The Central American agricultural sector in the run-up to negotiations for the EAA with the European Union: potential conflicts and scenarios

A study produced by:

Comisión de Estudios Políticos Alternativos (CEPA)

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Abbreviations and acronyms

ACP	Countries from Africa, the Caribbean and the Pacific
AGMUE	Mexico-European Union Global Agreement (Acuerdo de Asociación Económica, Concertación Política y Cooperación)
AICA	Central American Sugar Association (Azucareros del Istmo Centroamericano)
AWU	Annual Work Unit
CA	Central America (Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica)
CA-4	Guatemala, El Salvador, Honduras and Nicaragua
CAC	Central American Farming Council (Consejo Agropecuario Centroamericano)
CAN	Andean Community of Nations (Comunidad Andina de Naciones)
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CAUCA	Central American Uniform Customs Code (Código Aduanero Uniforme Centroamericano)
CEEC	Central and Eastern European Countries
CoAM	Council of Agriculture Ministers
CMO	Common Market Organization
COMESA	Common Market of Eastern and Southern Africa
COMIECO	Council of Ministers for Central American Economic Integration (Consejo de Ministros de la Integración Económica)
CONARROZ	National Rice Corporation (Corporación Arrocera Nacional)
DR-CAFTA	Dominican Republic–Central America Free Trade Agreement
EAA	Economic Association Agreement
EAC	East African Community
EAP	Economically Active Population
EBA	Everything But Arms
EC	European Commission
ECOWAS	Economic Community of West African States
EU	European Union
EU-15	European Union prior to the 2003 amplification
EU-25	European Union prior to the 2007 amplification but after the 2003 amplification
EU-Mex FTA	EU-Mexico Free Trade Agreement
EurepGAP	European Good Agricultural Practices Program
FAO	Food and Agriculture Organization (UN)

FCA	Framework Cooperation Agreement
FDI	Foreign direct investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GSP-Plus	Special Incentive Arrangement for Good Governance and Sustainable Development of the Generalized System of Preferences
GVA	Gross Value Added
HS	Harmonized Commodity Description and Coding System
IFO	International Financial Organization
LAICA	Agro-Industrial Sugarcane League (Liga Agrícola Industrial de la Caña de Azúcar)
LDC	Least Developed Country
MCCA	Central American Common Market (Mercado Común Centroamericano)
MERCOSUR	Southern Common Market (Mercado Común del Sur)
MFN	Most Favoured Nation
MSG	Melanesia Spearhead Group
NAFTA	North American Free Trade Agreement
NEM	New Economic Model
POSEI	Specific Options for Remoteness and Insularity Program (Programme d'Options Spécifiques à l'Èloignement et. l'Insularité)
RCA	Revealed comparative advantage index (exports)
SACU	Southern African Customs Union
SADC	Southern African Development Community
SICA	System of Central American Integration (Sistema de Integración Centroamericana)
SIECA	Central American Secretariat for Economic Integration (Secretaría de Integración Económica Centroamericana)
TPA	Trade Promotion Agreement
UAC	Central American Customs Union (Unión Aduanera Centroamericana)
UEMOA	West African Economic and Monetary Union (Union Économique et Monétaire Ouest-Africaine)
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization
ZELLC	Euro-Latin American Free Trade Zone (Zona Euro-Latinoamericana de Libre Comercio)

Presentation

The Working Group on Trade and Agriculture was created in August 2005 as a result of a joint project between Alianza Social Continental, Red Capa and ActionAid International Americas, with the support of IDRC.

The objective of this project is to contribute to the involvement of peasants, smallholder farmers, NGOs and developing research centers in the debates on trade and agriculture through three main activities: working group strengthening initiatives, capacity building programmes and research development.

Increasingly, the initiatives of the working group are regarded as important tools to arouse public awareness and improve the efficiency of social movements. Accordingly, the project includes activities that aim to strengthen national and regional agricultural networks, trade and development, by broadening these initiatives through the inclusion of reserach centers. The main focus of this project is to bolster the ASC Latin American Working Group on Trade and Agriculture. By articulating small-scale farmer organizations, NGOs and research centers dealing with these themes, the working group has been monitoring and analysing the current commercial and agricultural proposals made at the WTO and through bilateral and/or regional agreements.

In order to wield a bigger influence over the decision making process relating to trade policies, social movements

(especially small farmer organizations), national governments and international institutions working on the themes of trade and agriculture have been engaging in an important dialogue on the basis of the results produced by the research.

The sdudies conducted through the project are intended to be used as an input for compiling capacity building materials focusing on peasant organizations and social movement leaders in order to improve their analysis and efficiency for voicing concerns over important matters, such as biodiversity conservation and food security and sovereignty in trade negotiations as well.

Taking all these issues into account, CEPA (Alternative Political Studies Commission – Costa Rica) developed the reserach "The Impact of a Possible Association Agreement between the European Union and Central America in the agricultural sector: an approach to the initial phase of the negotiations".

In this research, the possible points of dispute are identified and the possible agricultural scenes are located, considered within the scope of the negotiation of an economic agreement between the European Union and Central American, and also as result of it. By analysing the existing relations between the European Union and Central America in agriculture and mapping their main interests in this sector, we try to identify which Central American products would be considered "winners" and which ones would be classified as "losers" if this economic agreement was approved. We also try to predict the possible scenarios and problems the agricultural sector in Central America would face in case this agreement is implemented.

The purpose of this research is to provide the different social actors in the region with tools for discussing. Accordingly, it was presented in Costa Rica on October 24th 2007 as part of an activity co-ordinated by the Working Group on Trade and Agriculture and by Grito dos Excluidos Mesoamericano during the first round of negotiations between the European Union and Central America and it is also intended to be used as input for the first meeting on stratregic planning related to this theme with local small farmer organizations.

I. Introduction

The present study aims to describe the current context, identify the potential points of conflict and determine some of the possible scenarios within the setting and as a result of the negotiation of an Economic Association Agreement (EAA) between the European Union (EU) and Central America (CA), in the specific case of the farming sector.

The study is structured around the following set of specific objectives:

Objectives of the Study

- Describe the relations between the European Union and Central America in terms of agriculture.
- Identify the main interests of the EU and CA farming sectors in the negotiations for an Economic Association Agreement.
- Identify potential 'winning' and 'losing' products in Central American agricultural as a result of this economic association agreement.

The study is organized into four parts: the first part (sections II, III and IV) describe the background to the EAA negotiations and the overall importance of the farming sector for both blocks; in the next part (sections V and VI), we present in separate form the most important commercial farming interests for each block; in the third part (VII and VIII), the information from the previous sections is compared in order to locate the potential points of conflict and generate a set of hypothetical scenarios for the potential outcome of the negotiations; and finally, in the fourth part (IX), we provide a set of final comments that look to summarize the study's findings.

Before beginning, it is important to clarify a number of points. Firstly, the fact that the negotiations for the EAA are only in their preliminary stages means that the present study is primarily exploratory in nature and, therefore, that its conclusions are above all transitory. Secondly, the profile of the study is for the most part regional. Only in those cases where necessary are there references to the specific conditions of the different countries involved. In general terms, the idea is to treat the Central American region as a unit, but highlighting national differences and specificities where applicable.

II. Background

II.1. From San José to Vienna: towards the fourth generation agreements

Although the relations between both regions can be traced back many centuries, the formal political relations between Central America and the European Union took an important step closer with the San José Dialogue, agreed in 1983. This process was defined as a space of political dialogue between the blocks, as well as the institutional foundation for establishing a cooperation mechanism of considerable importance, especially given the high level of political instability experienced by the CA isthmus during this period.

However, after overcoming the period of conflict, combined with the transformation of the international system as a result of the destabilization and fragmentation of the communist block, the institutional framework of cooperationbetween Europe and Central America should have changed too. The period spanning from the implementation of the San José Dialogue to the current negotiations

for an association agreement between the regions can be characterized within the setting of the so-called 'third generation' agreements where the official European rapprochement had taken place through a considerable degree of bilateral cooperation with the region, linked to the existence since 1974 of the Generalized System of Preferences (GSP), which we shall discuss later on.

In spite of this, a new schema is taking shape. Its onset can be reduced to two main events: the Rio de Janeiro Summit (1999), which was a meeting of leaders from the EU and Latin America, and the Framework Cooperation Agreement (FCA) (agreed in 1993, though only coming into effect in 1999).

The schema implied by the Rio Summit of 1999 is perhaps more important since as a result of this meeting and a series of biannual summits, as well as dozens of lower level meetings, Europe had succeeded in establishing five different structures of political rapprochement, cooperation and negotiation: Mexico, Central America, CAN, Chile, MERCOSUR and the Caribbean Community (CARICOM), the latter a member of the so-called ACP group (former European colonies of Asia, the Caribbean and the Pacific). These structures are the background to the EU's main strategy, aimed at the creation of a Euro-Latin American Free Trade Zone by 2010 (ICEI 2005), which can already be qualified as a change in the inter-regional relations in pursuit of approval of 'fourth generation' agreements.

At the Guadalajara Summit (2004), both European and Central American countries reaffirmed in a joint declaration "that the signing, between both regions, of an Association Agreement that includes a free trade area is a common strategic objective and that the aim of this agreement should be to provide a new impulse to strengthening the process of regional economic integration" (point 6). However, implementing this commitment was conditioned by two important factors: the continuation of the Doha Development Program within the framework of the World Trade Organization (WTO) and the continuing development of the Central America integration process.

As a result of the latter, point 7 of the joint declaration also signalled the formal start of work on a Mixed Commission for assessing the process of regional integration, with the aim of determining whether or not to negotiate the trade agreement between the parties. This Commission subsequently approved the efforts towards regional integration, which allowed an agreement to be reached on starting negotiations within the framework of the Vienna Summit (May 2006).

II.2. After Vienna: the launch of negotiations

The Vienna Summit transformed into the starting point for the negotiations between the two blocks. In the EU's case, the process has developed continuously and fairly unproblematically. Thus, in June 2006, the leaders of the European Commission's Trade and External Relations prepared a first draft on the negotiation directives, and, by December of the same year, the European Commission had approved the negotiating mandate for the EAA with the Central American isthmus.

Formally, we can extract from this mandate that the overall objective of the EAA is to strengthen cooperation with the region, with the aim of consolidating the political, economic and social stability of Central America, and of gradually establishing a Free Trade Zone between the two blocks. The latter is based on the supposition that adherence to and effective implementation of international norms in the social, labour and environmental fields is a necessary condition for achieving sustainable development. However, as we shall argue later, it is also evident that the underlying European interests in negotiating the EAA are economic and commercial in kind.

Just as in the previous EAAs agreed between the EU and Latin American countries (Mexico and Chile), the Agreement with CA is built around three basic pillars: political dialogue, trade and cooperation, which, in formal terms, distinguishes them from the agreements reached with the USA.

On the other hand, in relation to CA, the process has been much more tortuous and conflict-ridden. The fact that the EU has demanded that the region negotiate as a single block has posed a significant challenge to the countries of the isthmus, especially in relation to two issues. First, advance in the process of integration despite the historical low level of political will to do so (especially in Costa Rica); and, second, reconcile a joint and consensual formula for negotiation.

On the first issue, and as mentioned previously, an *ad hoc* Joint Evaluation Commission was set up within the frame-

work of the Guadalajara Summit of 2004 with the objective of evaluating the advances made on consolidating the Central American Customs Union (UAC). At the beginning of 2006, this organ issued its findings: among the most important results observed was the progress made towards the incorporation of the customs lines of the countries in the common Central American tariff: passing from 70% in 2002 to 93.6% in 2005. Other important results include the harmonization of trade legislation. The fact was emphasized that, although a Central American Uniform Customs Code (CAUCA) exists, progress still needs to be made in terms of cross-border cooperation, technical barriers to trade (such as the integration of the customs digital information programs), sanitary and phytosanitary norms, and protection of intellectual property rights.

On these issues, the Central American Secretariat for Economic Integration (SIECA), in its evaluation of the UAC for the final quarter of 2006, signalled more moderate progress towards incorporation reaching 94.6%, since the remaining lines comprise products such as medicines, metals, petroleum and petroleum derivatives, as well as a series of farming products that are more sensitive for the region's economies.1 In relation to sanitary barriers, little progress has been observed: only 469 products are covered by common trade rules in terms of health certificates and import licenses, the same 469 evaluated at the time of the Joint Evaluation Commission.

Perhaps the most important aspect of this evaluation is that it reveals the region's unequal progress vis-à-vis the UAC. On one hand, significant progress is observed among countries like El Salvador and Guatemala, which have managed to consolidate integrated customs control booths, a harmonization of their trade and immigration legislation, the establishment of joint electronic mechanisms at customs houses, mutual reductions in inspections and the installation of peripheral customs checkpoints. On the other hand, development in Costa Rica is delayed in comparison to the rest of the region, since it has not even ratified the CAUCA and has remained outside the projects for customs streamlining, such as the 'one stop' program, which reduces the time spent crossing borders by people and merchandise, customs digital information integration and other related programs.

Meanwhile, in relation to defining an agreed formula for negotiating as a block, it should be said that, first of all, Central America has never carried out a negotiation in this form.2 This has meant that the process of defining a structure for negotiation has been extremely complicated, especially given the circumstances: namely, the continuing distrust of the countries involved in relation to a common regional institution that could administer this process and the already mentioned inequality in the state of each country in relation to the integration process.

After the 28th SICA Summit, therefore, held in June 2006, a discussion was launched on the optimal structure for dealing with this process. However, the problems in reconciling diverging interests were expressed publicly in the middle of this year when Guatemala, El Salvador, Honduras and Nicaragua (CA-4) selected, during a brief summit meeting, a single negotiator without consulting Costa Rica. After a series of negotiations carried out within the context of the Council of Ministers for Central American Economic Integration (COMIECO), approval was given in December, during the 29th SICA Summit, to a structure based on two levels: one national, the other regional.

At national level, each country will define a negotiation team coordinated by the external trade or external relations ministers (depending on whether negotiations involve trade or cooperation and political dialogue) from which a chief negotiator will be chosen. At regional level, the chief negotiators from each country will form a regional team, and following the dispositions of the governments, as well as the regional coordination realized by COMIECO, will negotiate with the EU. It should be pointed out that this team will have a rotating spokesperson, which means that the chief negotiator for Central America in the talks with the EU will vary with each round of negotiations.

According to the San José Declaration, obtained after the 29th SICA Summit, as well as the declaration obtained after the 15th Meeting of the Mixed EU-CA Commission defined as part of the 1993 Cooperation Agreement, the negotiations between the two blocks will begin in October 2007, dependent on the signing of the Framework Agreement on the Central American Customs Union, undertaken during the 30th SICA Summit held in June this year.

At this moment Guatemala, Honduras, El Salvador and Nicaragua have given their immediate approval to the document. Only Costa Rica abstained in view of the

1 This is the case of rice, potatoes and onions (for Costa Rica), maize (for Guatemala), or sugarcane. This is joined by unroasted coffee, petroleum derivatives, ethylic alcohol, distilled alcoholic beverages and roasted coffee, all listed in Annex A of the General Treaty on Central American Integration as products not covered by free trade agreements due to restrictions imposed by the different countries involved.

2 Although in the case CAFTA the negotiating tables were carried out in joint form among all the countries involved, each of the parties approached these negotiations independently. This is especially clear in the case of Costa Rica, which decided to extend negotiations for another round in search of better results.

non-ratification of the Free Trade Agreement between the United States, Central America and the Dominican Republic, which was submitted for deliberation and subsequently approved via referendum on the 7th of October 2007. Recently, the EU questioned Costa Rica's decision not to immediately approve the Agreement, despite the victory of the social groups favourable to DR-CAFTA; the country replied by reiterating its commitment.

Currently there is no doubt that the negotiations will start in the final weeks of October 2007. According to official Central American sources, the process is set to be undertaken in ten rounds of negotiations, including an evaluation of results during the 5th Euro-Latin American Summit to be held in Lima in the middle of 2008. This being the case, the negotiations should terminate at the end of the same year, followed by the process of ratification by the EU and CA during 2009.

II.3. Other experiences: earlier agreements with Mexico and Chile

As mentioned above, so far there have been two other experiences of EAAs between the EU and Latin American countries: the Mexico-European Union Global Agreement, which came into effect in 2000, and the Trade Association Agreement with Chile, which came into effect in 2003.[3]

Both agreements possess the same central pillars (political dialogue, economic association and cooperation) and are intended to go beyond a simple trade negotiation. Hence, both agreements also include the so-called 'democratic clause,' which, in writing, proclaims:

> **"The respect for democratic principles and fundamental human rights, as set out in the Universal Declaration of Human Rights, inspires the domestic and international policies of the Parties and comprises an essential element of the present Agreement"** (Article 1 of both agreements).

This element, which is presented as one of the axes differentiating the two EAAs from the FTAs promoted by the United States, has been highly controversial since, although the EU recognizes that the clause has a positive dimension (the willingness to carry out actions in favour of human rights), the more frequent interpretation has been negative in kind (imposing sanctions on governments that have committed serious and repeated violations of human and political rights) (Meyer n.d.: 3). Thus, this clause seems to have proved more useful for the EU to press for and impose sanctions on Latin American governments, rather than defend the human rights violated by transnational companies.[4] Undoubtedly, the clause has never been used in any substantial form, meaning that has been little more than empty words. If applied in effective form, though, it could indeed prove of great importance in the defence and promotion of Human Rights within the framework of trade relations.

In relation to the trade balance, at first sight the experience of both countries seems to be diametrically opposed. While Mexico's trade balance deficit with the EU has been continually rising (US$ -12.1 billion as of October 2004), in the case of Chile the opposite trend has occurred with the South American country obtaining a substantial trade surplus (more than US$ 3 billion as of September 2004).

However, if we focus in more detail on the products traded between both countries and the EU, the situation is fairly similar. On one hand, exports of raw materials and products with little added value; on the other, imports of machinery and other merchandise with high added value. In the case of Mexico in 2004:

> **"The EU's main exports to Mexico are concentrated in power generation equipment (22.4%), transport sector materials (20.2%), chemical products (15.8%), telecommunications and office equipment (9.1%) and farming products (3.8%). The EU's main imports from Mexico are energy (20.6%), transport sector materials (20.3%), telecommunications and office equipment (19.6%), chemical products (8.3%), farming products (6.7%) and power**

3 For a more detailed analysis of both Agreements, see Annex 8, included at the end of the present study.

4 For more information on this topic, see Meyer's study (n.d.).

> generation equipment (3.7%). On the other hand, the service sector has also experienced a significant rise. The main areas are tourist services (27.7%), transportation (22.5%), construction (8.2%) and other business sectors (19.8%). Nonetheless, the main European companies in this sector work with Mexican subsidiaries and therefore fail to appear in these statistics" (Domínguez and Velásquez 2004: 14).

Furthermore, as we have argued elsewhere (CEPA 2006), in the Mexican case specifically,

> "…the EU-Mex FTA supposes the exportation to Europe of petroleum, machinery and vehicles only, all produced through European investments established in Mexico and exported to the head companies for processing and distribution. Combined with this phenomenon, the lack of any regulatory framework which would imply rules of origin on the exported products, both in NAFTA and EU-Mex FTA… removes any possibility of tracing the productive chains involved in the process, which means that trade is confined to the commercial enterprises set up by FDI (foreign direct investment) and ends up failing to benefit the Mexican economy. This can be verified by the fact that, just as the exports are products manufactured and assembled in Mexico, the imports are also pieces of machinery to be assembled, that is, production is produced through assembly" (p. 8).

