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PANAMA

FTA Reached with US

On 19 Dec, Panama and the US reached a free trade agreement in the 10th round of talks, which began in Apr '04. The agreement, which removes tariffs and trade barriers from manufacturing, service and agricultural sectors, is pending further discussion on labor and must be ratified by both countries' legislative bodies.

The Dec meeting was the first formal negotiation since Jan '06. Agricultural issues and sensitivity regarding control of the Panama Canal have delayed talks repeatedly, and negotiations were suspended until after the Oct '06 canal-expansion referendum (Vol. 25, Nos. 10-11).

If the agreement is ratified, more than half of US agricultural exports will become duty-free immediately, and tariffs on most other farm products will be phased out over the next 15 years. The agreement provides protections for specific Panamanian crops. The US would have quotas on the amount of potatoes, onions, rice, pork and chicken it can export to Panama, and these products would continue being taxed for 15-20 years. The countries agreed to sign a memorandum about sanitary procedures for US beef exports to assuage Panamanian worries about importing animal diseases. In Jan '06, Panama's agriculture minister resigned over this issue, although US officials deny that it is a legitimate concern.

With the new agreement, Panama would be able to export nearly all of its sugar to the US, instead of the three-fourths of production currently limited by quotas. Panama won a guarantee that would prohibit instant coffee entering the country at a lower price than on the domestic market.

Panamanian exports to the US are already 95% duty-free, due to preferential trade agreements. However, worries persist that if Panama were not to enter into a free-trade agreement with the US, its biggest trading partner might favor neighboring countries that are part of the Dominican Republic and Central American Free Trade Agreement (DR-CAFTA).

A US trade official quoted by *Reuters* news service said that the Panamanian government was also concerned during the talks about being seen as "giving back the canal to the Americans." The agreement guarantees Panamanian construction firms 10% of the contracts of the estimated \$5.25 billion Panama Canal expansion project and gives US construction companies preferred access.

If the agreement goes into effect, the US service sector also is expected to benefit. In particular, US insurance companies would gain access to Panama's growing market. All US industrial and consumer exports would become duty-free within 10 years of initiating the pact, and nearly 90% of those products would be duty-free right away.

Some Panamanian workers have protested the free-trade agreement. On 9 Jan, members of labor unions representing the construction and agriculture sectors demonstrated in David, capital of the province of Chiriquí. Protesters burned an American flag and commemorated the anniversary of Martyrs Day, 9 Jan, '64, when Panamanians rioted over the sovereignty of the Panama Canal and tore down an American flag in the canal zone, which sparked three days of fighting that left 22 Panamanians and four US soldiers dead. Jaime Caballero, an organizer of the Chiriquí protest, said that during the riots 43 years ago, Panamanians suffered a "savagely attack" from the US government, and today they are being subjected to "commercial aggression" by the free trade agreement with the US.

Environmentalists in Panama also have objected the free-trade agreement because of the adverse effects they say it could have on the ecosystem. Concerns include the importation of genetically-modified organisms, pesticides and hazardous materials. An executive order passed in Sep '06, which outlines the process of environmental analysis of public projects, may require the National Assembly to include citizens in discussions about the agreement.

No date has been set for continuing discussions about the terms of labor in the free-trade agreement, and the Panamanian National Assembly and the US Congress must still approve the deal. Labor has been a controversial free-trade issue in the US as well, particularly with Democrats who now have majorities in both the House and the Senate. Besides the pact with Panama, the new US Congress will have free-trade agreements with Colombia and Peru on its agenda.

Canal Expansion—First Steps

The Panama Canal Authority (ACP) has opened bidding on the Environmental Impact Assessment (EIA) for the canal expansion project, which was widely approved by voters in a referendum last Oct (Vol. 25, Nos. 10-11).

On 29 Dec, the ACP held an information session that outlined the requirements for the EIA, which will evaluate the impact of plans to equip the canal with a third set of locks to accommodate larger ships by '15. Twenty-five companies attended the meeting, but it is unknown how many companies plan to bid; the deadline for proposals is 29 Jan.

The selected company will have 90 days to complete the EIA. There will be a forum for public input on the proposal, and the ACP and the National Environmental Authority will have 6-8 months to decide whether to approve the EIA.

In Dec, the administration of President Martin Torrijos approved extraordinary funding of \$120 million to the ACP to initiate the project. These resources are earmarked to finance the EIA as well as financial consultation, preparation of documents for design and construction contracts, and excavation work.

Panamá Viejo Protected

Panama's National Assembly approved a law in late Dec that creates a buffer zone around historic Old Panama, which was declared a World Heritage site by the United Nations Education, Scientific and Cultural Organization (UNESCO) in '97. The law is still pending the approval of President Torrijos.

Founded in 1519 by Spanish conquistador Pedrarias Davila, Panamá Viejo, as the site is known in Spanish, was the first European settlement on the Pacific coast of the Americas. The city was attacked and burned in the 1600s and then rebuilt about five miles west, known today as Panama City. Panamá Viejo is an important tourist attraction, and the bell tower of its crumbled cathedral is considered Panama's emblematic monument.

The new law creates a protected zone around the site and prohibits dredging. It also limits the height of new buildings in the area to maintain a sight line of the bell tower.

As part of the new legislation, The National Cultural Institute, which is responsible for the site, has agreed to cede land to families living in an adjacent area, although the land was delineated in '76 as national heritage property. Legislative President Elías Castillo said that this agreement was made with the hope that the residents will become involved and help to conserve the area of the monument.

—Honna Veerkamp