

# *MESOAMERICA*

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## **European Union-Central American Free Trade Talks**

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### **Introduction**

In the shadows of the controversial US-DR-Central American Free Trade Agreement (CAFTA), another important trade agreement is being negotiated between the European Union (EU) and the Central American countries. Although trade preferences already exist between the EU and individual Central American countries, the new pact would include an Association Agreement that would create a regional economic bloc and allow Central American exports to enter the EU duty-free. Also, this would enable European companies to further consolidate investment opportunities in Central America.

The EU has taken into consideration its moral commitment with Central America, which it deems equally important regarding its policies in the region. The EU understands that Central America has struggled with the transition toward stable democratic systems with natural disasters and internal conflicts, and with challenges towards sustainable development that are eco-friendly. These factors have been taken into consideration throughout the dialogue process.

### **Preliminary Agreements**

Formal relations between the EU and Central America were established in the San Jose Dialogue in Sep '84 with the six countries of Central America (includes Panama). The original objective was to seek solutions to armed conflicts by means of dialogue and negotiation. Later dialogues held in Florence in '96 established the current goals: to strengthen peace and democracy, create equitable socio-economic development, combat insecurity and crime, consolidate and modernize the rule of law, and strengthen social policies.

On 15 Dec '03 in Rome, the EU-Central America Political Dialogue and Cooperation Agreement was signed. This accord is based on discussions held during the EU-Latin America and Caribbean Summit in Madrid on 18 May '02. This new agreement, which builds upon '93 Framework Cooperation Agreement, expands upon ideas to strengthen EU-Central American relations, creating conditions in which an Association Agreement (including a free trade pact) could be negotiated. It also establishes new areas of discussion such as regional migration, counter-terrorism, conflict prevention and economic cooperation.

The context of cooperation in EU-Central American relations is historically rooted in “human rights and democracy, integrated rural development, disaster prevention and reconstruction, social development and regional integration,” according to the new Political Dialogue and Cooperation Agreement. This includes economic assistance. For example in '01, the European Commission and Central American participants passed multiple Memoranda of Understanding, which allocated 655 million

euros to many sub-regional programs in Central America to support regional integration, and also to alleviate the vulnerability of natural disasters.

Duty-free access for all industrial products, as well as for some agricultural products made in Central America, is available to EU markets. One of the objectives is that an Association Agreement with its subsequent free trade pact will be negotiated to eliminate all barriers in the future. Most Central American exports are eligible under the Generalized System of Preferences (GSP), yet there is much room for potential growth.

The most recent formal talks took place at the EU-Central American Summit on 12-13 May '06 in Vienna, Austria, where goals and objectives were established for future relations. Some of the highlights include: a commitment to establish a free trade pact, confirmed by the signing of an Association Agreement; the recognition that the UN Human Rights Council would participate and create a Peace Building Commission, a reaffirmation of abiding by democratic principles; initiatives to strengthen natural disaster preparedness; and an emphasis on the importance of civil society, with poverty reduction at the core of the development programs.

### **Challenges to Implementation and Cooperation**

The first step to paving the way for future dialogues has been accomplished. There is now a realization that these dialogues will face many challenges and opposition from political leaders and civil society in the Central American region. Challenges and issues that are currently under debate or are cause for concern are agricultural subsidies, strengthening regional institutions, creating a customs union, forming negotiating teams, and signing the Association Agreement in a timely manner.

One principal challenge of negotiating the EU-Central American Association Agreement will be in the agricultural sector. Ottón Solís, head of the Costa Rican Citizen's Action Party (PAC) and an opponent of CAFTA, said in an interview with the daily *La Nación* in Costa Rica on 15 May '06 that a potential problem is the amount of subsidies that the EU gives its farmers. Currently, agricultural exports account for 27% of Central America's total exports to the EU. The European Union pays about \$50 million annually in subsidies to its agricultural sector, according to the Economic Commission of Latin America and the Caribbean.

Jorge Arguedas, coordinator for the Internal Front of Costa Rican Institute of Electricity Workers, said that US-CAFTA negotiations jeopardize their nation's patrimony, which is reflected in natural resources and biodiversity. He told the EU that Costa Rica has objections to EU subsidies, which places Costa Rica at a disadvantage. The amount of subsidies that the EU gives the agricultural sector is something that needs to be addressed. Central Americans believe that EU subsidies will hinder their ability to compete in EU markets. However, Tomás Abadía, a delegate of the EU in Costa Rica, argues that subsidies given to farmers in the EU would not have a negative impact on trade with Central America.

### **The Association Agreement and its Challenges**

The European delegation met with the Central American delegation on 25 May '06 to promote a future Association Agreement. Ona Jukneviene, a European diplomat, said one of the goals that is important to the EU is to decentralize Central American governments so that municipalities, rather than the central government, will have more responsibility.

President Oscar Arias of Costa Rica questioned the conditions that the EU placed on signing the Association Agreement, including a commitment to negotiate with PARLACEN (The Central American Parliament, a branch of the Secretary of Central American Integration, SICA; Costa Rica and Panama are the only Central American countries that do not participate in PARLACEN). Contrary to Arias' accusations that the EU has too many institutional conditions, such as the condition to negotiate with PARLACEN, Joseph Borrell, president of the European Parliament said that the EU has not mandated these conditions, that it was only an option, but that regional integration is essential at all levels (*La Nación*, 8 Aug '06).

According to President Arias, the first few meetings in the formal negotiations should focus on strengthening the common position of Central America. Imposing conditions is not fair, but Central America must first consolidate its democracies. Yet this does not seem to be an impediment to the negotiation processes. The presidents of Central America want to eliminate the controls and conditions that the EU deems necessary for signing the Association Agreement. The EU does, however, want to create mandatory accords concerning regional migration and a customs union, and to define a strategy for subsequent negotiations with the EU. The presidents of Central America are working on an immigration accord that would eliminate border restrictions. They want to create a common "freedom of movement" clause that is similar and compatible to the EU model.