In the case of Chile, the main exports to the EU during 2005 were 'manufactured goods'5 (43.8%); inedible raw materials (26.6%), and livestock and foods (14%). The EU's exports to Chile the same year were dominated by transport equipment and materials (57.1%); 'manufactured goods' (13%) and chemical products (7.5%) (EC 2006a).

Hence it appears that the EAAs, like the FTAs, far from improving trade conditions and reducing the relations of subordination, have ended up strengthening and crystallizing the relations of dependency through unequal trade in which the peripheral countries export primary products with little added value and the assembly of products, while they import finished products with a high added value.

In this sense, while in the Mexican case the minimum floor for negotiations was NAFTA parity, the same can be expected in the case of the CA isthmus in the form of CAFTA parity6 This means that the EU will not admit anything less than what the region already agreed with the USA. It is important to make this clear so as avoid adopting an over-optimistic position, seeing the EAA as a chance to 'recover' what was lost in the context of the FTA with the USA.

II.4. On the FFT and its impact on the EU: CAFTA as a catalyser of the EAA with Central America

The EU's strategy for promoting and negotiating an EAA should be situated in a wider context. At least at a discursive level, the European Commission continues to see the WTO – and especially the agreements of the Doha Round – as the most effective space for expanding and coordinating trade within a multilateral system based on clear rules (EC 2005a: 1). However, the arrested progress of these agreements, as well as the capture of markets by the EU's direct competitors, has forced it to use the FTA strategy as a way of consolidating the position of its companies and avoiding the transfer of trade elsewhere.

5 Manufactured from wood, plastic, paper or metals, in accordance with the stipulations of chapters 6 to 8 of the Standard International Trade Code (SITC).

6 This is evident when we study the European documents that set out the block's trade strategy. In the text entitled 'Global Europe,' we can find the following: "Where our partners have signed FTAs with other countries that are competitors to the EU, we should seek full parity at least. Quantitative import restrictions and all forms of duties, taxes, charges and restrictions on exports should be eliminated" (EC 2005a: 11).

In this sense, the EU sets three criteria for choosing the counterparts with which trade agreement should be signed: comprising a potential market (size and economic growth), level of protection against the EU's export interests (tariff-based and non-tariff-based) and the potential impact that trade agreements with direct competitors of the EU may have on European interests (EC 2005a: 11).

Clearly, the Central American region fulfils two of these three criteria: a relatively high level of protection against certain European export interests and a FTA with one of the EU's direct global competitors (CAFTA-DR). Another two elements help the reinforce this argument. Firstly, it is strikingly evident that the EU has only negotiated EAAs in Latin America with countries that have agreed FTAs with the USA. This is especially interesting if we observe that across Latin America, only Brazil is found among the EU's twenty most important trading partners (1.8% of European trade for 2005). However, the moves towards a possible EAA are going much more slowly with MERCOSUR (2.3% of European trade) than with Central America (just 0.3% of European imports and 0.4% of exports) and the Andean Community (0.69% of European trade), where two countries have already signed Trade Promotion Agreements (TPAs) with the USA (Colombia and Peru).[7]

Secondly, the process of negotiating the EAA with CA receives a clear impulse and acceleration after the negotiation and approval of the CAFTA-DR. Of the initial requirements presented by the EU for negotiation, making progress towards Central American integration and implementing the commitments of the Doha Round, only the first is maintained, albeit modified. While the EU initially demanded significant improvements in terms of regional integration, this requirement was later reduced to advances obtained in the process of the Customs Union and the demand for the CA to negotiate the EAA as a block with a single negotiating body. In other words, there was a shift from developing integration to unifying the entry conditions for European goods and services into the Central American region. Obviously, this tells us about the predominance of trade in European interests in negotiating the EAA.

In summary, the EU envisaged the promotion of an FTA as a strategy, on one hand, to advance and attempt to unravel the discussion which had been developing within the framework of the WTO and, on the other, to ensure certain guarantees for its interests in regions whose markets are being captured by direct competitors, such as the USA. In this sense, although talks on a possible EAA between CA and the EU have been going on for several years, no sooner had the isthmus signed an FTA with the USA (CAFTA-DR), than the former process accelerated and took on the dizzying pace displayed today.

7 With this we do not mean to say that this is the only reason why the negotiations with certain blocks have been proceeding more quickly than with others. We cannot examine compare in the same way negotiations with a block such as MERCOSUR, where a set of sensitive products exist that seriously impede their advance, and blocks such as CAN or Central America, which have less political and economic power and trade other types of goods. What is clear is that negotiations with a block that already has an FTA with another power is relatively simpler, in the sense that most of the sensitive points are already covered. In other words, someone has already done the dirty work, leaving the newcomer merely to ensure the same benefits.

III. The New Central American Economic Model

Since approximately the 1990s, slightly earlier in the case of Costa Rica, the Central American region has been pushing forward a development model that diverges significantly from the previous regime. From a traditional agroexport model, based almost exclusively on the export of raw materials and especially fruits, the CA region has been shifting towards a model with clear transnational overtones, whose main areas of capital accumulation have been transferring from the primary to tertiary sector. The result has been the rise of a poverty-generating development model that combines large-scale capacities to generate surpluses and produces wealth with the ever deepening erosion of the living conditions of broad sectors of the population and the natural environment in general. The central axis of this development model is what Segovia (2005) calls the New Economic Model (NEM), which possesses a clear liberalizing and

externally-oriented tendency, and which depends on at least three fundamental pillars:

1. *A new international integration with the USA* through migrant workers and their remittances, which have so far enabled the restrictions on external growth to be overcome, and financial and banking stability to be maintained, as well as exports of assembled products;
2. *Financial and exchange rate stability*, which different from the previous model, which rested on the capital accumulation derived from the primary sector, is based on the availability of dollars derived from new sources of foreign currency such as non-traditional exports and remittances;
3. *The regional market,* where *"The novelty is its new role within the model that involves generating a solid base enabling the expansion of the spaces of capital accumulation of the main national economic groups and of the transnational companies that operate in the region, linked to banking, services (including basic services such as telecommunications and electricity) and commerce"* (Segovia 2005: 9). An extremely important dimension of this pillar is the process of 'real integration,' which refers to the economic integration that has been dynamizing these economically powerful groups on the margins of, though enabled by, the formal structures of integration (SICA, SIECA, etc.), and whose natural space of capital accumulation has ceased to be national become regional.

In general terms, the NEM depends on six basic characteristics (Segovia 2005: 6-9):

1. It possess a clear orientation towards the outside, its evolution depending both on exports (generation of foreign currency) and imports. Its impact on domestic national markets is significant; the latter are left to be supplied essentially by the importation of cheaper foreign products. This makes the import sector one of the biggest winners within the NEM.
2. The private sector plays a preponderant role, especially the large businesses, linked to the financial, communications and energy (electricity) sectors, services, shopping centre and hotel chains, store and supermarket chains, restaurants, importers, etc. and in some cases assembled goods and non-traditional exports (agroexports: citrus fruits, flowers, sugarcane, etc.). The State, meanwhile, has shrunk back with the advance of the private sector, especially in terms of production and the provision of services. Its function within the NEM, therefore, is primarily to ensure and generate the conditions needed to maintain and deepen the model. Among the most traumatic actions provoked by this approach are the privatizations of public companies, the reform of pension and social welfare systems, the abandonment of universalist conceptions of social policy, as well as a focus on macroeconomic management, obsessed with generating a minimum level of financial and exchange rate stability.
3. The importance of the financial sector within the pattern of capital accumulation. while in the previous agroexport model, the exportation of primary products was the main source of foreign currency, within the NEM these sources come from remittances, foreign transfers and Foreign Direct Investment, as well as certain surpluses generated by the new activities linked to services and the exportation of non-traditional products. Moreover, due to the loss of state control over the banking system, as well as the rise of the new banking elite, *"…a significant change has been provoked in the use of economic surpluses, which have been basically directed to financing relatively unproductive activities related to consumption and services, and to financing the expansion of the trade and service-based activities of the economic groups linked to this sector"* (Segovia 2005).
4. Because of the centrality of the tertiary sector, predominantly located in the urban zones, the impact of the same – beyond the continual generation of poverty – has been almost nil in the rural zones, which are already the most depressed in the region. In these rural spaces, what has predominated is the cultivation of certain non-traditional products for exportation, such as citrus fruits and sugarcane. As a result, these activities, apart from the employment that they manage to create, fail to generate larger benefits for the people living in these regions, a fact exemplified in the very limited reduction in rural poverty seen in Central American countries.
5. It is an intensive model in terms of the use of a non-qualified manual labour. However, it has failed to generate sufficient quality jobs to absorb the workforce. This has led to a process of undermining the job market and self-employment and intensified migrations abroad. It is not by chance that for countries like El Salvador and Guatemala, their biggest export product is said to be people.
6. It thrives within a polyarchic system (votes = democracy) which is widely legitimated and celebrated by

the international community, but which maintains high levels of corruption, the vertical use of power and curtails spaces for meaningful participation.

Due to its liberalizing and externally-oriented tendency, the NEM has been strongly boosted by the proliferation of trade agreements approved by the region's countries. In effect, agreements such as those signed by Mexico and Chile, but especially CAFTA, have been deepening this economic strategy and hence the poverty-generating development model. The obvious effect has been the increase in the trade balance deficit: hence the much lauded increase in exports – concentrated in a small number of productive sectors, most of them in the hands of transnational companies or regional holding companies (Pellas Group, Roble Group, etc.) – and the striking rise in imports, apart from producing big dividends for importers, has tended to flood the domestic markets with imported products, which means unfair competition and a strong impact on national producers. The result: a development model that destroys employment, reproduces poverty and expels people.

IV. The Farming Sector in Central American and the European Union

Before examining the potential scenarios for the agricultural sector vis-à-vis the negotiation of an EAA with the EU, it is important to situate the weight and importance of this sector for the economies of both blocks, as well as the fluxes of exchange between both.

IV.1. Farming in Central America

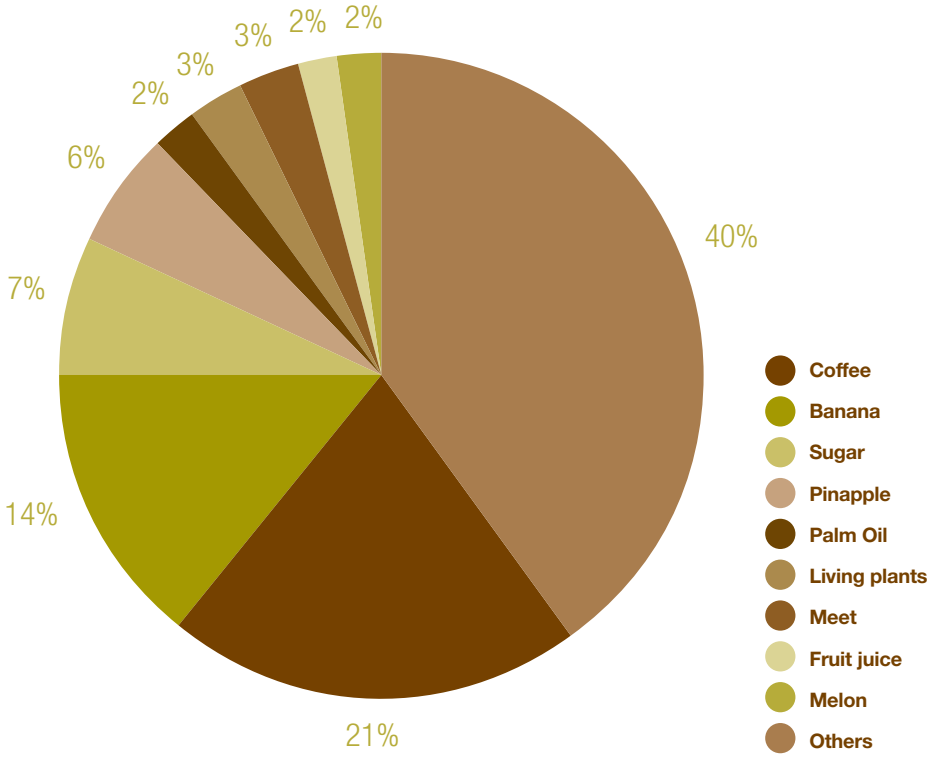
Despite the centrality of the service sector in the NEM, the farming sector continues to be extremely important. Over the last four years (2003-2006), the region has exported on average around US$ 6 billion in agricultural

products,[8] representing 43% of its total exports (SIECA 2007a). In the specific case of Costa Rica, in 2005, agricultural products represented 32.8% of total exports; for El Salvador, 14.6%; for Guatemala, 37.1%; for Honduras, 19.6%, and for Nicaragua, 78.9% (WTO 2006). In the same year, the total value of agricultural exports in Central America rose to US$ 8 billion, contributing close to 21.5% of the region's total gross domestic product (GDP). Also in 2006, the exportation of agricultural products (concentrated almost exclusively on coffee, banana, sugarcane and pineapple), reached 43% of total regional exports. In terms of agricultural exports to the EU, for 2006 these were around US$ 1.7 billion, equivalent to 10.6% of the total exports from Central America to Europe and 24.8% of the region's total farming exports (SIECA 2007a).

Agricultural exports to the world, including to the EU, are primarily characterized by a considerable degree of concentration on a fairly reduced basket of goods. As can be seen in Graph 1, almost 51% of the region's agricultural export base to the rest of the world is concentrated in new main products. This situation becomes more acute when we observe the same distribution in the case of trade with the EU, where 81% of exports are concentrated in six products (see graph 2).

Graph 1.

Global distribution of Central America's agricultural exports. 2006

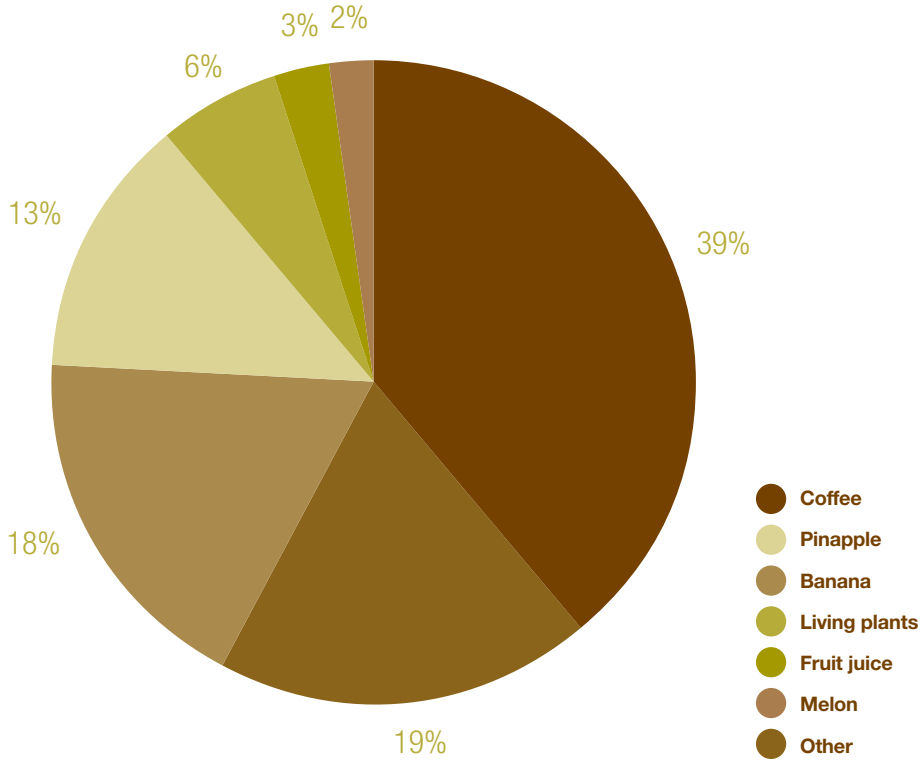


SOURCE: SIECA 2007A.

8 Except where provisos apply, in the case of agricultural exports, this refers to the products included in the customs lines listed in chapters 1 to 24 of the Harmonized Commodity Description and Coding System (usually abbreviated as HS).

Graph 2.

Distribution of Central America's agricultural exports to the European Union. 2006



SOURCE: SIECA 2007A.

On the other hand, in terms of the Central American sociodemographic structure, in 2005 almost 19 million people (approximately 49.8% of the total population) lived in rural zones (51.61% male; 48.39% female). For the same year, the region's rural economically active population (EAP) was around 6 million people (79.2% men; 21.8% women), representing 46.3% of the total Central American EAP. If we add to this the fact that in 2003 around 30% of the employed population was found in the 'farming and fishing' sector (Trejos 2006:22), the high economic and social importance of the region's agriculture becomes clear.

Within the regional farming sector as a whole, traditional agriculture predominates and accounts for around a quarter of overall employment in the isthmus (23%) while its relative weight among Central American countries varies between 10% (Costa Rica) and around 30% (Guatemala and Honduras). Thus, in general terms,

"As the weight of traditional agriculture in generating employment reflects the degree of development in the farming sector, it follows that traditional small-scale farming accounts for 82% of the jobs created in agriculture, showing that the region's farming sector is in fact highly vulnerable. Even in Costa Rica, small-scale farming production supports two out of three workers in agriculture, in El Salvador the ratio is three in every four and for the remaining countries over 80% of farming jobs are concentrated in small productive units. The exception is Panamá, a country with limited weight of agricultural employment (21%) though where traditional farming predominates (85%). This production also

generates little paid employment since for the region as a whole, farming microcompanies account for just 26% of employment within traditional agriculture. This employment is relatively more abundant in Costa Rica (54% of traditional farming), while it represents just 19% in Panamá" (Trejos 2006: 27-28).

In terms of socioeconomic conditions, it is clear that for the entire region poverty is much more extensive in rural zones than urban areas. This, for most Central American countries, around half or more of the poorest households are located in rural zones and the risk of poverty (incidence or percentages of poor households) in rural zones is between 25% (Nicaragua) and 50% (Costa Rica and El Salvador) greater than in urban zones, for a regional average of 45%. (Trejos 2006: 40). When we break down the data for the farming sector, the environment becomes much bleaker: the incidence of poverty in rural zones is 63%; for those households dedicated to traditional farming, the figure is 76%; this rises to 80% where peasant productive units are involved (Trejos 2006: 41). Furthermore, in contrast to what different International Financial Organizations (IFOs) and governments predict, there is no direct relation observable between employment and poverty. rather, in the case of rural zones, *"…the sure fact is that most people looking for work find it, ye it is insufficient to overcome the poverty trap. it suggests that obtaining employment is not enough, it depends basically on the type of work obtained"* (Trejos, 2006: 40).

This data illustrates the urban bias shown by the NEM, as well as the low importance within it of the entire agricultural sector whose production is not aimed towards external markets. The logic of the poverty-generating model is shown here in crude form: the sector is one of the those that produces more wealth, at the same time as it produces more poverty.

