miguel Lacayo joined Gonzalez in a positive outlook. He predicted the closing of five chapters of the treaty in New Orleans. "This is a very strategic round, he said. "We've already passed the halfway mark, and we have 60% of the texts agreed to."

Looking ahead, Lacayo said that the next round would tie up the loose ends from this round, and the final two would be for "more complicated themes that require more time for the negotiators." Lacayo said El Salvador was looking toward easy access to US financial services markets. "The banking sector is interested in having a national treaty, that is, that a [Salvadoran} national bank in the US would be treated the same as any bank operating in that country."

-- End --

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