1-29-2004

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LADB Article Id: 52504
ISSN: 1089-1560

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by LADB Staff
Category/Department: Costa Rica
Published: 2004-01-29

Costa Rica and the US have concluded a free-trade agreement (FTA) after a bilateral negotiation made necessary by Costa Rica's withdrawal from the Central America Free Trade Agreement (CAFTA) last month (see NotiCen, 2003-12-18). The talks got off to a rocky start when negotiators appeared to bog down over four agricultural products and the textile sector. Sugar, potatoes, onions, and rice were still on the table on Jan. 23, the date observers had expected to see white smoke from the Washington Windham Hotel, scene of the deliberations. Two sectors with the potential to scuttle the talks, however, telecommunications and insurance both state monopolies in Costa Rica proved easier.

Costa Rican foreign trade representative Jose Carlos Quirce had little to tell reporters about the stalled agricultural products but did announce that the others "are basically ready." The US accepted the Costa Rican proposal for a gradual opening of Internet services, cell-phone service, and some other high tech properties of the Instituto Costarricense de Electricidad (ICE), the communications monopoly (see NotiCen, 2003-11-06). Costa Rica was looking for an increase of more than double its present sugar quota, but the US, under heavy pressure from the powerful and protected domestic sugar lobby, declined.

On the other agriculture products, Costa Rica sought the longest possible delay in lifting barriers to US imports, certain that a flood of US products would drown local growers. Onions and potatoes are particularly sensitive products because they are grown on the smallest of plots by the poorest of people who have no hope of competing with the US. The Costa Ricans hoped to use the fact that the US had little flexibility on the sugar quotas in an election year to get agreement on dropping one of the remaining three commodities from consideration, as did the CAFTA countries with corn. They would be pleasantly surprised by the final outcome.

By Jan. 25, after marathon bargaining, the parties had reached agreement. Trade representatives of the two countries, Robert Zoellick for the US and Alberto Trejos for Costa Rica, made the joint announcement. The communications sector would have until 2008 to liberalize the high-tech services. Costa Rica would get until 2008 to open up most of its insurance monopoly and until 2011 for parts of it having to do with obligatory coverage.

Costa Rica appears to have gotten much of what it asked for in agriculture. Onions and potatoes were safe for the time being. Rice, according to Quirce, "stays in conditions acceptable to the country." For Zoellick, the agreement tidies up a loose end dangling from CAFTA. "It will rationalize trade, promote investment, reduce tariffs, open commerce in services, protect intellectual property, and strengthen environmental and labor conditions," he told reporters and private-sector attendees to the talks who were largely left out of the loop and were hungry for details.

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Zoellick mentioned ongoing negotiations with the Dominican Republic, where an agreement will "grow the circle of free trade ever bigger." The agreement also fattens the isthmus pie for the US. Costa Rica bought US$3.5 billion in goods from the US and sold it US$3.4 billion. Costa Rica accounts for fully one-third of the total CAFTA trade with the US. Without this country, the agreement is only barely significant. With a CAFTA that now could include Costa Rica and the Dominican Republic, the US Embassy in Costa Rica says that it could become the second-largest trading partner for the US in Latin America, second only to Mexico. Trejos said, "We have a very good trade agreement, we have achieved our balance."

On Jan. 26 chief Costa Rica negotiator Anabelle Gonzalez sent the local media a press release from Washington with more detail. The US had in fact moved on sugar. Costa Rica got an 86% quota increase, adding 13,000 metric tons to the 15,000 MT they already ship. Under the agreement, Costa Rica will sell the US 10,300 MT of beef and 31 million gallons of ethanol. It will have free access to the US cooking-oils market, while lifting tariffs on its own market 40% from the sixth to the tenth year of the agreement, and lifting the final 60% in the 11th year.

Said Gonzalez, "Costa Rica would lift tariffs on the majority of agricultural products produced in the country in stages of between 12 and 15 years, while the US gave immediate free access for the great majority of products in the sector."

On the communications deal, Gonzalez revealed that the agreement also called for passage of a "law of modernization and strengthening of ICE, to be in effect by Dec. 31, 2004." The law will enable the opening up of private-data networks to competition by Jan. 1, 2006, and cellular-phone service by Jan. 1, 2007. With the accord signed, it goes to the Congreso for a 90-day period of analysis, followed by a ratification process. On the US side, the administration of President George W. Bush is reportedly seeking ratification early enough to keep the agreement from being politicized prior to the November presidential elections.