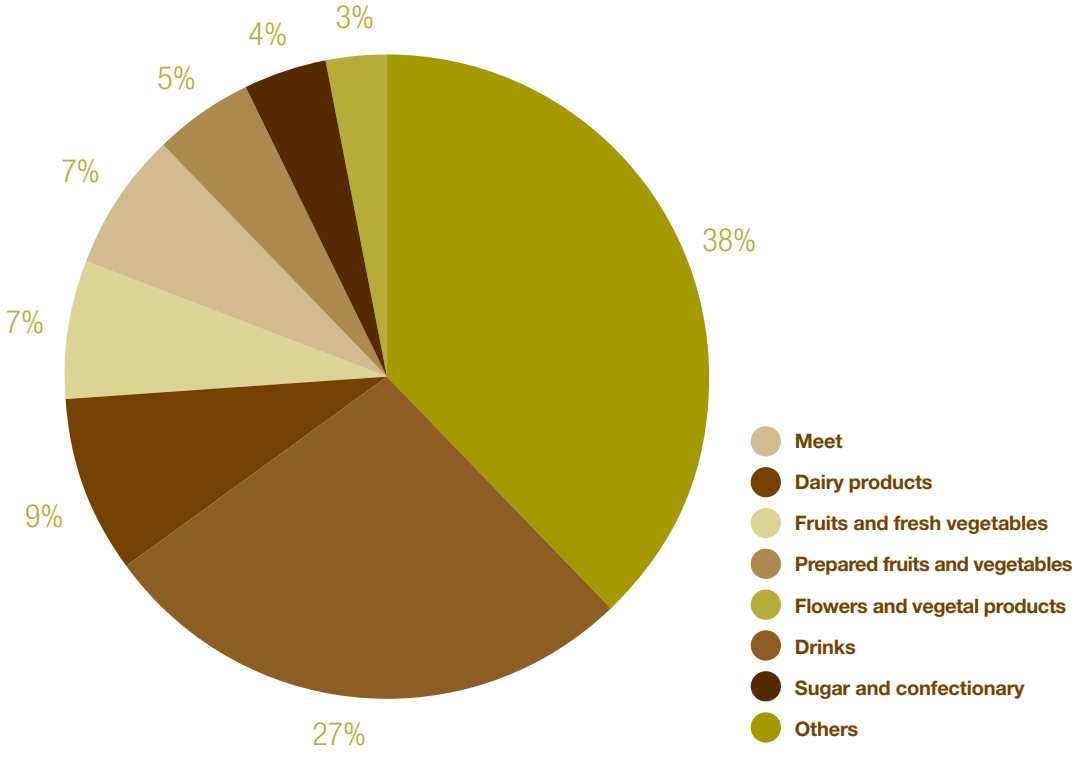
IV. 2. Farming in the European Union

For its part, the EU for 2005, in the agricultural sector, exported a total of 284 billion, representing 10.2% of total exports (internal and external) for the year. Of these exports, 250 million were shipped to CA, representing 6.8% of all European exports to the region and 0.4% of the EU's total agricultural exports, meaning that CA can safely be said to be insignificant for the EU in terms of the agricultural market. Of these agricultural exports, those directed to the regional market accounted for 77% of the total (approximately 218 billion), while those directed towards external markets comprised the remaining 23% (approximately 65 billion) (EC 2007a).

While in Central America farming exports tend to be concentrated in a few products, in the European case the complete opposite applies. As we can see in graph 3, the main exports are prepared drinks (including fruit juices and alcoholic drinks such as wine), followed by dairy products (including milk, cheese and other derivatives), meat and derivative products (including fish along with beef, pork, goat, mutton and poultry) and vegetables and fresh fruit. Another feature distinguishing the regions is that while most of the CA exports comprise raw materials or unprocessed products, 70% of the value of the EU's farming production is industrially processed (CE, 2005b).

Graph 3.

Distribution by product of the agricultural exports outside the EU. 2005



SOURCE: CE 2005B.

In 2005, the gross value added value (GVA) of the farming sector in the European Economy (EU-25) was just 1.9%, meaning it is not a sector with a large commercial significance. Nonetheless, it continues to be an economic activity of high value for certain countries, especially the recently incorporated members of Central and Eastern Europe (CEEC),9 specifically Lithuania, Poland, Slovakia, Latvia, Greece and Estonia, where the GVA is between 4 and 5% (EC 2007b).

In terms of employment, the farming sector represented around 9.5 million annual work units (AWU)[10], approximately 4.9% of the total within the EU, much lower than industry (27.5%) and services (67.6%). The workforce in European farming currently shows a reduction of 22% since 1997, when it represented 12.1 million AWU. However, it continues to be socially important since, in countries like Greece, Latvia, Lithuania, Austria and Slovakia, more than 10% of the workforce depends on this sector, rising to 20% in others such as Poland. In this same year, the first five countries in terms of manual labour were: Poland, Italy, Spain, France and Hungary, comprising two thirds of the labour force in agriculture (GRET et al. 2005).

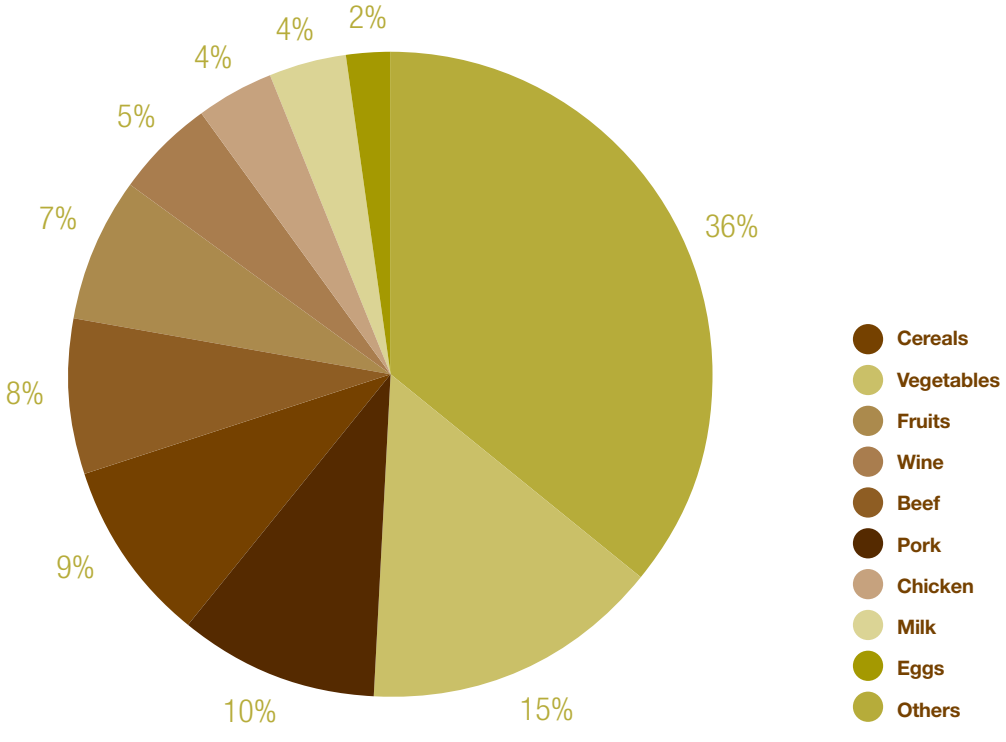
European agricultural production has a market value of 291 billion within which the vegetable, cereal and cattle sectors account for an important part, attaining between 9 and 15% (graph). The main contributors to this total are France (56 billion), Italy and Spain (36 billion) and Germany (43 billion) (EC 2007b).

9 The EU has been subject to amplifications during the present decade (2000-2010), the first, in 2003, comprising Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, with which the EU expanded to 25 countries, including those already members: Belgium, France, Germany, Italy, Luxembourg, Holland (all since 1957), Denmark, the United Kingdom, Ireland (joining in 1973), Greece (1981), Portugal, Spain (1986), Austria, Sweden and Finland (1995). The second recent expansion took place in 2007 with the entry of Bulgaria and Rumania. Currently membership requests are being considered for Croatia, Turkey, Ukraine and Macedonia.

10 The annual work unit (AWU) is equivalent to the volume of work corresponding to a worker employed full-time.

Graph 4.

Break down of the output of the European farming industry (EU-25). 2005.



SOURCE: EC 2007B

A large part of the value added (around 90%) in the agro-industrial sector comes from processing the raw materials in the EU-15 countries, especially Italy, France and Spain (between 21 and 25 billion), followed by Germany, Holland and the United Kingdom (between 6 and 13 billion). The value deriving from the new members following the expansion in 2003 is fairly low: given the importance which the farming sector still possesses in these countries, we can deduce that these have been transformed into zones for extracting raw produce (EC 2007b).

Finally, European production involves around 6.5 million agricultural plantations, a quarter of which are located in ten members of the block (2003). According to size, the largest number of farms (46%) are less than 5 hectares (ha), followed by those between 10 and 30 ha (20%), 5 and 10 ha (18%), more than 50 ha (10%) and between 30 and 50 ha (6%). 92% of the farms over 10 ha in size are located in the old members of the EU (EC 2007b).

After this general description of the weight of the farming sector in both blocks, we can turn to the discussion on the interests that could come into conflict during the negotiations for the EAA. This will be the theme of the following two sections.

V. The European Union's interests

The European Union is one of the most powerful and prosperous economic blocks in the world. Its gross domestic product is approximately 10.8 trillion, which makes it the world's largest economy, followed by the United States, which in 2005 produced approximately 10.1 trillion (EC 2007c y d). However, despite its relative importance in the global scheme, the block's long-term panorama is not so brilliant. Until 2000, the date when the current European development strategy was drafted, the block's economy was in a weakened and backward position compared to its two main global competitors: the United States and Japan. While the US economy grew in 1999 at a rate a little below 4% per year (currently 9%), Europe's growth rate was just 2% (currently 3.5%) (EC 2000).

The current economic and social agenda is a ten-year plan defined within this setting, whose aim is to promote a structural change in the European Union's productive system capable of generating increased regional economic growth and expanding the supply of jobs for the European population.

The Lisbon Agenda, thus called because it had been approved by a full meeting of the Council of Europe in Portugal, aims – as can be surmised from the initiative's eight key dimensions11 – to make the European economy more competitive by establishing more profitable productive processes or processes with higher value added, especially in the service (financial and high technology) sectors. Essential tools within this strategy include promoting innovation, the liberalization of internal and external markets (essentially in the service area, which accounts for up to 77% of the total value added of the EU) and the promotion of sustainable development (WEF 2004).

V. 1. The EU's Global Agenda

The Global Agenda is the EU's general strategy in relation to external trade. Its overall objective is multilateral liberalization of trade through the opening up of markets, with the aim of producing a scenario in which European companies stimulate the economic growth of the EU. To attain this aim, the strategy conceives two primary agendas: one for the establishment of internal policies that promote and confront the economic liberalization of trade and investments; the other for the constitution of external policies with the aim of ensuring rules of equity and open competition in foreign markets (EC 2005a).

Internally, it can be deduced that the improvement in European competitiveness derives from a balance between the liberalizing and protectionist policies in various economic areas or sectors. On one hand, the perception exists that Europe competitiveness is negatively affected by the high level of protectionism involved in certain industrial sectors, which means that regional exports fail to perform as efficiently as those of their competitors (USA and Japan). On the other hand, it is thought that the result of uncontrolled liberalization is damaging to areas and sectors where competitiveness is low. Thus, this European commercial progress should be realized in a form that promotes access to investment and a greater regional share of world trade, while maintaining trade defences in the face of anti-competitive imports and promoting programs that facilitate the adaptation of certain sectors to world trade (EC 2005a).

Externally, a policy of 'moderate liberalization' on the part of the EU should be complemented by assuring conditions for 'fair trade'[12] on the part of its trading partners. This aim is intended to deal with three specific issues: reducing tariff and non-tariff barriers, easing access to resources, and focusing on new trade areas.

In relation to the first issue, tariff and non-tariff trade barriers, the EU is deemed to be fairly open to international imports, but faces tough barriers when it comes to exports. Hence, a levelling of conditions is essential for free trade to become possible, especially in the case of non-tariff barriers, since these tend to be the most sensitive. Furthermore, these barriers are related to the definition of the domestic regulations of the trading partners more than decisions taken within the framework of multilateral bodies (EC 2005a). Despite this, the EU has shown a complete refusal to negotiate issues such as subsidies for agricultural production in any space other than the WTO, where the discussion is completely bogged down.

Second, as the European Commission emphasizes (2005a):

> **"(...) Europe needs to import to export. Working for the removal of restrictions on the access to resources such as energy, metals and raw materials, including certain agricultural and animal products,, should be a high priority. The measures adopted by some of our main trading partners to restrict access to the supply of these**

11 These are: 1) to create an information society accessible to all Europeans; 2) to develop an area of innovation, research and development; 3) economic liberalization, in two senses, the consolidation of the single market and the establishment of a state policy of assisting productivity (related to the liberalization of the barriers impeding business access to the mechanisms of government concessions and tenders); 4) the construction of network industries, especially in the field of telecommunications, public utilities (primarily water and energy) and transportation; 5) to create integrated and efficient financial services; 6) improving the business environment (with monetary aid and the gradual dismantling of regulatory frameworks); 7) the increase in social inclusion through education and work training programs, and the modernization of social welfare systems; and finally 8) the promotion of sustainable development (WEF 2004).

12 In this context, 'fair trade' should be understood to mean simply the absence of trade barriers that work to restrict the competitive capacities of the European productive sectors. It has little or nothing to do with the more general use of the term to mean the elimination of trade asymmetries and the different kinds of dumping practices (social, environmental, etc.).

inputs is causing severe problems for the EU's industries. Except where justified on environmental or safety grounds, the restrictions on these resources should be removed" (p. 7).

From this it can be inferred that in the trade measures it establishes with other partners, the EU will valorize primarily the access to goods essential to the functioning of the region's productive structure. This is particularly certain in the case of energy, where the EU has announced that, in addition to ensuring the elimination of barriers to certain fossil fuels and biofuels, it will also promote the good governance and political transparency of supplier governments (EC 2005a). In other words, the EU retains the right to be able to intervene in questions of domestic policy of its trading partners when the latter harm its interests and energy needs.

Put succinctly, the European trade agenda posits that in order to be able to maintain its global economic position, it must deepen the logic of unequal development (import primary goods, export finished goods) and ensure that the countries producing raw materials have no intention of introducing policies contrary to its interests (a euphemism for promoting good governance and political transparency).

Third, the EU asserts that trade opening should not be limited exclusively to the gradual elimination of tariff and non-tariff barriers. Globalized trade also includes services (which are the cornerstone of the European economy) and investments, and, in this sense, other measures are required to consolidate the European global position. Some examples of these measures include: 1) the liberalization of the services market and access to investments, 2) the elimination of practices that could be considered to discriminate against foreign companies in public tenders (such as performance requirements), 3) the establishment of clear norms for state help to the 'competition,' and 4) the effective implementation of intellectual property laws (EC 2005a). This clearly points towards a trade strategy that aims to ensure control of the more profitable sectors falls to European companies. A quick look at these sectors in Central America is enough to verify this fact.

V. 2. The EU's Common Agricultural Policy

The Common Agricultural Policy (CAP) was established with the signing of the Treaty of Rome in 1959 and is today one of the EU's oldest and most controversial polices. The CAP is in reality a group of measures for the farming sector that pursue a variety of objectives, which include: 1) increasing agricultural productivity through the promotion of technical progress and optimization in the use of productive factors, 2) ensuring a fair living standard for European farmers, 3) market stabilization, 4) ensuring the availability of the supply of agricultural goods to the market, and 5) ensuring reasonable prices for consumers (Batty and Carswell 2005; EC 2005b).

Recently, as part of the Lisbon Agenda, the EU undertook two reforms in the farming sector, one in 2000 and the other more extensive reform between 2003 and 2004. The first reform failed to have much impact and was basically confined to cuts of between 15 and 20% on the prices assigned to agricultural products such as meat. cereals and dairy produce.

The 2003 reform, on the contrary, is a ten-year policy that pursues the following three objectives. First, the relative decoupling of subsidy payments to EU farmers, so that they are independent of production, but dependent on the fulfilment of conditions of environmental sustainability, food security, animal and plant health and other welfare standards (some elements linked to production are always maintained to avoid production being abandoned). Second, the establishment of mechanisms to avoid the CAP budget being exceeded in relation to its 2013 target; this includes the regional commitment to a growth rate of 1% per year in the direct aid policies and a rechanneling of the payments to the rural development area. Third, the execution of specific reforms in market policy, especially in relation to certain specific sectors, especially banana and sugar. In others such as the dairy sector, no significant measures have been taken (EC 2003a).

To comply with the CAP objectives during the period of reform (2003-2013), the Council of Agricultural Ministers (CoAM) has established a support system

divided into two 'pillars:' the first includes the measures in support of prices and subsidies; the second includes those directed towards rural development. The text below briefly explains the measures used in the first pillar:

- Intervention in market prices. The CAP establishes prices for all each agricultural good that are usually higher than the market prices. If the price falls below the established level, an intervention purchase is made by the State until the price rises again to the set level. Although the aim of this measure is to stabilize the market, many farm undoubtedly produce large surpluses in the knowledge that the EU will buy all their production at an artificially inflated price, allowing them to obtain enormous profits.
- Export subsidies. The EU has established a series of export subsidies to prevent the market from being flooded with the production of goods that the same CAP stimulates; the measure also helps reduce the cost of storing surpluses. This allows the EU to inundate the world market with the surpluses of certain goods, making its production more competitive. This is the central feature of the European export model. In contrast to the case of CA, which specifically produces for the external market, the EU produces to cover its own internal agricultural demands and only exports if and when productive surpluses exist.
- Import tariffs and quotas. The CAP includes high tariffs on imports, which forces a rise in the prices of foreign goods to above the market price, thereby protecting domestic European production. The quota mechanism, as its name suggests, involves the setting of limits on the importation of specified goods.
- Direct payments. These are payments made to farmers; before the 2003 reform, they took into account solely the size of the terrain or plantation, or the livestock held, while after this year compliance with environmental sustainability norms were included as a criteria.

According to various authors, the 2003 reform does not correspond to an express interest of the EU in reducing those of its policies that distort the international agricultural trade. On the contrary, it makes more sense to say that the reform was intended to introduce changes to the budgetary structure, making it more sustainable in relation to the rest of the European model. This derives from the excessive weight possessed by the CAP within the European budget (almost 12% in 2000), as well as external factors, such as the entry of ten new members to the European block in the same year, all of them with large farming sectors (EC 2002). There is no evidence to indicate that the reform was due to the abandonment of the intransigent European interests in maintaining the agricultural policy as an instrument to protect the sector internally or make it more competitive externally (Batty and Carswell 2005).

V. 3. The EU's relation with African, Caribbean and Pacific countries

Historically, the EU has maintained extremely important political, economic and commercial relations with the ACP countries, offering highly favourable trade cooperation schemes for this block, especially in terms of raw materials: non-agricultural products like petroleum, diamonds and minerals, and agricultural products like coffee, cacao, sugar and banana (see box 4; also see annex 3 on the trade between the EU and the ACP block). Since the beginning, these relations have been of particular interest to France in maintaining the ties of dependence of its colonies in Africa (France accounted for 50% of their exports and comprised the origin of 70% of their imports), through a regime of association that was included in the Treaty of Rome.

With the entry of new members into the EU in 1975, an important change took place, primarily because the United Kingdom, like France wished to maintain the agreements previously obtained with its former colonies, which led to the establishment of a new series of agreements called the Lomé Conventions, which were renewed various times until their abandonment in 2000. In its last period (1991-2000), the Convention included 71 ACP countries. Number 71, South Africa, since it possessed a more developed economic base than the rest of the ACP, was included

in a special regime. Likewise, the agreement conceived the existence of a variety of cooperation instruments (especially commercial).

Currently, these relations are part of a complex framework of regional EAAs[13] signed within the context of the Cotonou Agreement (2003). Through these agreements, the EU has assured itself unrestricted access to the markets of these nations, liberalization in terms of services and investments, in accordance with the three points of the Global Agenda, and the generation of unimpeded commercial flows for unprocessed goods of high value to the EU, such as petroleum (equivalent to 32% of exports to the EU, and 7% of the petroleum imported by the block), diamonds (10.9% of exports and 24.4% of EU imports), raw cacao (5.4% and 95.8%, respectively), aluminium (2.7% and 14.6%), raw sugar (2.4% and 71.2%), untoasted or decaffeinated coffee (1.7% and 17.1%) and banana (1.4% and 20.6%) (EC 2007a). In the case of sugar and banana, in particular, many of the original benefits of Lomé IV have been gradually eliminated.