Borrell is convinced that the Association Agreement will eliminate years of disinterest that the EU has held toward the nations of Central America in trade relations, although he says the impact of the Association Agreement will create a permanent interest in the isthmus that is not solely based on trade.

Borrell supports the integration of Central America and thinks that the EU's model of regional integration is the most clear and precise model in the world. He believes that it is necessary to make advances in creating a Central American customs union. He respects the decision and wishes of each country to receive equal participation and sympathy, and he understands that there will have to be certain conditions for each country to keep in mind in terms of fairness. For example, Costa Rica exports 60% of Central America's total exports to Europe, so it makes sense that Costa Rica should have a preeminent position in the negotiations. The EU does want to have regional trade with Central America and for all the countries to participate. Therefore, it would be in everyone's best interest to have common policies because the EU does not want to trade on a bilateral basis with a country that refuses to cooperate or participate in the regional negotiations. Borrell wants to start formal negotiations for the Association Agreement and to promote economic development and democracy in the region.

EU diplomat Thomás Abadía insists there should be supranational institutions that will support and implement the regulations of the EU-Central America trade agreement. The '02 Action Plan for Economic Integration of SICA proposed a Central American Customs Union, which would include Costa Rica, Nicaragua, Honduras, El Salvador and Guatemala (Panama joined in the negotiations this year at the EU-CA summit in Vienna). Although there has been much progress in recent years in establishing a common customs union, stronger regional institutions in Central America would greatly expedite the process of negotiating the Association Agreement. An emphasis on negotiations based on the principles of SICA may contain the elements to redefine and strengthen regional institutions. A "quick advancement" would lead to a negotiation that would take two years at the most, which the EU thinks is a reasonable time frame.

Abadía believes that stronger regional institutions in Central America will lead to a more efficient negotiation, therefore significant changes must be made by the second semester of '07. The EU,

with a united position and one voice for trade negotiations, has gained an advanced worldwide status in its trade policies. In the case of the EU, when Central American exports arrive the products need to be distributed to 25 countries in a short period of time. The regional EU trade bloc with strong institutions makes this possible; the same needs to happen in Central America, argues Abadía.

The three most important things that must occur politically in Central America, according to Abadía, are the strengthening of regional institutions, expanding the customs union, and ratification of an Association Agreement. To advance these goals, the EU wants Central America to have a functioning Customs Union that can guarantee the realization of the internal judicial rules of the EU. This must take place at a supranational level. It will be up to the countries of Central America to decide which regional institutions will be the most effective at doing this. Abadía noted that the EU would have no incentive to invest in Central America if the regional infrastructure and customs union did not improve.

The Central American heads of state named Nicaraguan Foreign Minister Norman Caldera as their chief negotiator on 28 Aug '06. However, Costa Rican President Oscar Arias was not present at that meeting and accused his counterparts of making this decision behind his back. Arias told *La Nación* on 20 Sep '06 that "each country needs to have its own negotiator." Economic integration and the new social agenda was discussed among Central American leaders and European diplomats in a forum held 8-9 Oct in Costa Rica. President Arias pressed the issue for a spokesperson for each country, though Eneko Landuburu, the Director of Foreign Relations for the EU, stated that one voice for the region would create more consistent and organized results for the isthmus. It is still not established whether or not there will be a chief negotiator, but Costa Rica refuses to negotiate this way, Arias told *La Nación*.

Some issues were advanced at this meeting however, including the confirmation that SICA will be the governing body for Central America, that there will be 10 rounds of negotiations (5 in Europe, 5 in Central America), and that they will commence in '07 Jan '07 and conclude before May '08.

## **Conclusion**

The negotiations and initiatives to work toward an Association Agreement, which includes a free trade pact, between the EU and Central America have been relatively smooth and without controversy, compared to CAFTA (which all countries have signed and implemented with the exception of Costa Rica; Panama is not included in CAFTA). As negotiations move forward, will this trend of cooperation and participation with a lack of considerable protest continue? And why is there such controversy with CAFTA and not with the EU-Central American trade talks?

Mauricio Castro, a lawyer for the National Association for Public Employees in Costa Rica, says a difference between the EU and the US is that the EU historically has had more respect for the environment and international labor laws in their trade agreements. Public opinion polls demonstrate that many Central Americans feel that CAFTA was negotiated behind their backs and was only discussed privately by high-level officials. This left the public and representatives of different sectors wondering how the US-CAFTA would affect them personally and financially. What was missing in these negotiations was a human element that involved citizen participation and awareness of the issues being discussed.

The EU-Central America Political Dialogue and Cooperation Agreement establishes the goal of reaching an Association Agreement that contains the political, economic, and cooperation aspects for future talks. Yet it also contains clauses that emphasize the interest of protecting human rights, good

governance, the protection and advocacy of democracy, and adherence to and promotion of the principles and theory of conflict prevention and resolution, with the willingness to establish necessary regional and sub-regional capacity-building measures in Central America.

Although the specifics of these clauses are not yet clearly defined, they demonstrate a spirit of cooperation and trust. This strategy is very different from the one used by the promoters of CAFTA because it creates public awareness and alleviates fear of the unknown. Though the goal of free trade is to make money by opening markets and creating investment opportunities, the EU's strategy thus far has demonstrated an understanding of what Central America needs to accomplish regionally. The focus and goals of the dialogues are dedicated to the strengthening and restoration of Central American regional institutions in order to have the potential to maximize the benefits for everyone, which in theory would create a compatible customs union as well. Whether or not this is possible in a reasonable time frame is another question.

—Rick Pittenger