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COSTA RICA

New Immigration Law Sparks Controversy

Costa Rica's new immigration law was published in the congressional record on 12 Dec '05, drawing criticism from the Catholic Church, the ombudsman and leading presidential candidate Óscar Arias of the National Liberation Party (PLN). The law, which was approved by the legislature on 27 Oct '05, will go into effect on 12 Aug '06, eight months following its publication.

The new law is intended to criminalize the trafficking of illegal immigrants and punish those who transport, hire or house illegal immigrants. However, critics charge that the law puts too much power in the hands of Costa Rican police.

Arias characterized the law as "draconian," claiming it allows national police to act as a sort of Gestapo. He publicly requested that President Abel Pacheco veto the law.

However, all the PLN legislators—that is, those of Arias' own party—who were present voted in favor of the new immigration law. Among them was Arias' running mate, Laura Chinchilla.

Once the law goes into effect, foreigners who have entered Costa Rica without proper legal documents will be unable to apply for legal residency and may be deported when their status is discovered.

Costa Rican Catholic bishops, the National Commission of Rectors and the ombudsman argued that the law is unjust because it criminalizes immigrants who have committed no crime except entering Costa Rica without proper documents.

While the new law is not officially directed toward any one group, the majority of illegal immigrants in Costa Rica are Nicaraguans. The law was published amid complaints of anti-Nicaraguan sentiment following the deaths of two Nicaraguans—one mauled by two Rottweiler guard dogs during a break-in on 10 Nov, the other stabbed on 4 Dec following an argument regarding the dog attack.

Arias Stays the Safe Course in Presidential Campaign

National Liberation Party candidate Óscar Arias is maintaining a strong lead and playing it safe in the final month of the presidential campaign. Since participating in two debates in Oct and Nov, Arias has declined numerous invitations to debate other candidates—a move that has ignited the ire of Citizen Action Party candidate Ottón Solís.

The most recent poll, conducted by CID-Gallup in mid-Dec, showed Arias with the support of 47% of expected voters—comfortably over the 40% of votes he needs on 5 Feb to avoid a run-off election.

Trailing Arias in the poll were Ottón Solís of the Citizen Action Party (24%) and Otto Guevara of the Libertarian Movement (14%). Ricardo Toledo of the ailing Social Christian Unity Party received the support of 6% of those surveyed. Antonio Alvarez (Union for Change) and José Echandi (National Union) tied at 3% each.

Notably lacking in the campaign have been both public enthusiasm and a clear discussion of issues.
Inflation on the Rise

Costa Rica closed the year with an inflation rate of a whopping 14.07%, the second-highest in Latin America. Only Venezuela topped Costa Rica, with a rate of 14.4%. Both countries experienced inflation of more than double the Latin American average of 6.3%.

Inflation hit Costa Ricans particularly hard in the areas of transportation and food. The transportation sector—which includes gasoline, buses and taxis—registered price increases of 20.16%, while food prices rose 16.48% over the course of the year.

Costa Rican officials blamed the inflation on petroleum prices, Central Bank losses and the constant weakening of Costa Rica's currency, the colón, in relation to the US dollar.

While rising petroleum prices contributed strongly to price increases, economists say that Central Bank losses are at the root of the problem. The bank is still losing money from loans it made in the early '80s to public businesses.

To compensate for the lost funds, the Central Bank puts additional cash in circulation in the country. The excess cash increases consumer purchasing power, which drives up prices when the supply of goods does not increase at the same rate.

The Central Bank has been waiting for fiscal reforms that could help combat its losses. Costa Rica's fiscal reform package, however, has been stalled in Congress since Dec '03 (Vol. 23, No. 9).

Meanwhile, debate has arisen about whether the Central Bank should take matters into its own hands and change the present system of currency devaluation. Under this system—which was originally intended to combat inflation—the value of the colón falls at a fixed rate in relation to the US dollar.

The '05 inflation rate was considerably higher than the 10% rate projected in Jan '05 by the Central Bank. This is the second consecutive year that inflation has increased significantly, following several years of rates hovering around 10% between '99 and '03.

New EU Banana Tariff

Costa Rican banana producers crossed their fingers and looked to form new alliances as a new tariff-only system for exports to the European Union (EU) went into effect on 1 Jan, replacing the old tariff-rate quota system.

After months of negotiations, Latin American banana producers and EU-member countries settled—for the time being—on a system that eliminates export licenses and quotas, replacing them with a single tariff of 176 Euros per ton of bananas.

While independent producers were pleased about the elimination of export licenses, they are concerned about the size of the tariff.

Under the old tariff-rate quota system, only Latin American producers who had export licenses could sell bananas to the EU. A tariff of 75 Euros per ton of bananas was applied to all bananas within a country-specific quota. Any bananas shipped after the year’s quota had been reached were subject to a steep penalty tariff.

The intent of the old system, created in ’93, was to protect Europe’s overseas territories and former colonies (known as ACP countries—Africa, Caribbean and Pacific). Bananas from ACP countries were not subject to tariffs or other restrictions.

Latin American nations and advocates of free trade criticized the previous system from its inception as unfairly restricting access to the European market. In ’99, the World Trade Organization ordered the EU to change the policy.

In ’01, the EU came to an agreement with the US and Ecuador, agreeing to change to a tariff-only system for Latin American nations starting on 1 Jan ’06. The EU initially set the tariff at 230 Euros, but lowered it to 176 Euros on 24 Nov ’05 after the WTO ruled twice that the tariff was too high.

The eight Latin American countries that produce bananas presented the issue at the WTO Ministerial Conference in Hong Kong (13-16 Dec), arguing that the 176-euro tariff was still too high. Despite threats from Honduras, Panama and Nicaragua to block any trade liberalization agreements during the conference if the WTO did not address their banana appeal, the 176-euro tariff remained unchanged.

The European Commission has agreed to analyze the banana market in the first few months of ’06 and to consider changing the tariff if it proves to limit Latin American access to the European market.

—Emily Heinlein