V. 4. The EU's interests in relation to the EAA with Central America in the farming sector

Based on the external trade and agricultural policies sketched out above, it is possible to say that agricultural is not the EU's priority in terms of the EAA with Central America. The EU's current development model aims to raise its rates of economic growth through the formation of productive practices with an ever higher added value: this primarily translates into improving the competitiveness of the service and industrial sectors, which are undoubtedly the cornerstones of the European economy.

However, although European farming accounts for a very small part of GVA 4.9%), its importance within this development model is indisputable, not necessarily as a competitive sector that can offer greater dynamism to the economy in the context of foreign trade, but rather as a result of the sector's socioeconomic importance in ensuring the permanent supply of farming goods (food security) and the sustainability of the block's rural economies.

For this reason, in terms of the agricultural issue, previous experiences such as the negotiation of the EAA with MERCOSUR or in the context of the WTO strongly suggest that the EU will maintain a clearly protectionist policy, especially when the goods that could be imported from Central America within a free trade regime would pose a direct threat to the stability of its domestic production. Nonetheless, this does not mean that the EU also has clearly defined offensive interests. Likewise, we recall that the EU needs to import in order to export; that is to say, it requires a significant quantity of raw material in order to sustain essential areas of its agroindustrial production, explaining why it would aggressively aim to remove the trade barriers on these goods.

At this point, we can now examine in more detail the EU's offensive or defensive interests, as cited above, by separating out the following lists of products. List A includes some of the products where the EU shows a high level of competitiveness, but faces strong tariff barriers in Central American countries, which the EU would presumably aim to reduce. List B includes products where the EU would be expected to promote free trade with the aim of ensuring their supply, given these are not goods that it produces internally – or its production is unable to cover internal demand – but that are essential in terms of maintaining its export base. Finally list C comprises products where the EU would probably prefer to minimize access to trade benefits, since these goods are more competitive than those produced by the EU and hence threaten the European agricultural model.

13 The ACP group is currently composed of 78 countries, divided regionally into 7 multilateral organizations. The EU has separately negotiated an EAA with each economic block; these offer the same conditions as CA, primarily a degree of consolidation of customs unions. The regions involved are: the Southern African Customs Union (SACU), the West African Economic and Monetary Union (UEMOA), CARICOM, the Common Market of Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the Economic Community of West African States (ECOWAS), the East African Community (EAC) and the Melanesian Spearhead Group (MSG).

Table 1. Products included in lists for European liberalization or protection in the EAA with CA.

List A	List B	List C
Cereals Dairy Produce Pork	Coffee Biofuels Palm Oil	Banana Sugar Beef

V.4. 1. The EU's offensive interests: lists A and B

List A comprises three products with an enormous importance to the EU and considered sensitive for Central America: dairy produce,[14] cereals and pork.

The EU is the world's largest exporter of dairy produce. In 2004, its production attained € 5.4 trillion, 25% of world exports. Breaking down this figure, the EU exported 39% of the butter, 40% of the cheese, 26% of the skimmed milk and 29% of the powdered milk exported globally. The value of its intraregional trade in dairy produce was more than € 18 billion in 2005, internally concentrated in three products: cheeses (37.3% of the total), fresh milk (31.6%) and butter (16.2%) (EC 2006h). Milk and its derivatives is also one of the essential products in the farming industry of many of the EU's countries, especially Estonia, Luxembourg, Finland, Ireland, Latvia, Lithuania and Sweden, where it registers a relative value of between 23.7 and 33.5% (EC 2006h).

For their part, cereals comprise one of the most competitive and at the same time most important sectors of European farming. This is due to the fact they are considered basic goods within the logic of European food security.[15] In productive terms, wheat equals 48% of the total, followed by barley with 20%, maize with 19% and other types of cereals (including rye, millet and sorghum) with 12%. Exports in 2006 attained a little less than € 2.3 billion, corresponding to 3.4% of exports and 14.4% of the total agricultural production. Exports tend to be concentrated on wheat, where approximately € 1.7 billion is exported (76% of the total), followed by barley with € 308 million (13%), maize with € 95 million (4%), rice with € 85 million (4%) and finally rye with € 35 million (2%) (EC 2005c).

Pork comprises the most important EU export within the meat sector as a whole, making up more than 65% of total exports, generating a little more than € 2 billion in 2006 (EC 2007a). Internally pork, like beef and poultry, is very important in the European diet, as well as the region's food security logic, with internal consumption reaching the level of 42.9 kilos per person per year (EC 2005d). It is worth highlighting that, broken down, European exports produce the highest value added due to the fact that almost € 1.77 billion of the exported total corresponded to boneless pork (EC 2007a).

The products from list A described above possess two specific qualities: they are subject to and face high levels of protectionism, in their regions of origin and destination alike. The dairy sector, for example, was guaranteed 2% of the overall CAP budget for 2005. Over the last few years, this sector has been affected by reforms designed to improve its competitiveness through a reduction in the intervention prices to protect domestic production. Here the aim is made to level the average price of the sector in € 230 per metric ton, a result which even so is considerably high compared to the world price of a little over € 170 (EC 2006h). In the case of pork, due to the level of self-sufficiency assured, exports reach a considerable surplus, which explains the payment within the CAP to this sector where at least 50% is made up of export subsidies (AGRA-CEAS 2005). Finally, in the case of cereals, export subsidies during the 2002-2003 period were in a phase of clear reduction. As part of the measures introduced to decouple production and tariffs in the 2003 CAP reform, the measures favouring wheat were eliminated, while

14 The dairy sector comprises the produce derived from fresh cow's milk. Depending on the type of chemical processing employed, these products may include unconcentrated milk, concentrated milk (including powdered and condensed milk), butter, cream and buttermilk, and finally various types of cheese.

15 In contrast to the situation in CA, where food security is conceived as access to food, whether through production or imports, the EU's view reflects its past, marked by two world wars, where overriding importance is given to ensuring as far as possible food autonomy and self-supply.

80% of other cereals (including maize and rice) were exported without subsidies (EC 2005c).

In terms of the entry into the CA isthmus, the three products or groups of products observed faced high tariff barriers. This is particularly so in the case of dairy produce, where Costa Rica and El Salvador maintained a tariff of between 50 and 65%, followed by Nicaragua, with a stable tariff of between 40 and 60%. Some countries such as Costa Rica maintain additional protectionist agricultural policies based on the use of import quotas, allowing it to protect the national farming from the impact resulting from the entry of more competitive goods. These measures have been applied to the dairy sector (especially in relation to powdered milk, butter and cheeses), sausages and pork (SICE 2007).

In relation to pork, the highest tariff is again in Costa Rica, with 45%, followed by El Salvador. In terms of cereals, Guatemala attains one of the highest levels of the Central American Import Tariff (ACI), reaching 237% in the case of rice. In Costa Rica, rice is also subject to protections through the use of trade safeguard mechanisms.

Table 2. Import tariffs on goods in list A on the part of Central America

Product	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Unconcentrated milk	65%	40%	15%	35%	15%
Whole powdered milk	65%	20%	15%	15%	60%
Semi-skimmed powdered milk	65%	15-20%	15%	15-20%	60%
Evaporated and condensed milk	10%	10%	10%	10%	10%
Cream	65%	20%	15%	20%	40%
Fresh cheese	65%	40%	15%	20%	40%
Processed and grated cheeses	65%	40%	15%	35%	40%
Special cheeses	50%	15-40%	15%	15-35%	5-40%
Fresh and frozen pork	45%	0-40%	15%	15%	15%
Wheat, rye, barley and oats	0%	0%	0%	0%	0%
Maize for sowing	0%	0%	0%	0%	0%
Popcorn, yellow and white maize	0-15%	5-20%	20-35%	15%	10-15%
Paddy rice	35%	0-40%	0-237%	0-45%	20-45%
Flaked rice	35%	40%	118-237%	45%	60%
Split and medium-grained rice	35%	40%	118-237%	45%	60%

SOURCE: SIECA 2007A.

The products from list B are those which the EU considers it needs to import since they are essential to the European development model and are not produced internally. Two of these products are especially important to the EU: coffee and biofuels.

Coffee is an important case of importation of raw goods that are processed for subsequent resale and exported as goods with higher added value. While its importation reaches around € 4.4 billion, its exports are also significant, reaching nearly € 4.1 billion during 2006. The difference concerns the type of product: 96.8% of imported coffee is unprocessed (unroasted or decaffeinated); while exports are concentrated into decaffeinated and unroasted coffee (€ 1.7 billion) and toasted and decaffeinated coffee (€ 1.8 billion). This objective is exemplified in the tariff policy for the sector, which favours exportation of raw coffee through tariff exemptions and penalizes the processed good through an ad valorem tariff of 11.5% (BITD 2006). It is obvious that coffee is therefore an essential product for which the EU establishes productive chains that provide it with a high added value, making it essential for the block to maintain unrestricted access to its market.

A second example of the products from list B are the biofuels (box1).

Box 1. The European biofuels strategy

The European biofuels strategy involves a plan until 2010 in which an increase in the use of these fuels is expected (attaining 5.75%), making use of biomass originating both internally and externally. To this end, the EU proposes a series of pillars, the essential of which are as follows:

- Stimulate the demand for biofuels within the EU. Here the biofuels directive (approved in 2003 by the EC) aims to increase the part of the market dedicated to these goods from 2% in 2005 to 5.75% in 2010.
- Develop the production and distribution of biofuels. The Common Agricultural Policy (CAP) will be used to promote this production through the introduction of state aid or resources through rural development policies aimed towards developing biomass processing plants.
- Expand the supply of raw materials. This will be achieved through the use of the 2003 CAP reform: the latter included the obligation to set aside fallow areas, involving a payment to farmers for them not to use a portion of their lands with the aim of avoiding the overproduction of cereal crops. Since higher production is required in order to supply the growing demand for biomass, the obligation to set aside fallow areas has been converted into a payment for the cultivation of biomass crops in these restricted areas. A similar accord has been reached in the production of sugarcane, beetroot and wine grapes.
- Increase trading opportunities. The trade in ethanol does not possess a separate international commercial description, since it is included under code 2207 of the HS as alcohol with a content of 80% or over. This tariff code has allowed tariff-free access through various trading initiatives of the EU: 1) the 'Everything but arms' (EBA) agreement for Less Developed Countries (LDCs), 2) the Cotonou Agreement with African, Caribbean and Pacific (ACP) countries, 3) Special Regime for Good Governance and Sustainable Development of the Generalized System of Preferences (GSP-Plus) and 4) some bilateral negotiations such as the Euro-Mediterranean Agreement. The liberalization of ethanol is equally important for the EU within the framework of the WTO and at regional level with the EAA being negotiated with MERCOSUR, given Brazil's competitiveness in sugar and ethanol.
- Support for developing countries. The EU has established its willingness to help developing countries affected by the variation in the liberalization of the sugar production protocol (primarily ACP-Caribbean) with the aim of directing their production towards ethanol. This is a point where European cooperation would be important.

The trend evident so far is for a sizeable increase of 64.7% in biodiesel production and 48.6% in bioethanol. Furthermore, there has been an increase in the capacity of processing, with capacity reaching 8 million metric tons in 2007 and at least 58% of rape oil being used as biofuel.

Source: EC 2006 b, c y d

Ethanol and biodiesel are fuels that can be produced on the base of agricultural goods such as sugarcane, maize and other cereals, and plant oils such as palm. Due to Europe's need to supply a growing demand in energy consumption, these foods have begun to acquire considerable importance. Between 2004 and 2005 alone, the production of biodiesel in the EU rose from 1.9 million tons to 3.1 million, with ethanol production rising similarly from 491,000 to 730,000 tons. Even so, biofuels represent a small value within the total energy consumption of the EU (2%) (EC 2006b).

In terms of the international trade of these goods to the EU, it should be emphasized that, in the case of biodiesel, imports from CA are not subject to tariffing as a result of GSP-Plus. This has not yielded an increase in Central American exports of palm oil since Europe, despite being the largest purchaser at international level, tends to favour the use of rape oil. Ethanol, on the other hand, is a product of growing importance in the commerce between CA and the EU, showing an increase of 36.288%, rising from US$ 926,000 in 2003 to US$ 34.5 million in 2006 (SIECA 2007a). This value, as well as exports of palm oil, can be expected to grow since the EU will only be capable of supplying 25% of the biomass needed to produce fuels in 2010, which means that it will depend considerably on foreign commercial sources to fill the gap in relation to domestic consumption (EU 2006 b, c y d).

V. 4. 2. The EU's defensive interests: list C

List C includes goods produced in the EU which are however uncompetitive internationally, making them subject to a high degree of protectionism that affects exports coming from regions such as Central America. Of special importance here are banana, sugar and beef, since these are three of the most competitive exports of the CA isthmus and, at the same time, goods offered a high degree of protection by the EU. Europe's position can be expected to be highly protectionist in relation to these products.

The production of banana in the EU is important because of the growth in domestic demand for the crop. Nonetheless, it can only provide 16% of this demand through its own production (originating primarily from more isolated regions belonging to members of the EU). As a result, it depends on the ACP and Latin America to complete the remaining 84%. However, as Central American banana production is more competitive (with a comparative advantage of 0.369 compared to -0.514) and much larger than European production (41,000 kg per hectare compared to 28,000), the EU has opted to protect its domestic market through the imposition of high tariffs on imports deriving from Latin America (€ 680 per metric ton), making it less competitive than its own domestic production. Likewise, it has provided extensive aid to the banana market through POSEI, an aid program for more isolated regions of the EU (where the increase for 2008 is expected to attain € 278.8 million), as well as direct assistance through the CAP to producers in continental Europe (directed primarily towards Spain) (EC 2006e). Equally, the ACP benefits from trade in this specific product with the EC, which it can export tariff-free under the Cotonou Agreement (PWC and SOLAGRAL 2004).

In relation to sugar, the EU is a key figure in the global market, representing 13% of production, 12% of consumption, 15% of exports and 5% of imports at world level (EC 2003b). Its exports to the rest of the world were a little under € 1.9 billion in 2006, 99% of which consisted of white or refined sugar. Nonetheless, in contrast to the case of coffee, the EU possesses a specific CMO designed to produce raw sugar in sufficient quantity to satisfy its own domestic demand if not also its industrial demand (related to activities that range from refining to medicines). For this reason, the EU has implemented strong protectionist measures (with a budget of approximately € 1.5 billion for the sector) which include high import tariffs (up to € 41.9 per 100 kg net), production quotas and sales quotas for internal consumption (avoiding very high supply levels and facilitating price policies), aid towards production that raises the market price, as well as preferential prices for the purchase of beetroot from which European farmers extract sugar.

However, although the internal production of raw sugar succeeds in meeting sections of the European market and tends to generate large exportable surpluses, some import quotas have been kept below preferential price schemes for ACP and other countries with which bilateral accords exist, including India (one of the main producers and exporters) and the Balkans. Nonetheless, these cards have undergone a number of variations so that the EU could ensure a more financially stable CAP (see box 2).

Box 2. Reforms to the Sugar and Banana Protocols between the EC and ACP.

The Sugar and Banana Protocols are agreements between the EU and ACP designed under the Lomé Conventions. In the case of both products, they include preferential tariff quotas for these products. In the specific case of sugar, these include guaranteed prices (subsidies so that the price equals European prices) and commitments to sell (ACP) and purchase (UE) the product.

Following the end of Lomé IV in 2000, and the beginning of negotiations for the EAAs within the Cotonou framework, the EU committed itself to a variation in the access conditions for both goods to enable adjustment to the WTO's regulations. As a result, in 2006 the quota measures for European banana were eliminated, although high tariffs on the product entering the EU were maintained as a form of protecting the production of ACP-Africa countries (€680 per metric ton). In the case of sugar, the Protocol continued, but set within the CAP's budgetary reduction. Although sugar is still subject to purchase and sales agreements, export quotas, tariff exemptions and guaranteed prices, these benefits were reduced.

The biggest negative impact of this variation in the Protocols was felt by ACP-Caribbean, which, in contrast to Central America and Ecuador, has less competitive advantages since it produces small and relatively unproductive amounts, as well as facing problems in marketing both products. The result has been a reduction in its contribution to exports to the EU.

On the other hand, the measures have benefited ACP-Africa and other nations with which the EU possesses advantages in this are, as in the case of India, with which it has a bilateral agreement that assures a portion of the sugar market. Central America is excluded from these measures, which actually remain ill defined, since it lacks the capacity to export sugar to the EU. In terms of banana, despite the negative tariff conditions, Latin America (especially CA and Ecuador) remain the origin for 68% of the banana supply to the EU, though the continuance of barriers prevents an even higher penetration of the market.

SOURCE: PWC AND SOLAGRAL 2004; CASANOVA 2005 AND EC 2006E.

Finally, in relation to beef, it should first be mentioned that this is one of the central goods in the EU block's food security policy and hence is subject to some of the principle protectionists measures. It therefore counts on high intervention prices (up to € 2.224 per metric ton, even following the reduction of the 2003 CAP), and equally high import tariffs (with an ad valorem of between 12.8% combined with another of up to € 304.1per 100 kg net). European beef production (8% of total farming production) is clearly aimed at meeting the demands of the internal market and, consequently, there are no significant surpluses capable of being used for exportation (the EU succeeded in exporting just € 266 million in 2006). In fact, it has been unable to meet domestic demand for beef, meaning that it has been gradually opening export quotas for this product, to the point that the long-term production forecasts shown that this trend will continue and that the EU will need increasingly high levels of imports (EC 2005d).

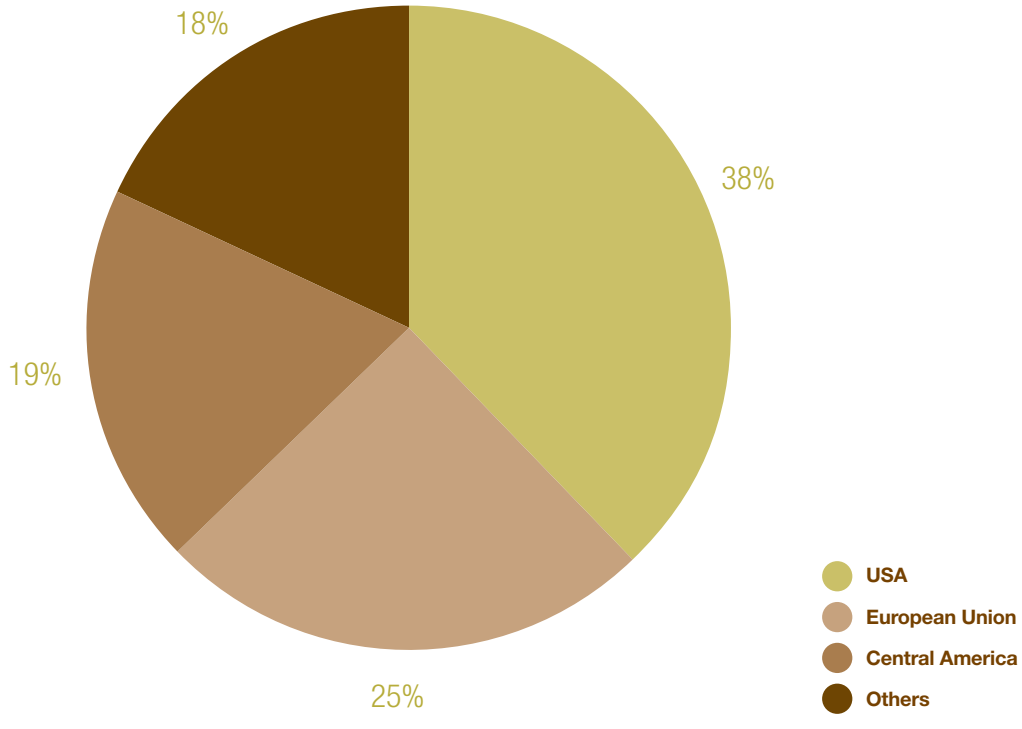
A more detailed account of these interests will be provided later on; before this, though, we present a description of the Central American interests in this negotiation.

