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The eighth and penultimate planned round of the Central America Free Trade Agreement (CAFTA) opened in Houston Oct. 20. It is at once the official opening of the latest installment in the marathon talks and the continuation of feverish negotiations held in a miniround in Washington last week (see NotiCen, 2003-09-18) regarding issues related to protection of Central American agriculture.

Central Americans worked to stuff the region's agricultural commodities into the canastas appropriate to their sensitivity. Canasta is a category defined by the number of years of tariff protection the items within it will receive under the treaty. More importantly, they tried to get the US to extend the region's privileges under the Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP) to CAFTA (see NotiCen, 2000-10-12). They failed in that.

Roberto Monge, private-sector negotiator from El Salvador, said that less than 3% of more than 1,200 items remain outside the free-trade agreement at this point. He said that these include dairy products, aviculture products, sausage, and pork products, about 20 or 30 items in all. Central American negotiators, who asked that their names not be used, told the Spanish news agency EFE that there had been no progress at the miniround, and that the process had in fact gone retrograde. They told the reporter, "There is skepticism and the feeling that the US wants to postpone the negotiations so that it can close them by political means in Washington," where the final round will be held Dec. 7-12.

"There is frustration," said Nicaragua's chief negotiator Carlos Sequeira, referring to the failure of the miniround, "because in Washington we received a blow that we still haven't recovered from." Sequeira said negotiators had lost faith and that it was "up to the US to restore faith that there can be reciprocally constructive CAFTA."

By day two of the Houston proceedings, Honduras' chief negotiator Melvin Redondo told the press, "We're not stuck; we are waiting for US reaction to our proposals." Redondo said that, on the agricultural issues, it was the matter of sensitive products; on labor and environmental issues, the differences "are not over standards, but about how noncompliance is to be dealt with, which for the US would be with fines, as established in the treaty with Chile, while we are seeking a focus on cooperation." Sequeira agreed with Redondo's view. "Central America has already put what it has on the table; now the ball is in US's court, and they have to finish their work," he said.

A conciliatory but unnamed member of the US delegation, meanwhile, was optimistic, saying of the ill-fated miniround, "The frustration of the Central American delegations owes to a misunderstanding and a difference in expectations about the objectives of that meeting. Now we are going forward and are in a stage of arduous and important negotiations because we have many areas to close." The delegate said that there were some still-open industrial, textile, and agricultural areas that could be closed in this round and that, in fact, there had been several proposals and

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counterproposals on these by the second day of the meetings. In these areas, Central America is seeking continuation of the preferential conditions it has under the CBI, while the US, which granted the provisions unilaterally, has tried to treat industrial and agricultural products differently under CAFTA. But as sessions opened on 0ct. 23, there had been no movement on agriculture.

The US presented some modifications, but not the open door the Central Americans were looking for. Nor did they get the protections they demanded for the region's sensitive produce. Instead they got quotas, prompting Monge to lament, "I have no expectations of the agricultural negotiation." Joining him in dejection regarding developments in the sector, Julio Arroyo of the Asociacion Azucarera de El Salvador said he had been informed that, contrary to expectations, the US had not changed its restrictions on sugar.

The current offer from Washington is for a 10% increase over existing regional quotas. For El Salvador, this means an increase of 2,700 tons. Sequeira agreed with the Salvadoran view. "The US agricultural offer seems bad to me because it does not correspond to our interests," he said. Also gone is any lingering pretense of regional unity. The US has made individual offers to each of the countries on agriculture. With two days left in the negotiations, the individual agricultural representatives still had not been told by their government negotiators what the offers were.

Industrials and textiles fare better

Entrepreneurs in the maquila sector, meanwhile, were having a better time of it. The previous round had left them sweating over the origin of fabrics and threads used in their shops. Seventeen different fabrics had been left on the table. On Wednesday, the US decided to allow those and others not specifically mentioned. The concession amounted to an extension of the CBI quotas for materials originating in the region and in the Andean countries, Africa, Mexico, and Canada.

Jose Molina of the Asociacion de Maquilas de Honduras said this was an important victory for the textile and clothing-assembly industry in Central America. The parties did not reach agreement, however, on Tariff Preference Level (TPL) goods. These are fabrics that come from regions and countries that have separate free-trade agreements with the countries of the region or with the US. Asian countries fall into this category.

It will be left to the final round to decide the treatment for clothing assembled in Central America, but made of fabric from a TPL country. The lack of closure on this leaves the clothing makers hanging. Francisco Escobar Thompson, president of the Asociacion Salvadorena de la Industria de la Confeccion (ASIC), said that TPL quotas are essential for his industry and that the manufacturers would insist on them, and in significant quantities.

Industrials up in extended trading

Profiting from a negotiating session that lasted a day longer than anticipated, Nicaragua considered itself a clear winner in gaining free access to US markets for nearly 100% of its industrial goods, in return for opening 80% of its markets to the US, said Sequeira. The other four countries had not concluded their deals as of Thursday, but Eduardo Ayala, Salvadoran negotiator, said that, if

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the US agreed to the majority of the petitions from the zone, it would eliminate 99.1% of its tariffs, while the region would eliminate 75% of theirs. He said if this happened, Central America would have the best free-trade agreement the US ever negotiated with any country, because the region is eliminating its tariffs over long periods, while the US is eliminating its tariffs more rapidly.

The reason Nicaragua was able to conclude its business before the others, he said, was that its needs were not as complicated as the rest. The negotiations cease to be regional when the parties are dealing with petitions that are specific to a single country, and not common to the region. Monge differed with that reasoning, pointing out that the issues are interrelated. Sequeira said that Nicaragua's agreements would not affect the region, because its sensitive products are not produced elsewhere in the region. He mentioned peanuts as an example.

With agriculture the main stumbling block, the US Trade Representative (USTR) will send to the region in November its chief international agricultural negotiator, Allen Johnson, according to Sequeira. Johnson will meet with the ministers and vice ministers of economy of each country, beginning with Guatemala, after Nov. 3. He is second in command to US Trade Representative Robert Zoellick on agricultural matters and will have authority to make binding decisions on what products to allow into the US market in exchange for what US products will enter the region. His specific mission will be to untangle the technical mess the negotiations are now in.

It is Sequeira's understanding that Johnson has sufficient authority to iron out the problems so that all the agreements that comprise CAFTA can be closed out by the target date, Dec. 12. Unnamed US officials have said that they are under instructions to avoid leaving any issues scheduled for closure in this round on the table for the Washington finale.

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