News of the accord was especially welcome elsewhere in Central America and in the US. National Association of Manufacturers (NAM) director Scott Otteman said, "The fact of having Costa Rica among the partners is critical to vitalize support in the business community for the pact. Their return will mean important benefits for manufacturing and other industries." Otteman was especially pleased with the telecommunications and insurance provisions. They are both a windfall for US industries and a pie-sweetener in the coming campaign for ratification.There is credible opposition to CAFTA in the US Congress, and officials have warned that congressional approval will not come easily.

In Costa Rica, however, the legislative picture is brighter. The newspaper La Nacion surveyed deputies and reported that "27 deputies (48.2%) said they would vote in favor, while 14 (25%) said they would not support the trade agreement and 15 (26.8) said they would decide after resolving doubts and studying the final texts." A caveat This is not to say there are any guarantees. Analysts caution that the undecided deputies could easily swing the vote against the treaty. It has not yet been determined if the vote will be by simple majority or by "qualified majority." In the former case, just half plus one of those present at the session need approve, but, in the latter, 38 of the 57

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legislators must vote affirmatively. Of the 27 in favor, 16 are from the ruling Partido Unidad Social Cristiana (PUSC), seven from the main opposition Partido Liberacion Nacional (PLN), three from the Movimiento Libertario (ML), and one from the Partido Renovacion Costarricense (PRC). Of the 14 against, six represent the center-left Partido Accion Ciudadana (PAC), five are from the Bloque Patriotico (BP), a split-off faction of the PAC, two are PLN members, and one is independent. Eight PLN deputies are undecided, as are two each from the PUSC, PAC, and ML, and one from the BP.

Within the productive sectors, the only group to come out strongly against the pact is the rice growers. They had asked for exclusion from the deal and didn't get it. They did get a ten-year grace period and a gradual lifting of protections that will not hit zero for 20 years, but they say they are nevertheless doomed in the medium term.

Camara de Arroceros director Patricia Zamora said the negotiation was "a failure, because it would cause the disappearance of producers." She said rice growers would join with labor unions to oppose the treaty. She was backed up in this by the Corporacion Arrocera, whose president, Agustin Navarro, called the deal "a fiasco."

Defending the deal Agriculture Minister Rodolfo Coto defended the 20-year technical exclusion as sufficient and added, "Anyway, Costa Rica has always imported rice from the United States because Costa Rica underproduces the commodity." He said US imports total 120,000 MT annually.

Trejos hit the rice producers' insecurities from another angle. "In this period [20 years], we expect to develop technology and production processes necessary for our rice producers to be able to compete," he said. The uncertain legislative count and the prospects of the rice producers teaming up with the unions was enough to evoke a plea for prudence from President Abel Pacheco. "I invite all Costa Ricans to assume a prudent attitude, well-informed and constructive, in order not to fall into the trap that some have sought for a long time, and will seek now, to create conflict, argument, and social tension," said the psychiatrist-turned-leader." He assured the populace that the country had "gotten the best accord possible. We reached a clearly favorable result, evidently superior to what we could have gotten last December," when Costa Rica walked out of CAFTA.

Pacheco pointed out that 95% of Costa Rican textiles and more than 50% of total exports go to the US. He is aware that the labor unions are powerful in industry and in the streets and that many within the labor movement view the agreement as "anexionista." Their concerns aren't limited just to the monopolies but to issues like the availability of generic medicines as well.

They see the accord as a cover for an anti-labor offensive against Costa Rica. The Colegio de Medicos y Cirujanos de Costa Rica has promised to go carefully through the texts to analyze its constitutionality, its effects on society, and on the national economy. The Asociacion Nacional de Empleados Publicos y Privados (ANEP) has warned that the accord will lead to the dismantling of the socially sensitive state, forged a half-century ago.

ANEP secretary general Albino Vargas said the agreement amounts to the annexation of Costa Rica to the US and the modification of the Constitution by exogenous means, giving as an example that "supranational mechanisms will be established to solve trade conflicts that come up under the

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FTA." He said, "From the strictly political point of view, [we will get] the abrupt insertion of gigantic transnational companies entering these public-service markets, until now in the hands of the state." This, he predicted, would reduce the sovereign action of the government in defining public policy with regard to the social needs that these services fill.

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