VI. Central American Interests

Although the USA is the main market for agricultural goods for the CA isthmus, the EU is also extremely important, comprising the second largest destination for product exports from the region's primary sector (Graph 5). Thus any coherent strategy where the export of these types of products is important must look for mechanisms that allow CA to consolidate and improve its access to these markets. As part of this logic, a primary interest for the region in relation to the EAA with the EU must be to consolidate and improve access to the European market. This in mind, it seems clear that the farming sector and the attraction of FDI should be the central and primary interests of the isthmus in terms of the negotiations. Formally, the Central American region's negotiating position is to achieve the same treatment as that received by ACP countries, that it to say 'Everything but Arms.'

Graph 5.

Distribution of Central American agricultural exports by destination market



SOURCE: SIECA 2007A.

In the next section, we shall deepen out study of the regional farming interests in light of the EAA negotiations. Following the procedure adopted above in relation to European interests, first of all we shall examine the offensive interests – that is, areas in which the aim is to improve or consolidate the conditions for entry of a product – before describing the defensive interests, those products whose domestic market requires protection for a variety of reasons.

VI.1. Offensive interests: GSP-Plus, banana and sugar

The large majority of Central American farming exports enter the European market through the GSP-Plus (approximately 77.3%)16 tariff-free or with very low tariff levels. This system is unilateral and depends exclusively on the EU deciding to maintain it and on how it decides to implement it.

16 In order to determine this figure, we have taken the region's main farming exports until reaching 80.1% of the exporting base to the European Union. Then we defined what quantity of the export entered with some degree of tariff reduction, the obtained percentage being equivalent to the part of the selected base that enters tariff-free.

Box 4. Brief sketch of the Generalized System of Preferences

The Generalized System of Preferences (GSP) was created in 1971 as part of an initiative of the United Nations Conference on Trade and Development (UNCTAD) to eliminate discrimination against the export products of peripheral nations. The mechanism is based on a qualification clause that allows unilateral exemptions from the application of tariffs below the 'most favoured nation' norm (MFN) with which the products from these countries obtain preferential access compared to central nations.

The European GSP is not a permanent mechanism and is set for revision after a period of time (a minimum of ten years). In the case of Central America and CAN, the 2001 review proved favourable since it included the GSP Drug Regime, which ensured complete exemption from the MFN tariff to States involved in combating drug trafficking. However, India's complaint concerning the preferential advantage given by the Regime to Pakistan in the production of textiles and the subsequent ruling of the WTO on this issue meant the EU had to re-establish it. In 2005, it set up a new GSP regulation with a variant called GSP-Plus, of which Central America and CAN continue to be beneficiaries, albeit under different conditions.

Currently the GSP is divided into three preferential schemas:

- The General GSP, which offers preferential relations to almost 7,000 products, 3,750 of which are considered non-sensitive and receive guaranteed tariff-free access to the beneficiaries, and the remaining 3,250 which are considered sensitive, obtaining a reduction of 3.5% from the ad valorem MFN tariff.
- GPS-Plus, a preferential regime which exempts the 7,000 products of the GSP from MFN duties for nations that comply with norms for strengthening good governance and protecting the environment. It should be highlighted that the beneficiaries of this regime are the same as those of the Drug Regime and that, furthermore, textiles were excluded.

The Special Regime for Most Favoured Nations or 'Everything but arms' (EBA) offers a benefit of tariff-free access to all the export products of the 49 least favoured nations of the world. As its names suggests, the only restriction is on access to arms.

SOURCE: RESOLUTION 980/2005 OF THE EUROPEAN COMMISSION AND OSTERLOFF 2005.

In principle, GSP-Plus runs until 2015, which gives it a certain stability. Even so, it is clear that one of the central interests in relation to the negotiations is ensuring that the privileges acquired within the GSP-Plus framework become governed by rules defined in bilateral fashion within the EAA framework. In this sense, obtaining what has already been acquired within the GSP-Plus is the minimum floor of negotiation of the CA isthmus. Nothing less than this will be acceptable.

However, although the large majority of Central American agricultural products enter the European market in preferential manner, this does not apply to all the region's exportable products. Products as important to the region as banana and sugar confront fairly significant tariff and non-tariff barriers.

Box 5. Tariff and non-tariff barriers to trade on the part of the EU on sugar, banana and beef

The Central American production of beef, banana and sugar faces high tariff and non-tariff barriers on its entry to the European Union, which ensures an overall increase to the sales price of the goods on the European market , and, as a result, lower competitiveness.

- In the case of banana, CA faces an ad valorem tariff of €680 per metric ton exported; likewise, the EU sets an access quota of 2.2 million tons on this product below an additional tariff of €75 per ton.
- In the case of sugar, the EU sets an ad valorem tariff of €33.9 per 100 kg net of raw sugar for later refining and €41.9 in the case of any other type of sugar, such as refined or white sugar. Moreover, a series of preferential import quotas are set, one of 1.3 million tons of sugar, exempt from tariffs, specifically for India and ACP countries; and another of 85,000 tons with an additional tariff of €9.8 per 100 kg open to the general level.
- In the case of beef, the tariff is higher. This is double since it includes one ad valorem tariff on the price, set at 12.8%, and an additional tariff on the exported weight of between €176.8 per 100 kg net in the case of whole dead animals and up to € 304.1 in relation to deboned meat or fine cuts.

In relation to non-tariff barriers, all the goods are subject to fulfilling a series of requirements that include: the certificate of validity for exportation from the European Program of Good Agricultural Practices (EurepGAP), compliance with strict phytosanitary measures for entry to the EU, import licences (which must be renewed every three months in the case of banana), compliance with norms on labelling, certificates of compliance with the quality standards for European sale and, in addition, measures for cross control to ensure compliance with rules of origin and satisfaction of international standards.

SOURCE: EUREPGAP 2007 AND BITD 2006

In relation to banana, the product is extremely important for the region and represents 6.2% of its total exports. Moreover, Costa Rica is among the world's largest producers of the fruit. The problem with access to the European market has centred on certain tariff barriers imposed by the EU in detriment to Latin American banana exports and in favour of the fruit produced by ACP countries. This has generated a set of multilateral conflicts, known generically as the 'banana wars' (see box 6).

As a result, for Central American banana producers, obtaining privileged (low or zero tariffs), constant (independent of political changes at the heart of the EU) and secure (difficult to eliminate) access to the European market would be of huge benefit, since it would improve the sector's trading conditions vis-à-vis direct competitors, such as the ACP countries, and would ensure a competitive advantage compared to other world competitors, such as Ecuador.

Box 6. The 'banana wars' and the international market

The history of the trading relationship in bananas between the European Union and other blocks producing this fruit has become increasingly conflict-ridden over the last few decades. For Latin America, there are two main reasons behind the conflicts over sales of bananas to the EU: the deepening of the European integration process, and the increasingly close historical and economic connections between this region and the developing countries of Africa, the Caribbean and the Pacific (commonly referred to as ACP). In addition to these factors, the EU's different import regimes in relation to the ACP countries and Latin America in the supply of banana and the presence of US marketing companies in Latin American nations, with the political and economic rivalry between Europe and the USA, has added a political element to the trade rows over banana which have been rife since the beginning of the 1990s.

The first banana controversy followed in the wake of the constitution of a single European market in 1993 and the changes subsequently made to the import regimes of the fruit into the EU. Unfolding between 1992 and 1993, this led to Colombia, Costa Rica, Guatemala and Nicaragua contesting the EU's tariff regime (which comprised a tariff of 100 ECU[1] per metric ton a quota of two million tons for banana for LFNs, which failed to represent the volume entering the EU market at that time, and tariff-free quotas for the ACP countries) within the GATT framework. The recommendations issued by the Special Group that analyzed the case were in favour of the plaintiffs, since it was ruled that the new regime was inconsistent with the GATT agreements. However, the adoption of these recommendations was vetoed by the EU. The climate produced by the Uruguay Round and the need for approval of the latter generated the idea conditions for placing the plaintiff nations and the EU at the negotiating table. This led to the signing of the 1994 Banana Framework Agreement, a negotiation which produced a extremely good outcome for the plaintiff countries, especially Costa Rica, though much less so for other Latin American countries who were not members of GATT. A third row was therefore provoked with new actors demanding changes, including Ecuador, Honduras, Mexico, the United States and Guatemala.

The creation in 1995 of the World Trade Organization (WTO) provide a mechanism for resolving trade rows which up to now has mediated in solving the difference between countries and blocks selling the fruit, ever since 1996 when the fourth banana conflict erupted. Although the Banana Framework Agreement generated a climate of stability in marketing of the fruit by the end of the 1990s, in 2001 during the WTO Ministerial Conference in Doha, Qatar, the ACP countries made their signing of the results of the conference conditional on the EU approving the amplification of its common trade agreement, extending the preferences for the ACP counties, including in relation to banana, until December 2007. Faced by this move, the banana producing countries of Latin America also succeeded in establishing an annex with conditions relating to banana in favour of suppliers from the Least Favoured Nations (LFN). For January 2005, the EU announced the application of a single tariff of €230 per metric ton exported to its territory from January 1st 2006, which contravened the conditions included in the annex to the decision adopted in Doha during the Ministerial Agreement. The Latin American countries requested arbitration by the Director- General of the WTO, in order to analyze "whether the reconsolidation anticipated in the EC's tariff applying to bananas would result in the maintenance, at least, of total access to the markets for LFN suppliers of banana, taking into account the commitments of the EC cited earlier."

This is the basis of the fifth (and most recent) banana war between the EU and nine producer countries in Latin America: Guatemala, Honduras, Costa Rica, Panama, Colombia, Ecuador, Brazil, Nicaragua and Venezuela. In May 2006, three countries continued their legal action for discriminatory treatment in banana trading with the EU: Costa Rica, Colombia and Ecuador. In November 2006, the latter country made its lawsuit against the EU official, accusing it of treating banana imports in discriminatory fashion. This accusation is also made by the Ecuadorian government; rather than being new, it is the continuation of an action initiated against the EU thirteen years ago and with which the community has failed to comply. For its part, Costa Rica has separated from the process it began with Colombia and Ecuador (who withdrew from the negotiating table). The latter then united with Guatemala. Costa Rica opted to resolve the conflict through talks and the mediation of Norway.

SOURCE: LÓPEZ 2005. EL UNIVERSO. 'SE REACTIVA LA 'GUERRA' DEL BANANO CON LA UE.' NOVEMBER 17TH 2006. WWW.ELUNIVERSO.COM. 'BANANO: COSTA RICA SE CORTÓ SOLA Y NEGOCIARÁ CON UE.' MAY 8TH 2006 WWW.ADNMUNDO.COM

In the case of sugar, this is one of the products that shows a greater export potential both for the region and globally (see box 7). Though historically sugar was already an extremely important product, the rise in international prices due to the biofuel boom has made it even more attractive. Thus, for example, the executive director of the Central American Sugar Association (AICA) calculates that the area cultivated with sugar will increase between 10 and 12% (AZÚCAR ÉTICO 2006). Furthermore, the scenario is especially promising due to the introduction of CAFTA.

1 ECU: European Currency Unit.

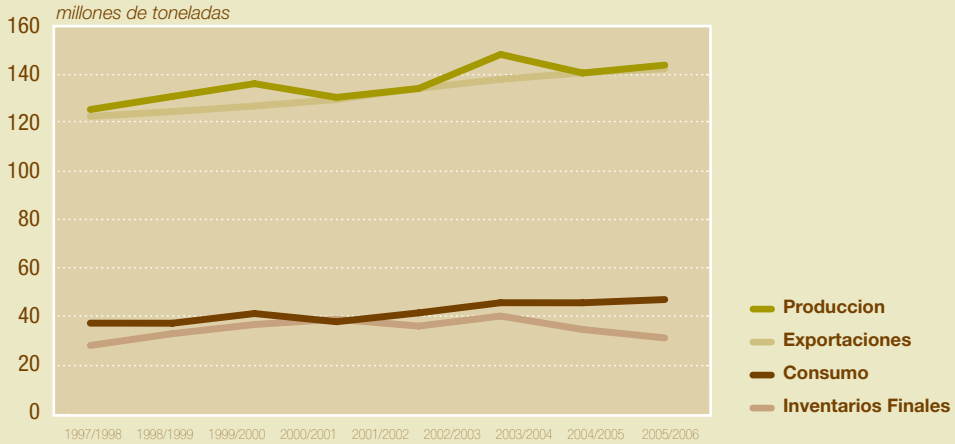
Box 7. Sugarcane in Central America

The production of sugar in Central America has a long history and a large importance within the region's agricultural exports. Over the last 20 years, the crop has experienced a significant growth, tripling and almost quadrupling its production in the different countries of the isthmus. Studies have indicated that all the region's countries have a strong potential for growth and improvement in current farming techniques. However, the limiting factors for actualizing this potential vary among the different countries.

The international marker

It is estimated that world production of standard sugar for 2006 rose to 147 million tons, 3% more than the year before. However, this is insufficient to cover forecast consumption (150 million tons). Thus, for the third consecutive year, there was a would deficit in terms of this market.

Graph 6. World Sugar Supply and Demand Balance



	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
PRODUCCION	125.405	130.919	136.321	130.528	134.270	148.556	142.400	140.811	144.151
EXPORTACIONES	37.446	37.420	41.629	38.064	41.917	46.345	45.852	46.317	47.720
CONSUMO	122.582	124.612	126.959	129.743	134.446	138.307	138.641	141.048	142.773
INVENTARIOS FINALES	28.283	33.342	37.292	39.578	36.608	40.023	38.925	35.141	31.505

FUENTE: ASERCA CON DATOS DEL USDA, NOVIEMBRE 2005.

The Central American market

The region's sugarcane market, though important in terms of the isthmus's exports (3% of total exports), is relatively insignificant in global terms. Furthermore, its weight in relation to national exports varies greatly between the countries. Thus for Costa Rica it represents 0.5%; for Guatemala, 8%; for Honduras, 1.4%; for Nicaragua, 4.9% and for El Salvador, 3.8%.

Table 3. Distribution of sugarcane production in Central American by year and country.

(in metric tons)

Year	CR	El Salvador	Guatemala	Honduras	Nicaragua
2005	377, 989	320, 621	2, 015,396	281, 018	426, 907
2004	404, 576	332, 713	2, 006,000	366, 282	448, 458
2003	413, 370	305, 111	1, 800,719	356, 895	454, 810

Source: CEPA extrapolation from FAO data, 2007.

The national markets

The Guatemalan sector possesses a high technological level. The area that has shown the biggest advances is irrigation, where the process is increasingly efficient. Moreover, the country has a genetic improvement program that has been running since 1991.

In relation to the productive process, harvesting is managed and coordinated by the sugar refineries; 1% of the sector comprises independent farmers with control over the entire harvest system, however they are always coordinated by refineries.

The technological level of the sugar producing sector in El Salvador is medium to low. This is explained by the land distribution, where small producers with low technological levels (60%) live alongside medium and large producers (more than 100 ha). Despite this fact, the country shows the highest yield of sugar per ton of cane in Central America (242.21 lb. /ton), due primarily to the climate conditions. The level of mechanization is low and the harvest is planned and coordinated by the sugar refineries, with labour mostly subcontracted. There are 26,000 fixed and temporary jobs during the harvest.

In Honduras the technological level used is generally medium to low. Land ownership is a limiting factor in terms of implementing new techniques. 50% of land is occupied by small farmers who do not use modern technology or intend to adopt any kind of improvement program in the future. The remaining area is under the administration of the sugar refineries. Harvesting is coordinated and conducted by the latter, who hand the work over to sugarcane managers.

The sugar agroindustry directly employs more than 25,000 people, indirectly benefiting a further 100,000; salary payments total more than US$ 30 million per year and more than US$ 55 million for sugarcane purchases from independent producers. The sugar industry is one of the largest contributors to state income, paying more than US$ 12 million in taxes annually.

In relation to Nicaragua, the technological level used is high and includes advances in terms of research. The size of the productive units are over 100 ha, including the smallest independent farms. In the case of the sugar refineries, apart from the final process of sowing the seeds, which is undertaken 75% by hand, the entire production process is mechanized and advance pest control programs are employed. In general terms, it is estimated that currently 50% of the cane is harvested manually; the harvest is planned and coordinated by the refineries, who outsource the cutting, threshing and transportation.

Finally in Costa Rica there are 44 non-independent producers (16 refineries and 28 producers each over 5000 TM) and 10,761 individual producers. The first group possesses a fairly advanced technological level. The sector is represented by the Agro-Industrial Sugarcane League (LAICA), which is responsible for research and genetic improvements.

The degree of mechanization depends on the size of the productive unit. In large properties, cultivation is 100% mechanized except for part of the harvesting. On the smaller units, the degree of mechanization is more varied, the harvest is coordinated by the refineries and depending on the size of the productive unit, it may be carried out entirely by the independent producer, under the complete coordination of the refinery. A proportion of harvesting is mechanized and the trend is for this system to increase due to the lack of manual labour. The total job numbers are 30,000 during the harvest and 20,000 in the period between harvests.

SOURCE: SAGARPA 2006; LEAL 2007.

On the other hand, though, Central American sugar currently enters the European market with a tariff load that makes it very uncompetitive, especially in comparison with the production of ACP countries, which enters with preferential treatment. On this point, it can be expected that Central America will look to open up this market in order to benefit from the favourable global environment currently shown by the product.

In addition to these general interests for the region (consolidate the GSP-Plus, banana and sugarcane), there are other smaller interests specific to each country. Due to their overall relative unimportance, as well as the fact that the negotiations will be carried out as a block, a detailed analysis of these products is not included in the present study. Even so, we should like to highlight just a few of these.

In the Nicaraguan case, it would be important to obtain better import conditions for its meat production. This productive sector shows a high level of competitiveness with a comparative advantage index of 0.059, and the European market would definitely be highly attractive. However, as mentioned previously, the import conditions are very unfavourable.

A similar situation, albeit less extreme, is experienced by Costa Rica in the case of the manioc which it exports almost entirely to the EU (96% of the US$ 34.4 million), despite facing a tariff of € 9.5 per 100 kg. Likewise, although the EU allows an import quota of up to 1.3 million tons of this product with a tariff of 6%, this is reserved for various Southeast Asian countries. Greater liberalization in the trade of this product can be seen to be an important offensive interest.

Synthesizing the above points, the CA's interests are clearly concentrated around three specific themes: consolidate the benefits acquired through the GSP-Plus, improve and assure better access to the European market for Central American bananas and sugar. Any negotiation undertaken by the region that fails to include a significant improvement in these three elements would be difficult to describe as successful or advantageous. This position is consistent with the intention to agree to a trade relation of ACP parity.

VI. 2. Defensive interests: dairy produce, potatoes, onion, maize and rice

The defensive interests of the isthmus seem to be concentrated around two elements: those products that are tariff-free within the CAFTA-DR, though it would be desirable to exclude from the EAA, and; those Central American products that would be highly vulnerable to the opening up of the domestic market to European competition. It is important to add that there does not seem to be any defensive interest that could be generalized to the isthmus as a whole, meaning that these interests assume a much more national character, therefore.

