

# Agreements and progress

By **ROBERTO ECHANDI**

AMBASSADOR OF THE REPUBLIC OF COSTA RICA TO THE EUROPEAN UNION



**ROBERTO ECHANDI** has been the Ambassador of Costa Rica to the European Union since 2007. He graduated from the University of Costa Rica, and gained postgraduate degrees at the Universities of Michigan and Oxford. He is a specialist in foreign trade, having been Professor of International Trade and Investment Law at Costa Rica's diplomatic institute, and participated in the negotiations for the CAFTA agreement. He was recently Director of the Small Economy Trade and Investment Centre in San José.

During the Fourth European Union – Latin America Summit held in Vienna, Austria, in May 2006, the Heads of State and Government of the European Union and the Central American countries officially announced their intention to initiate negotiations to conclude an Association Agreement between both regions.

The Association Agreement (AA) would imply the establishment of mutual commitments in three complementary areas: Political Dialogue, Cooperation and the establishment of a free trade area between the European Union (EU) and the Central American countries (CA). The Political Dialogue pillar aims to establish institutional mechanisms in order to promote discussion between the two regions, as well as to enable them to agree on common positions vis-à-vis third countries on a series of common values such as the promotion of democracy, human rights, environmental protection and the strengthening of the rule of law.

Within the AAs framework, the Cooperation pillar goes beyond the financial assistance from the EU to CA, which has already been defined for the period 2007-13. This component aims to establish the legal framework under which cooperation between the EU and CA would be regulated beyond the year 2013. In particular, the Cooperation component will aim to identify specific mechanisms to enable the regions, and in particular CA, to maximise the benefits of both the Political Dialogue and the Trade components of the Agreement.

The Trade component of the AA, would entail the establishment of a free trade area between CA and the EU. Commercially speaking, CA has maintained, for a long time, sound economic relations with Europe, and has benefited from the EU's General System of Preferences (GSP). Under the GSP many of the Central American products enjoy either duty free status or preferential access to the European market. Nonetheless, as well as being a unilateral scheme, a significant number of goods in which CA has comparative advantage have been excluded from the GSP regime. This explains CA's interest in substituting the GSP with a more comprehensive and certain free trade agreement.

The purpose of this article is to explain the objectives of each of the components of the AA, as well as the progress reached to date in the negotiation process

between the EU and CA. Negotiations started in October 2007 in Costa Rica, and so far there have been four negotiating rounds. In 2008 two more rounds are already planned, one to be held in Guatemala in October and another in Brussels at the end of the year. Both the EU and CA have expressed their interest in attempting to conclude the AA during the first semester of 2009.

## Political Dialogue

The objectives of the political dialogue which would be established through the AA between CA and the EU are twofold. As its name suggests, a first objective would be to provide both regions with mechanisms to discuss and take joint action on issues of common interest. The political dialogue component would also enable CA and the EU to agree on common positions and jointly advocate them in the international arena. Shared values include the promotion of democracy, peace, human rights, sustainable development and the strengthening of the rule of law.

The negotiations on political dialogue have evolved smoothly, reflecting not only a significant degree of convergence in values between both regions, but also as a result of the fact that both Parties already had an important base for the negotiations. Indeed, in 2003, the EU and CA had already concluded the negotiation of a Political Dialogue and Cooperation Agreement (PDCA 2003). This Agreement has not yet entered into force, and it is geared towards the same objectives and includes the basic principles and architecture, that the new AA would have for the political dialogue and cooperation components. Within this context, the Parties have already agreed that the political dialogue component of the AA will be construed on the basis of the following four key elements:

First, there are the objectives of the dialogue. In this regard, there is an agreement between the Parties whereby the political dialogue component should not only allow the exchange of views regarding issues of common interest – as previously mentioned – but also to explore the possibility of advocating these positions and values in international fora.

Second, the dialogue will have an agenda. In this regard, the Parties agree that this agenda must be sufficiently flexible, so as to allow adjustments to the topics of current international interest in an ever-changing global political environment.

**Negotiations on the cooperation component are expected to evolve smoothly and conclude on time, by early 2009**

Third, regarding the mechanisms through which the political dialogue should be carried out, notwithstanding that the discussions concerning this element are still preliminary, the Parties do have a common vision of the work to be undertaken at different levels among the authorities in charge of foreign affairs in each country.