In relation to the first group, attention is drawn in particular to the issue of dairy produce, especially for Costa Rica, Nicaragua and Honduras (producers one, two and three at regional level). This theme was included within the CAFTA-DR with a relatively long period of tariff removal (20 years, plus 10 years grace period). This result was seen positively by the Central American dairy sector, due to the long period of protection and the relatively low competitive level of US dairy production. This does not mean that this was not a burning issue in the negotiations with the USA:

> "In the negotiations over the FTA, Costa Rica insisted that it wanted to safeguard the integration of its productive chain and protect its small national milk producers. For this reason, it opposed the entry into the region of powdered milk imported from the United States, which cost half as much as the liquid milk produced nationally due to the subsidies received by the US producers. In order to remain competitive in dairy produce, the processors would be forced to stop buying milk from small national producers. Nicaragua stated that it could not do this 'favour' for Costa Rica because Parmalat had threatened that were Nicaragua to bar the importation of powdered milk, it would abandon Nicaragua. Parmalat won. Costa Rica therefore replied that were Nicaragua to allow the entry of powdered milk – which would subsequently triangulate the entire region and Costa Rica – they would open the doors for maize imports, which was not its priority, nor that of Nicaragua" (STOP CAFTA 2007: 39).

The regional milk sector is clearly far from homogenous, including contradictory – and even conflicting – interests between the different countries. Here the issue of the organization of the productive process is extremely important:

> "In milk and dairy products, the Costa Ricans, regional leaders in this area, have a highly integrated productive chain: milk production is national and in the hands of small producers; likewise, milk processing is national and so too its sale through the brand Dos Pinos, owned by a cooperative. In Nicaragua, production is national and undertaken by small producers; there is a large multinational processing company – Parmalat – with a small number of national companies. The main marketing company is also Parmalat, with small numbers of sales

being made by national companies" (STOP CAFTA 2007: 39).

Nicaragua is therefore the biggest exporter of dairy produce in the region, but its production is controlled by a multinational company, which has succeeded in protecting its specific interests as interests of the national sector; that is, market liberalization and low tariffs enabling it to export, a situation that has been deepened by the low level of milk consumption in Nicaragua. Meanwhile, Costa Rica is CA's biggest producer, but its production is dominated by a cooperative whose main market is first the Costa Rican domestic market17 and second the MCCA.

This contradiction between the liberalization and protection of the Central American dairy market is likely to be revived in the context of negotiations with the EU. However, the fact that the isthmus has already made certain concessions within the framework of CAFTA-DR makes it difficult to believe that the Europeans will accept anything less than the deal agreed by the USA. In other words, although certain sectors of Central American milk industry, especially the Costa Ricans, can be expected to campaign for total exclusion of the product from the EAA, it is unlikely that the EU will accept a different form of access to the Central American market to that received by the USA.

17 According to data for 2002, Costa Rica was the sixth highest country in the world in terms of milk consumption per capita (158 kg milk per year) (BMI and CAMAGRO 2006: 16).

Box 8. The dairy sector in Central America

Central America is an importing region, its trade balance having been historically negative. However, its intraregional trade has been increasing. Of the five countries from the region, only Nicaragua and Costa Rica have positive (dairy) trade balances. In terms of the overall exports of the countries, dairy products represent only 0.3% (unadulterated milk and processed cheese). In 2005 the region produced around 14 million metric tons, representing just 2.62% of global production.

Even so, as table 4 shows, regional production has been experiencing a fairly significant increase in production, which suggests an increase in its importance within the regional productive structure in the future.

Table 4. Production and relative weight of fresh milk in Tons (2004)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Production	752,310	394,000	270,000	598,000	641,091
Relative weight	28.3%	14.8%	10.2%	22.5%	24.1%
Regional production	2.7 million metric tons				
Growth since 2000	22.3%				
Growth since 1990	77.7%				

The international market

The world production of milk from all animal sources in 2005 attained more than 630 million metric tons, the main source being cow's milk (more than 530 million), representing around 85% of total production. Around 56% of this production was produced by 10 countries, led by the USA (15%), India (7%), Russia (5.8%) and Germany (5.2%). At the same time, less than 10% of global milk production is sold internationally, which means that the dairy market is determined by the surpluses in production rather than by the dynamics of demand.

SOURCE: BMI AND CAMAGRO 2006; MONTERO 2006

In relation to the second group, competitive European products that are sensitive products for CA, includes potatoes, onions and maize. The first two crops are sensitive for Costa Rica and maize for the rest of the region, which is why they were excluded from the agricultural negotiations for CAFTA-DR. It is worth adding that these were the only agricultural exclusions within the framework of the treaty with the USA (potatoes and onions for Costa Rica; maize for the rest of the region).

Consequently, it can be expected that CA will also seek to exclude these products from the negotiations with the EU due to their high level of vulnerability vis-à-vis external production due to their low competitiveness (small productive units with low level technology, produced for the domestic market and subsistence).

Currently, the region does not receive significant imports of these products, though this does not mean that their liberalization would not be an offensive interest for the EU during negotiations. However, the fact that these crops have been excluded in the context of CAFTA-DR, as well as the more than expected appeal for CAFTA parity from the Europeans, suggests that CA could succeed in excluding these products by appealing to the same principle (CAFTA parity in both directions).

VII. Comparison of interests in the farming sector

So far we have mapped the interests of the European Union and Central America, based on a description of the wider objectives of each block in relation to the EAA and concluding with a list of products that each block considers sensitive or competitive and where, depending on the case, a defensive or offensive strategy is likely to be involved. However, in order to contextualize the situation of the farming sector in relation to the negotiations, we need to recognize the points of conflict and where we can expect greater tensions between the two parties.

The aim of this section, then, is to examine the differences between the specific interests that each block has in the farming area. To this end, we have defined lists of products where, due to their importance or sensitivity, conflicts may come to the surface.

Table 5. Comparison of the products involving defensive and offensive interests on the part of Central

Product		European Union		Revealed comparative advantage (RCA) index1/	
Product	Subproduct	Relative value 2/	Tariff barrier3/	EU	
Dairy produce	Unconcentrated milk	1.2%	Very high	0.071	
	Concentrated milk	1.2%	Very high	0.465	
	Cheeses	4.1%	Very high	0.513	
Meat	Beef	2.6%	Very high	-0.160	
	Pork	3.6%	Very high	0.505	
	Poultry	1.1%	Very high	0.062	
Onions		0.2%	Baja-SGP	0.009	
Fruit juice	Orange juice	0.6%	Very high	-0.150	
	Other juices	0.7%	Very high		
Cardamom		0.0%	Very low	-0.001	
Peanuts		0.0%	Very low	-0.082	
Manioc		0.2%	High	-0.020	
Living plants, flowers and foliage	Bulbs and tubers	0.3%	Low-GSP	0.107	
	Flowers and buds	1.3%	Medium-GSP	-0.034	
	Foliage, leaves and branches	1.0%	Very low-GSP	-0.039	
	Other living plants	1.0%	Low-GSP	0.098	
Palm oil		0.2%	Very low-GSP	-0.098	
Melon		0.0%	Low-GSP	-0.036	
Sugarcane		1.5%	Very high	0.085	
Pineapple		0.2%	Low-GSP	-0.091	
Banana		0.6%	Very high	-0.514	
Coffee		1.4%	Low-GSP	-0.579	
Potato		0.6%	Medium-GSP	0.042	
Orange		0.4%	Very high	-0.056	
Rice	Paddy rice	0.0%	Low	-0.001	
	White rice	0.2%	Very high	0.001	
Dried beans	White	0.0%	Very low	-0.040	
	Red	0.0%	Very low	0.000	
Palm nut		0.0%	Very low	0.000	
Maize	For sowing	0.2%	Very low	-0.004	
	Other types	0.5%	Very high	-0.079	

COLOUR CODE

Very important	Important	Not very important	None	Not sensitive	Sensitive	Very sensitive

1/ THE REVEALED COMPARATIVE ADVANTAGE INDEX IS OBTAINED BY DETERMINING THE IMPORTANT OF AN EXPORT PRODUCT OVER THE VALUE OF AGRICULTURAL EXPORTS AND IN TURN OVER THE VALUE OF A COUNTRY'S TOTAL EXPORTS; THEN THE VALUE OBTAINED BY THE SAME OPERATION APPLIED TO IMPORTS IS SUBTRACTED FROM THE FIRST VALUE. THE VALUES ARE LOCATED ON A SCALE FROM -1 TO 1, WHERE CLOSER TO 1 INDICATES A HIGHER ADVANTAGE.

2/ THE RELATIVE VALUE OF THE PRODUCT SIGNIFIES THE IMPORTANCE OF THIS PRODUCT IN RELATION TO TOTAL EXPORTS IN THE NATIONAL FARMING SECTOR.

American and the EU.

	Revealed comparative advantage (RCA) index1/	Central America		Product	
	CA	Tariff barrier 3/	Relative value 2/	Subproduct	Product
	-0.001	Very high	0.2%	Unconcentrated milk	Dairy produce
	-0.040	Very high	0.2%	Concentrated milk	
	-0.002	Very high	0.7%	Cheeses	
	0.030	High	2.5%	Beef	Meat
	-0.006	Very high	0.1%	Pork	
	-0.012	Very high	0.1%	Poultry	
	-0.002	Medium	0.1%	Onions	
	0.022	Medium	0.6%	Orange juice	Fruit juice
		Medium	0.7%	Other juices	
	0.030	Medium	1.2%	Cardamom	
	0.013	Low	0.6%	Peanuts	
	0.014	Medium	0.5%	Manioc	
	-0.003	Very low	0.0%	Bulbs and tubers	Living plants, flowers and foliage
	0.014	Medium	0.6%	Flowers and buds	
	0.031	Medium	1.2%	Foliage, leaves and branches	
	0.035	Very low	1.4%	Other living plants	
	0.037	Very low	2.4%	Palm oil	
	0.043	Medium	1.7%	Melon	
	0.153	Very high	7.1%	Sugarcane	
	0.129	Medium	6.5%	Pineapple	
	0.369	Medium	1.3%	Banana	
	0.461	Medium	20.7%	Coffee	
	-0.003	Medium	0.1%	Potato	
	-0.002	Medium	0.0%	Orange	
	-0.042	Very high	0.0%	Paddy rice	Rice
	-0.002	Very high	0.0%	White rice	
	-0.010	Medium	0.1%	White	Dried beans
	0.007	Medium	0.5%	Red	
	0.005	Very low	0.4%	Palm nut	
	-0.021	High	0.1%	For sowing	Maize
	-0.089	Medium	0.0%	Other types	

3/ A SCALE OF UNIFORM TARIFFS WAS CONSTRUCTED FOR BOTH BLOCKS: TARIFFS BETWEEN 0 AND 5% ARE CONSIDERED VERY LOW; BETWEEN 5-10%, LOW; BETWEEN 10-15%, MEDIUM; BETWEEN 15 AND 20%, HIGH; AND OVER 25%, VERY HIGH. IN THE EUROPEAN CASE, WHERE MULTIPLE TARIFFS, EXPORT QUOTAS OR TARIFFS ON THE QUANTITIES PRODUCED EXIST, THE TARIFF RATE IS LISTED AS VERY HIGH. GSP IN THE EU COLUMN SIGNIFIES THAT THE PRODUCT IN QUESTION BENEFITS FROM THE GSP REGIME AND IS THEREFORE EXEMPT FROM TARIFFS.

SOURCE: CEPA EXTRAPOLATION FROM STATISTICAL DATA TAKEN FROM SIECA 2007A AND EC 2007A; TARIFF DATA TAKEN FROM SIECA 2007A AND BITD 2006.

VII. 1. The interests of both blocks

First of all, it should be emphasized that the differences in the socioeconomic structures and the dynamics of development of the two regions are an important factor for consideration since, as a result of this fact, the intentions concerning the negotiations for an EAA are equally dissimilar. On one hand, Central America focuses many of its expectations on consolidating benefits for exports, especially of its farming goods.

On the other hand, as we observed earlier, it is fairly clear that for the European Union the agricultural sector is less of a priority than the increased liberalization of investments and services. Nonetheless, the EU can be expected to exploit its comparative advantages in certain products by demanding a removal of tariff barriers at the same time as it demands a reduction in the non-tariff barriers. To simplify the viewpoint of both blocks, we present table 5; we should point out that this is a reduced version of a larger table with more information included in annex 6.

The left and right-hand columns correspond to the list of products of the European Union and Central America (respectively). These were selected according to their importance within each block and to the level of conflict that they may generate once negotiations begin. The products are colour-coded to indicate the nature of their importance for the block in question. Green, or variants of green, signifies that the product is considered 'important;' in other words, it stands out in the economy in question as a highly competitive product and hence can be very easily exported. Red, or its gradations, indicates on the contrary that the product is considered to be 'sensitive,' that is, its importance derives from the fact it is fairly uncompetitive but essential to the country's domestic economy and could be adversely affected by the entry of imports. Finally blue indicates that the product is neither important or sensitive.

Let us examine the above through some examples. If complete liberalization of a product such as cheese, especially fine cheeses, exists between the two blocks, the expected situation would be the entry of European produce into the Central American market. Since this produce is more competitive (see the central columns in the table), it may gain ground at the cost of national supplies. On the Central American side, by contrast, it would be difficult to see a very large effect on the European market since it is not a product with much international competitiveness for CA. The logical outcome would be for one side to try to open up the market while the other attempts to close it, meaning a potential conflict. The opposite would be observed in the case of sugarcane: the EU produces a significant amount of refined sugar, though this is destined for its domestic market. If liberalization were to occur, it could negatively affect the internal production of sugar in the EU, meaning that it will aim to keep its tariff and non-tariff barriers, while CA will wish to open them: this indicates another area of conflict.

However, there are special cases in this comparison, one of these being palm oil. As we know, plant oils are an important raw material for generating non-fossil fuels such as biodiesel. In this case, the importation of this product is essential for the EU, although its production is small. In the Central American case, palm oil production has grown significantly over the last three years (26.5%) and plays an important role in farm exports (2.4%), meaning it would benefit from freer access to the EU. In fact, it is highly likely that the trade agreement has a favourable effect in terms of biofuels.

Another special case is rice, since the product is heavily protected by both blocks. From the Central American viewpoint, this crop is important domestically while its export value is less significant, primarily because the product is not particularly competitive (less than 0.001 in RCA). However, it is still subject to strong protectionism with general tariffs. In the Costa Rican case, to give an example, it is subject to various protective measures that include the definition of quotas and direct support from the State through the National Rice Company (CONARROZ), which fixes internal consumer prices and makes various state purchases to this end (CONARROZ 2007).

However, in the EU rice is the cereal with the lowest production (1%), which explains why external exports comprise only € 85 million. Rice for the EU is an essential product for internal consumption, which is reflected in the level of its tariff barriers (BITD 2006). This allows us to hypothesize a scenario relating to this product in which the mutually imposed barriers are maintained or partially lifted since there is no way of ignoring that CA's production is insufficient to supply its own demand.

VII. 2. Expected conflicts

A quick examination of the table reveals the existence of potential conflicts in relation to a series of farming products during the negotiations over the EAA between the EU and CA. Table 6 sets out these potential conflicts according to the probability of them taking place. In order to determine this probability we weighed: the importance of the product for the economies, the degree of protectionism imposed and the willingness that a block may have to implement liberalizing measures in the area concerned. It should also be explained that the following is a shortened version of table contained in the annexes to the present document, which may be consulted for more detailed information.

Table 6. Distribution of farming products according to the expected level of conflict in the negotiations for the EAA between the EY and Central America

Very probable conflicts	Probable conflicts	Unlikely conflicts
• Banana • Sugarcane • Dairy produce (milk and cheeses)	• Beef • Pork • Manioc	• Coffee • Fruit juices • Cardamom • Peanuts • Palm oil • Pineapple • Melon • Orange • Dried beans • Palm nut • Maize • Rice • Conflicts • Potatoes • Biofuels

VII.2.1. Very probable conflicts

As its name suggests, the 'very probable conflicts' column contains the products where the intentions of one block may collide strongly with those of the other. Here we register three goods where three factors occur simultaneously: first, one of the blocks has a highly competitive production at international level but faces significant obstacles or barriers in sending its exports to the recipient block; second, for this other block, the product is highly sensitive either because of its own production (which is probably less competitive) or because agreements exist with third parties that it wishes to maintain despite the current negotiations (ACP). For the purposes of this section, we shall consider banana, sugarcane and the dairy sector (especially milk and cheese).

In the case of banana and sugar, Central America is a highly competitive exporter. Compared to the EU, CA's advantage is greater: 0.369 compared to -0.514, in the case of banana and 0.144 compared to -0.271 in the case of raw sugar. Although a sizeable portion of the Central American banana exports enter the EU (31% of total exports), the block's tariffs prevent the CA region from exploiting its competitiveness, meaning that the product has provoked various debates in the context of the WTO. CA is likely to seek a removal of the tariff given the importance of the product and its competitiveness. The situation is more serious in the case of sugar since although CA exports an important amount, the portion exported to the EU is considerably reduced. Due to the importance of the product for CA and the existence of conflictual factors that potentially aggravate the situation, we could surmise that for Central America the retention of the current trading conditions in these goods after negotiations over the EAA would be unacceptable.

Finally and in contrast to the situation observed with the other goods, we have the dairy sector. This emerges as a factor of conflict, essentially in specific products such as powdered milk and cheese, which are produced by the EU very easily due to the high subsidies given to the sector, a fact observed in the comparative advantages of Europe compared to CA (0.465 compared to -0.040 in the case of powdered milk and 0.513 and -0.002 in the case of cheese). However, the situation of European exports is different since Central America presents high tariff barriers on importation of these products. Given the strong competitiveness of its produce, it is very likely that the EU will demand liberalization of this market, a fact that is already perceived as a threat by some of the region's sectors and which increases the possibility of conflict over the issue. Furthermore, as mentioned earlier, the fact that CAFTA-DR led to an opening up of the Central American dairy market suggests that the Europeans will not accept anything less than the deal obtained by the USA.

VII.2. 2. Probable conflicts

The column of table 6 identified as 'probable conflicts' lists those products where the chances of conflict are smaller but still present. This corresponds to a series of factors determined by the products in question. First, manioc is an important product and subject to an offensive interest for the Costa Rican economy since this exports almost 96% of the total exported by the Central American block. However, entry of the product to the EU faces a relatively high tariff of almost €10 per 100 kg net weight, as well as the obligation to enter under tariff quotas, since a safeguard exists to protect imports from some Southeast Asian countries. Since this interest is strongly focused on one country, though, the most probable outcome is that any conflict will be relatively unimportant.

The meat sector, on the other hand, is set to be a point of conflict between the two blocks, particularly in relation to beef where Central America is likely to show offensive interests, and pork, where the EU will do the same. Beef is an important and competitive product for Central America (especially Nicaragua), since it makes up 2.5% of its farming exports and achieves a higher competitive advantage than the EU, 0.030 compared to -0.160. The problem is that this sector is one of the most protected in Europe due to the role it plays in its food security policy. Although the gap in production is gradually forcing the block to import larger quantities due to its incapacity to supply internal demand independently, it is still considered a highly sensitive product where concessions could be very small.

Pork presents an opposite situation. Due to high levels of subsidies, the EU is one of main exporters of this product worldwide (more than € 2 billion in 2006), meaning it plays a very competitive role on the international market, which is expressed in the RCA index where CA is at a clear disadvantage: 0.505 compared to -0.006. As occurs in the case of beef, high tariffs exist in relation to pork in CA. Here we should add that during the CAFTA-DR talks, the region negotiated a liberalization of the sector with import quotas as a way of providing a degree of protection for domestic production, while it is also included under the tariff category D, meaning it will be subject to a gradual and linear lifting of tariff barriers over a fifteen year period (Morley 2006).

Potatoes and onions are two crops where conflict is possible, primarily due to the defensive interest shown by Costa Rica, which succeeded in removing them from the negotiating table during the CAFTA-DR talks. Nonetheless, in the case of the EAA with the EU, exports to the international markets are much lower than in the case of more competitive goods such as pork. However, it is clear that both products are more competitive than in CA (0.042 compared to -0.003 in the case of potatoes and 0.009 compared to -0.002 in that of onions), meaning that a degree of protectionism can be expected from the isthmus.

VII. 2. 3. Unlikely conflicts

This point considers the products listed in table 6 where the chances of a conflict are much lower, primarily due to the fact that high tariffs are not faced in the destination country, the products are not very important to the other block, or they are subject to commercial benefits as in the case of the GSP-Plus. Products such as coffee, pineapple, melon, palm oil, beans, living plants, peanuts, cardamom, oranges and palm nuts are covered by tariff benefits for Central America, meaning that any change in this situation would be unacceptable for the region.

Likewise, the effect would not be very serious since the tariffs for exporting to the EU are in the medium-low

range and lifting these for the products in question would not be cost the European block too much to offer in any trade deal. This is particularly so if we consider that the blocks are not direct mutual competitors in these areas and in many cases the products comprise primary goods needed for their own productive structure, whether aimed at the external or internal market. Another similar case can be seen with palm oil, which, although less competitive than rape oil, which is more efficient in terms of producing biodiesel, has some potential and could receive some trade benefit as a result of Europe's rising demand for biomass.

Equally, most of the cereals produced (except for rice and maize, which are produced to some extent by the region, although complementary imports are always required), especially wheat, offer no problems insofar as Central America does not produce them and depends completely on imports. Here the EU's objective would be to achieve the conditions needed for its entry into the region to be equal to or higher than that of the United States through CAFTA, since the US is its main competitor in this area.

We can conceive of maize and rice as special products within this group, since although they are internally sensitive, factors exist that limit the potential for conflict. First of all, in relation to maize, it should be emphasized that the exports of both blocks are specialized: on one hand, Central America exports seed maize (90.2% of the total maize exported) while the EU exports other types, particularly yellow and white maize (72.9%). However, the sector, although subject to an exclusion in the case of white maize, was strongly affected by the entry into free competition with the United States, especially in the case of seed maize and yellow maize. Indeed, since CAFTA came into force, it has experienced a reduction in the value exported of up to 47.9%. Imports for their part have grown by 22.78% over the same period. In other words, the impact of competition has already been felt and the product is unlikely to experience further dramatic consequences as a result of free trade with the EU. Even so, exclusions similar to CAFTA can be expected in relation to the EAA.

On the other hand, rice faces a distinct situation since the product is sensitive for both blocks. Rice cultivation for the EU corresponds to 1% of total cereal production, making it less competitive than other staple grains such as wheat. For CA, the product is also relatively uncompetitive (since it possesses a RCA index of -0.045, similar to the EU index of -0.066). For both blocks, the product is produced to meet important domestic needs and lacks the conditions for exportation. in the case of CAFTA, rice was included in a tariff quota system under the P tariff P (except in the case of Costa Rica, where it fell under the V tariff), with a guaranteed grace period of ten years and the gradual elimination of tariffs over the following 7 years until complete removal of tariffs in the 18th year of the agreement coming into force.

A final topic important to consider is the question of biofuels. Rather than being a point of potential conflict, the area could become a theme of mutual agreement bearing in mind the EU's incapacity to supply its own demand in biomass and the growing demand for the product.

Central America, for its part, although not an important producer of these fuels at international level, is looking to achieve the conditions needed to stimulate increased production. Towards this aim, in 2006 it exported a little more than US$ 206 million in non-denatured ethylic alcohol of 80% volume and over (tariff code 2207), with most of thus amount relating to the exportation of ethanol. However, although the EU maintains an import tariff of € 19.3 per hectolitre on this product, as a means of encouraging imports it is exempt under cooperation or association schemas such as EBA, ACP, GSP-Plus and within the framework of preferential agreements such as the Euro-Mediterranean Zone. The same treatment can be expected in the case of the EAA.

On the other hand, CA is not a region where ethanol presents a particularly high level of competitiveness and it is unlikely to be able to rival the conditions presented by Brazil in this area, particularly given that the expansion in this market is recent. What can be deduced is that CA will be benefited, not necessarily with a discretionary opening of the market in this area, but rather with the assurance from the EU of a channel or quota of preferential access to this market, something like a commitment to sell and buy between regions.

Box 9. The importance of ethanol: a projection of future trade in the product

The unprecedented price levels of crude oil have produced a panorama in which the use of ethanol as a fuel has become highly attractive. The production of ethanol derived from starch-rich and sugar-rich plants (cereals and sugarcane) has increased 53%, rising from 30 billion litres in the year 2000 to 46 billion litres in 2005. It is estimated that world consumption of ethanol will reach 54 billion litres by 2010, a figure corresponding to 1% of total world consumption of petroleum.

Around 15% of sugarcane crops are estimated to be converted to ethanol rather than sugar. Forecasts show a future in which the use of biofuels grows exponentially. Carbon-offset sales (as negotiated under the Kyoto Protocol) may signify an added value in ethanol's competitiveness in comparison of fossil fuels. Since the consumption of ethanol leads to a reduction in carbon dioxide emissions, users can obtain carbon credits that can be sold to those responsible for contamination, reducing the production costs of the former and raising those of fossil fuels. If petrol prices remain high, the incentives will increase to produce ethanol and other biofuels derived from various raw materials. Here it is important to add that there is a lack of in-depth research into the environmental and dietary impact of transforming large areas of land into fields for producing biomass.

The OECD estimates that the EU would need to transform around 70% of its arable land to cover just 10% of its energy needs, while the United States, Brazil and Canada would need to convert 30%, 3% and 0.3% of their arable lands respectively in order to cover the same quantity. The variation between countries depends on the raw materials used to produce biofuels and the per capita consumption of fuel for transport.

The trend towards a shortfall in sugar production is a problem with worldwide ramifications. It is estimated that for 2007 the EU will face a significant fall in its production indices due to the reforms proposed by the WTO for sugar, applied since July 2006. As a result, of the 19 refineries existing in Italy, only 6 will remain in operation by the end of 2007, with the same number ceasing to operate in Poland. In France forecasts suggest that in 2007 there will be a decline in production of 12% in relation to 2006.

SOURCE: AZÚCAR ÉTICO 2006; FAO 2006A Y B.

VIII. Possible scenarios for the farming sector

In this section, based on the information presented so far, we intend to construct a set of potential scenarios in relation to the EAA negotiations. This is always a tricky undertaking since it consists of expounding on hypothetical situations, based on partial information and with limited possibilities of taking into account the chance factors always present in historically determined situations.

To this effect, what we propose is an analysis based on the construction of four scenarios located in a continuum that spans from an ideal scenario for Central American interests (ACP Parity scenario) to the ideal scenario for European interests (CAFTA-Plus scenario). It is important to emphasize that these scenarios have the function of archetypes (ideal types) and their aim is to help understand the potential different outcomes of the negotiations.

Two important explanations need to be made. Firstly, these models only take into account the themes of GSP-Plus, banana, sugar, manioc, meat, biofuels, dairy produce, potatoes and onions, and rice. Secondly, the scenarios are presented on the basis of Central American interests and centre on those relations that could engender conflicts.

VIII. 1. ACP Parity Scenario (the least probable)

As the titles mentions, in this scenario CA achieves the same treatment received currently by the ACP countries. The isthmus manages to consolidate all its offensive and defensive interests in the farming area. Thus, in the negotiation of the treaty, it succeeds in ensuring the preferential access already received by most of its products within GSP-Plus, manages to open the European market to the region's banana and sugar under conditions equal to those possessed currently by the ACP countries (in terms of a levelling of customs tariffs in relation to bananas and the establishment of large preferential purchase quotas for sugar); it succeeds in improving access for Nicaragua's meat, as well as Costa Rican manioc (through preferential tariff conditions or complete liberalization). Furthermore, CA succeeds in excluding the areas of dairy produce,18 potatoes, onions, rice and pork from negotiation. In the case of biofuels, the region receives preferential access through the elimination of tariffs.

If this set of conditions is achieved, the negotiation can be considered a complete success for the region. It would succeed in strengthening its position as a commercial partner of the EU, becoming much more competitive in relation to its global competitors (for example, Ecuador in bananas and Brazil in sugar) and would be simultaneously defending those products sensitive to European production.

This scenario is highly improbable for a number of reasons. Firstly, it does not include CAFTA parity. That is to say, Europe receives access to the Central American market less favourable than that received by the USA within the CAFTA-DR framework. This is especially cleat in the case of dairy produce, which is extremely difficult given the high competitiveness of the EU in this area.

Secondly, it is based on the fact that the EU would be disposed to allow a generous opening for banana imports to a Latin American country. This is fairly unlikely for two reasons. First, although Costa Rica decided to support Norwegian intervention in the negotiations on the banana tariff, this position was not shared by other countries from the region (Guatemala). This could muddy the waters in terms of the negotiations. Second, because giving highly favourable access to CA could set a bad precedent in terms of the EU's negotiations with other trading blocks such as CAN, which includes Ecuador and Colombia, the first and third largest producers at global level.

Thirdly, although the European and global demand for sugar and biofuels is increasing, any excessive opening of its market to Central American production could set a somewhat uncomfortable precedent in relation to negotiations with MERCOSUR, given that Brazil is globally the most important producer and exporter of both products (sugar and ethanol). In addition, sugar obviously plays an important part of other productive processes in the EU, including in the beetroot market which is cultivated separately, as well as in productive processes with a higher added value that includes sugar refining and its use in other activities, including the pharmaceutical sector.

Fourthly, it is taken for granted that the European meat market can be opened to competition from the likes of Nicaragua. Although Nicaragua's production would be unlikely to 'flood' the European market (only US$ 87 million in exports) and there is a growing demand to import meat, it is very unlikely that, due to the policy of food security and the importance of the cattle farming sector in the EU, this liberalization would take be ceded so easily. Moreover, as in the previous case, it would set an unfavourable precedent in relation to MERCOSUR where meat production, especially Argentinean, is highly competitive.

18 Dairy produce is a highly complicated area within this negotiation. As mentioned earlier, a variety of interests are found in relation to opening up the market to external producers. As a result, a more detailed study is needed of the specific positions and interests of the distinct groups of milk producers in the CA isthmus, as well as their capacities to influence the negotiating group.

VIII. 2. Scenario B (unlikely)

In this scenario, CA succeeds in consolidating its three main offensive objectives, but taking into account the elements that render scenario A improbable. Thus, the isthmus succeeds in ensuring the privileges acquired within the GSP-Plus framework; it gains preferential access in relation to banana and sugar (low tariff levels), even achieving the levels of ACP countries. It obtains liberalization for Costa Rica's manioc production and achieves an acceptable quota in relation to meat. Furthermore, in relation to biofuels, the region acquires a good-sized preferential quota with prices favourable to the sector's development.

In relation to its defensive interests, it fails to exclude dairy produce due to Europe's refusal to accept different treatment from CAFTA but these enter through certain quotas with the definition of safeguards that enable protection of the domestic market from a 'flood' of products and with long-term barrier removal periods; it succeeds in excluding potatoes and onions, as well as pork and rice, from the negotiations since these are sensitive areas for both blocks.[19]

This would be a very good scenario for Central American interests. It would provide access to the European market for products where the region is strongly competitive. It fails to avoid the opening up of the dairy market, but manages to make this liberalization partial and with a relatively long period of barrier removal. Moreover, Costa Rica succeeds in excluding potatoes and onions from negotiations, along with rice.

VIII. 3. Scenario C (probable)

In this scenario, CA obtains a good outcome in terms of its three offensive interests. It manages to consolidate the access received through GSP-Plus; it gains fairly competitive access to the European market in relation to bananas, in the form of quotas, plus a small improvement in relation to sugar (agreeing to an import quota), and achieves a competitive quota for Costa Rican manioc. It succeeds in opening up the European meat market to Nicaragua's production in the form of quotas and the possibility for the EU to apply safeguards. In the case of biofuels, it gains a preferential access quota under conditions similar or equal to the ACP countries; the same does not occur with sugar where Europe protects its interests in terms of negotiations with MERCOSUR.

In relation to its defensive interests, it fails to prevent the opening up of the dairy market and Europe obtains the same access conditions received by US production under CAFTA-DR; the same occurs in the case of pork; potatoes and onions are excluded and rice is left out of the negotiations.

We believe that this is the most plausible scenario, though much depends on the decisions and hidden interests of the Central American negotiating group. As mentioned earlier, the primary interests of the EU, in contrast the those of CA, are not related to the farming sector. This means that if CA wants to improve its conditions in relation to its offensive areas (GSP-Plus, banana and sugar), it will have to make concessions in other sectors more attractive to the Europeans, such as services and telecommunications. In principle, this does not seem unviable given the liberalizing posture of Central America in these areas, its alignment with the NEM and the fact that this outcome was seen in the negotiations for CAFTA-DR.

In relation to bananas and sugar, it seems to us that the negotiations are going to be extremely complex. Although they are two of the central themes for CA, the EU will have to be extremely careful in how it tackles these areas within this EAA, due to the precedent it could set in relation to negotiating agreements with other blocks such as CAN or MERCOSUR. Another element that needs to be taken into account is the outcome of the banana conflict within the context of the WTO.

In relation to dairy produce, it is evident that Europe will not accept anything less than that received by the United States (CAFTA parity) and will therefore demand the opening up of the market. For its part, negotiations over potatoes and onions could also become a sensitive area. The fact that the EU is a fairly competitive producer of these crops makes it a sensitive topic for the Central Americans, whose production is relatively uncompetitive, concentrated in just one country (Costa Rica) and directed towards the internal market.

19 Again this is a highly complex theme to approach. The type of rice produced by each block is different, meaning that technically they are not direct competitors. However, it is clear that the Central American production is exclusively for the domestic market and that the EU, based on its food security policy, will not want to open up its market.

However, the fact that these products are excluded from the CAFTA-DR framework may be a point in favour of the isthmus, which can press for adherence to CAFTA parity in both directions. The same can be expected in the case of white maize, which was the produce excluded by the majority of CA countries.

VIII. 4. CAFTA-Plus Scenario (unlikely)

In this Scenario, CA fails to improve its position in relation to its primary offensive interests. It succeeds in consolidating its GSP-Plus access, but fails to achieve preferential treatment in bananas or sugar, and both manioc production and meat are maintained below the entry conditions in place today.

In relation to its defensive interests, it fails to exclude dairy produce and the Europeans gain an even more favourable access than that received by the USA; the same occurs in the case of pork; it fails to prevent access to the market in potatoes and onions, and the Europeans gain unilateral opening of the Central American rice market.

As in Scenario A, this is very unlikely. The fact that the farming area is the most important dimension for CA in the negotiations makes it likely that the EU will have to make concessions in this area if it wishes to open up other markets (telecommunications, services). If not, why negotiate?

On this point, it must be categorical that *any negotiation that fails to include an improvement for CA in relation to bananas and sugar, as well as consolidation of GSP-Plus, cannot be seen as acceptable to the region.*

Finally, the situation we can deduce concerning biofuels in anticipating the EAA negotiations is that, in the case of ethanol, the EU will offer the conditions needed for CA to supply in the most competitive form to its market, and hence liberalization would be expected. The energy theme in the EU, far from being an agricultural problem, is related to the internal security of the block: it is imperative for it to ensure access to the necessary sources to avoid a relation of dependency on a few sectors, since it would face the same problem it has with hydrocarbons. The European strategy in this area would not only be in favour of CA exportation, but also in supporting the diversification of sources.

VIII. 5. Summary of the scenarios

Below we present a table that looks to summarize the general features of the four described scenarios. In the column for each block, we list the outcomes of the probable conflicts described earlier. Scenario C is placed in a different colour to highlight the fact that we consider it the most probable.

	European Union	Central America
ACP Parity		– Consolidation GSP-Plus – Preferential access to sugar, biofuels and banana (low and competitive tariffs) – Opening of the European market through low tariffs (manioc and meat) – Exclusion from negotiation (rice, potatoes, onions, pork and dairy produce)
Scenario B	– Opening of the dairy market (quotas, long-term quota removal periods, safeguards)	– Consolidation GSP-Plus – Preferential access to sugar and banana (significantly lower tariffs) – Preferential access to biofuels (low tariffs) – Opening of the European market through quotas (manioc and meat) – Exclusion from negotiation (rice, potatoes, onions and pork)
Scenario C	– Opening of the dairy market (CAFTA Parity) – Opening of the pork market (CAFTA Parity)	– Consolidation GSP-Plus – Preferential access to biofuels and bananas (competitive quotas) – Slight improvement in access through quotas (sugar) – Opening up of the European market through quotas (manioc) – Opening up of the beef market through quotas and with safeguards – Exclusion from negotiation (rice, potatoes and onions)
CAFTA-Plus	– GSP-Plus maintained as a unilateral regime – High tariff and non-tariff barriers maintained (sugar and bananas) – Highly controlled opening of the internal biofuels market – Exclusion (manioc and beef) – Opening of the dairy market (CAFTA-Plus) – Opening of the potato and onion market – Opening of the pork market – Unilateral opening of the rice market unilateral	

IX. Final Comments

The present study has looked to show in schematic form the axes of conflict that may appear within the context of the EAA negotiations between Central America and the EU. We started by briefly examining the farming sector of the two blocks and highlighted the main productive and structural asymmetries between them both. While the Central American sector is dominated by traditional agriculture and continues to be one of the region's main employment sources, in the European case we find a highly advanced industry with impressive levels of subsidies for production and with a very weak role within the labour market.

We then studied the commercial interests of both blocks separately and divided these into offensive interests (areas in which they desire to improve or consolidate access) and defensive (areas where they wish to prevent or limit entry).

In the European case, we find that their potential offensive interests centre on cereals, dairy produce, pork, coffee, biofuels and palm oil. The EU's defensive interests, meanwhile, are focused on bananas, sugar and beef. While the list seems extensive, the farming sector is undoubtedly

not the EU's priority within the negotiations, though this does not mean it is not important. Furthermore, negotiations for this agreement are clearly highly sensitive for the EU, since the outcome could set an important precedent for its negotiations with CAN and MERCOSUR.

For Central America, on the other hand, the farming sector forms its priority in terms of the negotiations. The fact that one of the features of the NEM is the promotion of non-traditional exports (primarily agricultural) makes it so. Consequently, the CA isthmus presents three central offensive interests: consolidate the access it already has to the European market through the GSP-Plus within the framework of the EAA, and improve the import conditions for bananas and sugar. In terms of its defensive interests, these centre on the areas of dairy produce, potatoes and onions. Here the list is smaller, but its relative importance is much greater. Hence it is clear that any negotiation in which CA fails to achieve significant advances in relation to its main offensive interests will be a clear failure for the region.

Subsequently, a comparison of these two elements (the interests of each block) allowed us to locate a set of axes of conflict organized in three categories: very probable, probable and unlikely. The first group, very probable, relates to those products which evidently present a conflict of interests or at least complex and turbulent negotiations. Here we can list bananas, sugar and dairy produce. In the case of the second group, the probable conflicts, we find beef, pork and manioc. Meanwhile, in the group of unlikely conflicts we situate coffee, fruit juices, cardamom, peanuts, palm oil, pineapple, melon, oranges, dried beans, palm nuts, maize, rice, onions, potatoes and biofuels. Although the overall list is fairly large, apart from the areas contained in the first group, it is fairly unlikely that these potential conflicts will materialize in the negotiations.