The fourth element of the political dialogue consists of the specific commitments which the Parties would undertake in this area. This is where the substantive negotiation will be centred. Both regions have stated their priority interests, which tend to converge. Yet, the Parties still have to agree on the specific details the extent of the commitments to be undertaken. The EU has proposed the inclusion of three subject matters: i) countering the proliferation of weapons of mass destruction; ii) the fight against terrorism; and iii) serious crimes against humanity. CA does not object to making commitments in these areas, but rather, in some areas proposes taking on a level of commitment which goes beyond what the EU is proposing. Further, CA has suggested the inclusion of other issues such as: i) finance for development; ii) migration; iii) environment; and iv) security of citizens.

The extent of progress in the negotiation on the political dialogue is remarkable if one considers that there have only been four rounds of negotiations. Naturally, most of the work to be done is in the area of specific commitments, but given the level of convergence between the regions, the conclusion of the negotiations in this matter should not face major hurdles.

### Cooperation

From the outset the EU has made it clear that the negotiations on cooperation in the context of the AA are

not conceived as a way of generating further financing and increased resources for CA. The EU maintains that its financing for cooperation and development in favour of CA has already been allocated and defined for the period 2007-13. Thus, save for negotiating the allocation of resources, the aim of the negotiations will be to establish the conceptual framework under which future cooperation between the EU and CA would be regulated.

As in the case of the political dialogue, the negotiations on the cooperation component are based on the text of the political dialogue and cooperation agreement negotiated in 2003. All the Parties agree that the cooperation component should cover a wide range of subjects. So far, there is agreement that among the areas to be included are sections on Democracy, Human Rights and Good Governance; Justice, Freedom and Security; Social Cohesion and Development, the latter covering aspects such as public health, gender, youth, indigenous peoples and other ethnic groups and education; environment, culture and economic cooperation. Negotiations on the cooperation component are expected to evolve smoothly and conclude on time, by early 2009.

### Trade

The trade component of the AA represents the role that the future agreement would have over the political dialogue and cooperation agreement negotiated between the EU and CA in 2003. To understand the importance of this component in the negotiation process it is important to take into consideration the context in which negotiations are taking place. Beyond the relationship derived from both cooperation and political dialogue, the EU is an important commercial

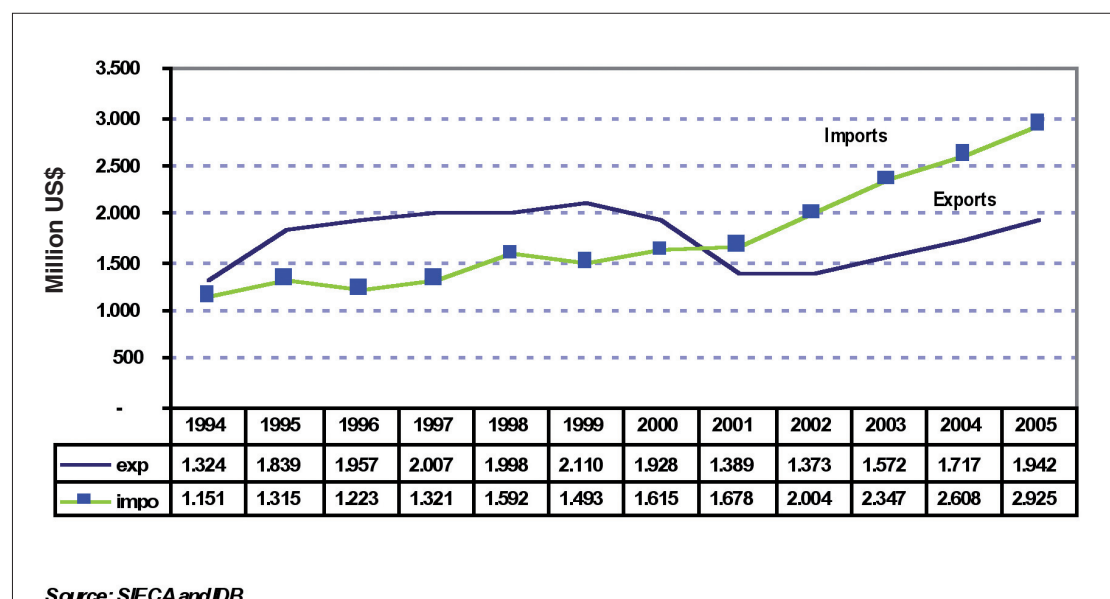


Figure 1  
Trade balance between  
Central America and  
the European Union

**62 per cent of Central American exports to the EU come from four sectors: coffee, computer parts, bananas and pineapples**

partner for CA. With the exception of the United States, the EU remains the second most important purchaser of Central American goods beyond the region itself. Approximately 13.5 per cent of Central American exports go to the EU while 9.5 per cent of its imports come from the EU.

During the last decade, imports from the EU have grown on average at 10 per cent per annum, while CA's exports to Europe have grown at a slower pace, barely surpassing an annual average rate of 4 per cent. Such divergence with Europe has cost the region a move from a positive trade balance, during the nineties, to a negative balance during the first half of the following decade. Continuing changes to market access conditions for banana exports and the exclusion of certain products from the GSP have contributed to reduced growth of Central American exports to the EU.

The trade relations between the EU and CA can be characterised by three main features. First, it is a relationship which is highly concentrated in terms of countries. That is, most of the EU-CA trade is concentrated with one Central American country. Costa Rica is by far the most important provider of CA's products to the EU – representing in 2006, 73 per cent of CA's exports to Europe – and also the most important buyer of European products in CA, absorbing approximately 44 per cent of the imports originating in the EU.

Second, trade between CA and the EU is highly concentrated in terms of products. A total of 62 per cent of Central American exports to the EU come from four sectors: coffee, computer parts, bananas and pineapples. On the other hand, EU exports to CA are also concentrated. According to European data, imports of EU products into the CA region largely come from the industrial sector – 94 per cent in 2004 – covering products such as transportation equipment, chemicals and agricultural machinery and equipment. These three categories made up 72 per cent of the EU exports to CA.

Third, trade relations between the EU and CA tend to show a pattern of complementarity. While CA's exports to the EU tend to concentrate on agricultural products – together with the strong showing of high tech products in the case of Costa Rica – EU's exports to CA have tended to concentrate on capital goods and raw materials and other industrial inputs.

Thus, on the basis of these three main features, it is clear that the potential for increasing and diversifying trade relations between CA and the EU is significant. This is one of the objectives of the trade component of the AA, recognising the important role that international trade represents for smaller, export economies in development like the Central American countries.

As far as the Trade negotiations are concerned, the Parties have agreed on a comprehensive agenda covering at least twelve areas: market access, rules of origin, custom procedures, trade in services, establishment of investment, intellectual property, government procurement, trade defence mechanisms, competition policy, dispute settlement, institutional provisions and sustainable development.

Further, the Parties have agreed that the AA should have compatible coverage with the WTO regarding trade in goods and services, as well as to work on the promotion of investments. The Parties also emphasised the importance of cooperation in facing the challenges of the region-to-region approach which has been adopted for the negotiation of the AA. The Central American countries have also insisted on the importance of the asymmetry principle in all the different areas of the trade negotiation, in order to take account of the different levels of development that exist between CA and the EU.

To date, there is encouraging progress on the rules and provisions in the different areas subject to negotiation and discussion regarding market access, both in goods and services. During the next two rounds, already planned for October and December of this year, discussions are expected to continue on rules and provisions and market access conditions for less sensitive goods, leaving the more complex issues for the end of the negotiations.

The trade component will probably be the most complex and sensitive area of the negotiations. However, both regions are optimistic that by early 2009 they will be able to wrap up an agreement in this component of the AA. In the case of CA, this would be the fifth trade negotiation on a joint basis with an extra-regional partner.

## Conclusions

The negotiation for an AA between CA and EU represents a logical and natural step in the evolution of European external relations with Central America. To the EU, this negotiation represents the opportunity to conclude the first region to region Association Agreement ever concluded by Europe. For CA, this negotiation represents a key element in its strategy of international integration into the world economy, which entails the diversification of its external partners. Last but not least, the Association Agreement represents a unique opportunity for both regions to work together in the promotion of a more sustainable, fair and equitable economic development, as well as to promote political dynamics allowing creative ways to advocate common values in an increasingly complex and interdependent international context. **E**

Roberto Echandi is Costa Rica's Chief Negotiator for the Association Agreement between Central America and the EU.