Finally, based on the findings of the previous stages, we proceeded to build a set of four hypothetical scenarios, which aim to show some of the possible outcomes of the EAA negotiations. These scenarios are placed in a continuum spanning from the most favourable possible for Central American interests (ACP Parity) to the most favourable possible for European interests (CAFTA-Plus).

Of these scenarios, we believe that C is closest to the probable outcome of the negotiations. In this scenario, CA obtains a favourable outcome in relation to its three offensive interests. It manages to consolidate the access already received through GSP-Plus; it gains fairly competitive access to the European market in relation to bananas, in the form of quotas, a small improvement in relation to sugar (agreeing to an import quota), and a competitive quota for Costa Rican manioc, but a limited and controlled opening to the EU meat market for Nicaragua's produce. In the case of ethanol, the region obtains a quota for preferential access but with conditions inferior to those of other blocks such as the ACP countries. In relation to its defensive interests, it fails to prevent the opening up of the dairy market and Europe obtains the same access received by US production within the CAFTA-DR framework; the same occurs in the case of pork; potatoes and onions are excluded and rice is left out of the negotiations.

In conclusion, we present below a set of final comments, which look to deepen some of the specific themes covered in the present study:

- The economic association agreement between the EU and CA is not derived from a directly commercial priority for Europe. For the EU, it corresponds to a search for parity with its main trading rivals, especially in areas of strong European investment, as is the case of Latin America, where it has tended to invest in the service, financial and high technology sectors. For CA, on the contrary, the EAA is important since the EU is the second largest economic destination for its exports; hence tightening commercial ties between the blocks is a way of obtaining greater integration with the world through trade.
- The EU has a different trade policy, which is essentially focused on the opening and liberalization of the services market, since this is more in line with the type of economic structure predominant in this continent, primary based on the service sector (77%). In the case of commerce in goods, the focus is distinct: for the EU, farming is important as a means of self-sufficiency and food security. For Europe, there is no clear interest in producing to export; on the contrary, it produces to be self-sufficient. In fact, European global exports that are more competitive result from an internal overproduction that generates vast surpluses, which can be sold easily on external markets. This explains why the most competitive products are usually subject to equally strong tariff barriers. Along the same lines, it is important to note the EU's reluctance to negotiation the issue of farming subsidies in any space other than the WTO, where no advances are observable. Here the EU can be expected to exclude the topic from the negotiating table.

- The current conjuncture of the EU displays a variation in two policies that are essential to agriculture: firstly, the commercial policy designed to open up markets in which the EU's most competitive production is failing to enter, maintaining open channels for the access to goods without which the EU cannot produce (primarily energy resources) and the opening up of service markets. The other is the CAP, where the transformation has primarily occurred through sizeable reductions in the policy's funding, as well as new guidelines for distributing to the funds. The most obvious explanation for this is that with the expansion of the block, leaving the CAP unchanged would have been financially unsustainable; the budgetary reduction was imperative. This explains why the main items affected by the reforms were the products sustained by the access of the ACP, and then all those goods that were not essential to the EU. Much aid was maintained with few returns, especially in goods susceptible to drastic reduction or in accordance with the logic of sustainability describe above. As has been observed, the idea that regulates the logic of the new CAP is ensuring the supply of the internal market, but gradually abandoning its international export capacity.
- The problem of the farming sector seen as a whole, taking into account both blocks, results from the mismatch between weak sectors and strong sectors. This enables the conflicts between products such as bananas, sugar, beef, milk, cheese and pork. In most of the other goods, there is a certain match between the production of both blocks, meaning that the level of conflict in the negotiations should be relatively low.
- On the other hand, the EU requires the opening of some farming sectors, which coincide with sectors that are problematic for certain countries from the region. Here we should recall two situations: first, CA must negotiate as a block, that is, it must have a coordinated position vis-à-vis the EU. Any divergences in sensitive interests, such as milk, will prove problematic. Equally, it must be clear that for the EU, CAFTA parity is the minimum result, meaning that there will be costly conditions for sectors where trade opening is practically inevitable. This is the situation faced by milk and pork.
- Given that the agricultural production models are diametrically different (the EU's strongly structured in the basis of subsidies and production incentives, the CA's lacking incentives and support towards production), it is very difficult to speak of conditions of fair competition between the agricultural producers of the two blocks, principally because the production costs raise the market prices for the Central American products entering Europe.
- Finally, although the agricultural sector is not necessarily the most directly affected by the EAA, it is important to recall that this trade agreement fits into the logic of the NEM and the poverty-generating development model that has been sweeping the Central American region and which has been highly damaging to rural zones and especially for small rural producers and workers.

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XI. Annexes

XI. 1. Methodological and conceptual annex

Map of conflicts for trade negotiations at international level

In producing the present document, a series of methodological and conceptual approaches were undertaken. These are worth reviewing and explaining in order to understand the results obtained in the form of tables and other tools from which important conclusions are inferred. First of all, the use of the concept of *offensive interests* and *defensive interests* was conceived through the use of a simple model for detecting the conflicts that could surface during the negotiations.

This methodological proposal is based on the supposition that within the context of a trade negotiation, the countries, or blocks of countries, involved possess a set of goods

and services whose conditions they wish to improve or maintain (important or offensive) and a list of products they wish to limit or exclude (sensitive or defensive).

As a result, in cases where a product or service important to one of the parties is the same as one seen to be sensitive by the other, the chances of a conflict erupting are likely to be higher. Evidently in those cases involving goods and/or services that are sensitive to both parties, there will be no conflict; while if two important products are involved, there is also the possibility of conflict since the situation places direct competitors in the same market. Hence by defining goods and services as important or sensitive, we can locate these points or elements of a potential conflict.

Defining the characteristics that determine whether a product or service is important or sensitive is highly complex and corresponds to a large number of variables. An initial guide to indicators can be found in the following table.

Table. Characteristics of sensitive and important goods within the model for mapping conflicts in trade negotiations at international level.

Sensitive goods	Important goods
Traditional product. Job support for a significant number of inhabitants. Low level of competitiveness on the international market. Product of strategic importance (food security perspective, for example). Politically influential productive block. Central product in cultural terms. Subject to significant protectionist policies. Commitments to market defence to third countries.	Considerable weight in the gross domestic product. High level of exports. High level of international competitiveness. Central product in terms of the development of the block in question. Politically influential productive block.

Management of statistical data

As may be observed, the present document had to make use of a large quantity of statistical data with the aim of determining levels of importance for the economy, competitiveness and comparative advantages, as well as identifying the tariff rates imposed. For this document, two databases on foreign trade were compiled. The first served as a general map of the exports and the main products in the exchange between the two blocks. The second was built from a selection of products identified as important and sensitive for Central America, in part derived from the matrix described previously.

The second database included, among other things, the exports and imports of goods globally and between the blocks for a period of four years (2003-2006), the percentage of both commercial flows within the country's total for each year of the period, performance levels (growth or reduction) of trade, the measurement of the comparative advantages revealed index for each product, and the tariffs on importation established by the EU and CA in relation to these products.

In order to build this table, the value of exports and imports for tariff lines – that is to say, making use of the customs codes of the EU and Central America, both of which use the Harmonized Commodity Description and Coding System (HS). Four digit headings are used to compile the table; when a further break down is necessary to explain the specific situation of some subproducts, six digit subheadings are used. The following table exemplifies this system taking as an example the exportation of Coffee from Central America to international markets in 2006. It should be pointed out that this form of information management was used as it helped its comparison with import tariffs of other blocks, which are adjusted not to the product but to the tariff line in question.

Table 8. Functioning of headings and subheadings in the HS

Section	Chapter (2 digits)	Heading (4 digits)	Subheading (6 digits)	Amount (in US$)
II. Vegetable Products	09 Coffee, tea, maté and spices	0901 Coffee, whether or not roasted or decaffeinated, coffee husks and skins, coffee substitutes containing coffee in any proportion.	TOTAL HEADING 0901	1.475.437.772
			090111 Coffee, not roasted and not decaffeinated	1.470.246.178
			090112 Coffee, not roasted and decaffeinated	288
			090121 Coffee, roasted and not decaffeinated	4.570.636
			090122 Coffee, roasted and decaffeinated	100.071
			090190 Other	520.599

Data which was particularly useful in the subsequent comparisons of products and defining the conflicts, including the importance or competitiveness of one sector in comparison with another, was the revealed comparative advantage index (RCAI). The RCAI enables comparison of the relative importance of an exported and imported product for a country or region to a particular destination, within the exports of the same product made by a group of countries, with the relative importance possessed by the supply of products from the same group or economic sector within the total exportable supply of the group of countries under analysis. The formula used is presented below:

$$RCAI = VCE - VCI$$

$$VEC = \frac{\frac{PE}{SE}}{\frac{SE}{TE}}$$

PE: product exports

SE: sector exports

TE: total exports

The RCAI results in decimals with a value lower than 1 but higher than -1; values closer to 1 indicate a higher comparative advantage for the product, or a less comparative advantage when the value is closer to -1. Again in the case of coffee, the EU has an RCAI of -0.579 compared to 0.461 for Central America, which signifies that CA has a higher comparative advantage. However, examined in more detail, the EU has a comparative advantage in 'processed' coffees (roasted and/or decaffeinated) since it shows indices of around 0.050. In CA, the advantage is limited to 'unprocessed' coffee, since it has a lower RCA with the other types of coffees.

XI. 2. Statistical annex

Annex 1. Main agroindustrial exports of Central America and the Central American countries to the rest of the world. 2006.

	Central America		Costa Rica		El Salvador		
	Product	Amount	Product	Amount	Product	Amount	
1	Coffee	1,475.2	Banana	645.1	Coffee	188.8	
2	Banana	1,021.4	Pineapple	434.6	Ethylic alcohol	157.3	
3	Sugarcane	503.7	Coffee	230.3	Sugarcane	71.7	
4	Pineapple	461.4	Living plants	184.5	Cereal-based products	53.9	
5	Living plants	231.9	Other food preps.	157.2	Bakery products	52.0	
6	Ethylic alcohol	202.6	Fruit juices	98.7	Fruit juices	26.6	
7	Other food preps.	187.8	Melon	84.6	Cereal flours	22.5	
8	Beef	181.2	Palm oil	48.9	Other food preps.	15.0	
9	Palm oil	170.4	Sugarcane	45.9	Confectionary	12.6	
10	Fruit juices	161.4	Jams, jellies and fruit purées	40.5	Molasses	10.3	
11	Bakery products	148.7	Conserved fruits	36.8	Animal rations	8.7	
12	Melon	122.3	Sauce preparations	34.7	Margarine	6.6	
13	Cigars and cigarettes	91.3	Bakery products	34.6	Plant and animal fats	5.3	
14	Cereal-based products	90.1	Manioc	34.4	Dried beans	5.2	
15	Cardamom	83.5	Beef	30.3	Malt beer	4.6	

SOURCE: EXTRAPOLATION BASED ON SIECA 2007A

	Guatemala		Honduras		Nicaragua	
	Product	**Amount**	**Product**	**Amount**	**Product**	**Amount**
	Coffee	464.2	Coffee	390.1	Coffee	201.8
	Sugarcane	298.5	Banana	131.5	Beef	146.9
	Banana	233.0	Palm oil	66.2	Sugarcane	58.4
	Cardamom	83.4	Cigars and cigarettes	64.4	Peanuts	42.2
	Palm oil	54.0	Melon	32.6	Livestock	39.1
	Bakery products	43.0	Sugarcane	29.3	Dried beans	35.6
	Living plants	37.1	Palm nut	21.0	Cheese	33.4
	Molasses	35.6	Fruit juices	13.4	Concentrated milk	20.6
	Cereal-based products	30.7	Raw tobacco	12.3	Extracts and essences of coffee, tea and maté	13.1
	Ethylic alcohol	30.5	Bakery products	11.2	Cigars and cigarettes	12.4
	Soup preparations	25.2	Animal rations	7.4	Banana	11.6
	Fruit juices	22.5	Cucumber	7.3	Peanut oil	8.7
	Sesame seeds	16.2	Living plants	5.9	Ethylic alcohol	8.5
	Peas	15.4	Fresh tomato	5.9	Raw tobacco	7,8
	Animal rations	15.2	Conserved vegetables	5.3	Bakery products	7.6

Annex 2. Main agroindustrial exports of Central America and the Central American countries to the European Union. 2006

	Central America		Costa Rica		El Salvador		
	Product	**Amount**	**Product**	**Amount**	**Product**	**Amount**	
1	Coffee	700.3	Banana	300.4	Coffee	96.0	
2	Banana	317.1	Pineapple	215.5	Living plants	2.9	
3	Pineapple	228.1	Melon	30.0	Natural honey	2.0	
4	Living plants	109.1	Watermelon	5.6	Ethylic alcohol	2.0	
5	Fruit juices	51.0	Jams, jellies and fruit purées	21.8	Sugarcane	1.1	
6	Ethylic alcohol	34.5	Conserved fruits	21.7	Cotton	0.2	
7	Melon	33.7	Fruit juices	49.9	Sesame seeds	0.1	
8	Conserved fruits	21.8	Living plants	85.3			
9	Jams, jellies and fruit purées	21.8	Coffee	79.7			

SOURCE: EXTRAPOLATION BASED ON SIECA 2007A.

	Guatemala		Honduras		Nicaragua	
	Product	**Amount**	**Product**	**Amount**	**Product**	**Amount**
	Coffee	144.2	Coffee	278.1	Coffee	101.5
	Ethylic alcohol	20.1	Pineapple	12.2	Peanuts	10.7
	Living plants	14.1	Banana	5.1	Sugarcane	3.9
	Banana	11.4	Living plants	5.1	Ethylic alcohol	1.9
	Raw tobacco	8.3	Melon	3.3	Sesame seeds	1.2
	Sesame seeds	3.8	Grapefruit	2.7	Living plants	1.0
	Extracts and essences	3.0	Cigars	1.7	Tobacco	0.9
	Peas	2.5	Fruit juices	1.0	Natural honey	0.5
	Molasses	2.2	Molasses	1.0	Whole cacao	0.2

Annex 3. Main exports of African, Caribbean and Pacific countries to the European Union. 2005

Africa, Caribbean and Pacific (ACP)					
	Product	**Absolute value (million)**	**Relative value of total ACP exports (percentage)**	**Relative value of total EU imports (percentage)**	**Metric tons**
1	Petroleum and derived oils	11,492.0	31.9%	7.0%	35,702,879
2	Diamonds	3,934.8	10.9%	24.4%	11
3	Large ships	1,945.6	5.4%	26.8%	2,039,034
4	Raw cacao	1,764.9	4.9%	95.8%	1,355,960
5	Natural gas and derivatives	1,348.9	3.7%	3.9%	6,141,971
6	Unrefined aluminium	976.4	2.7%	14.6%	629,352
7	Airplanes and helicopters	943.4	2.7%	4.1%	2,403
8	Sugarcane or molasses	856.7	2.4%	71.2%	1,613,883
9	Sawn timber	667.2	1.9%	17.8%	951,871
10	Coffee, roasted or not roasted	629.1	1.7%	17.1%	450,112
11	Prepared or preserved fish	517.1	1.4%	30.4%	215,506
12	Banana	503.9	1.4%	20.4%	765,136
13	Yachts and other boats	482.3	1.3%	14.0%	20,227
14	Fish fillets	412.1	1.1%	12.6%	120,219
15	Crustaceans	364.7	1.0%	15.3%	45,646
ACP-Africa					
1	Petroleum and derived oils	11,479.4	37.0%	7.0%	35,658,002
2	Diamonds	3,914.8	12.6%	24.3%	11
3	Raw cacao	1,728.6	5.6%	93.8%	1,312,306
4	Natural gas and derivatives	1,243.5	4.0%	3.6%	5,361,030
5	Unrefined aluminium	975.8	3.1%	14.6%	629,014
6	Sawn timber	659.7	2.1%	17.6%	936,339
7	Airplanes and helicopters	602.2	1.9%	2.6%	1,376
8	Large ships	578.1	1.9%	7.9%	511,129

Africa, Caribbean and Pacific (ACP)					
	Product	**Absolute value (million)**	**Relative value of total ACP exports (percentage)**	**Relative value of total EU imports (percentage)**	**Metric tons**
9	Coffee, roasted or not roasted	562.7	1.8%	15.3%	413,851
10	Sugarcane or molasses	555.6	1.8%	46.2%	1,035,836
ACP-Caribbean					
1	Large ships	772.2	20.4%	10.6%	446,848
2	Yachts and other boats	352.1	9.3%	10.2%	16,086
3	Aluminium oxide	346.9	9.2%	59.3%	1,658,080
4	Airplanes and helicopters	341.2	9.0%	1.5%	1,027
5	Alcohol below 80% volume (rum)	281.9	7.4%	30.9%	48,641
6	Petroleum and derived oils	245.9	6.5%	0.7%	687,523
7	Sugarcane or molasses	210.6	5.6%	17.5%	400,130
8	Banana	186.0	4.9%	7.6%	323,167
9	Iron alloys	108.0	2.9%	2.2%	23,299
10	Natural gas and derivatives	105.3	2.8%	0.3%	780,914
ACP-Pacific					
1	Large ships	598.2	48.0%	8.2%	1,081,056
2	Palm oil and fractions	136.4	11.0%	9.8%	379,300
3	Yachts and other boats	116.9	9.4%	3.4%	3,425
4	Sugarcane or molasses	90.4	7.3%	7.5%	177,917
5	Copper	75.1	6.0%	3.9%	99,200
6	Coconut oil	58.8	4.7%	8.3%	109,796
7	Coffee, roasted or not roasted	57.9	4.7%	1.6%	32,892
8	Prepared or preserved fish	45.2	3.6%	2.7%	20,465
9	Raw cacao	18.7	1.5%	1.0%	12,809
10	Copra (dried coconut flesh)	11.6	0.9%	90.0%	41,999

SOURCE: CE 2007A.

Annex 3. Central America: basket of products for study, with export dates, annual growth rate, average and percentage value. 2003-2006

PRODUCTS	2003	P-AGR	2004	P-AGR	2005
Maize	48.8	0.1%	100.8	0.2%	94.2
Seed maize	35.9	0.1%	79.4	0.1%	77.5
Other (white, yellow and others)	12.8	0.0%	21.4	0.0%	16.7
Palm nut	42.5	0.1%	70.2	0.1%	203.7
Dried beans	256.5	0.5%	253.3	0.5%	355.1
Beans (green, kidney) vigna mung	6.8	0.0%	3.5	0.0%	0.6
Adzuki bean	148.2	0.3%	137.2	0.3%	271.6
Phaseolus bean	101.6	0.2%	112.6	0.2%	82.9
Other beans	0.7	0.0%	0.1	0.0%	0.4
Rice	20.0	0.0%	24.3	0.0%	23.1
Paddy rice	3.1	0.0%	9.1	0.0%	4.6
Flaked rice (cargo or brown)	0.9	0.0%	1.3	0.0%	0.7
Semi-white or white rice	8.7	0.0%	8.1	0.0%	10.2
Split rice	7.3	0.0%	5.7	0.0%	7.7
Orange	31.4	0.1%	23.9	0.0%	24.5
Grapefruit	18.6	0.0%	24.3	0.0%	16.3
Potato	31.3	0.1%	29.3	0.1%	69.1
Seed potato	0.1	0.0%	0.0	0.0%	0.0
Other potatoes	31.2	0.1%	29.3	0.1%	69.1
Sorghum	4.4	0.0%	8.2	0.0%	9.6
Coffee	8,687.4	17.8%	10,358.8	19.0%	13,176.0
Not roasted, not decaffeinated	8,660.9	17.7%	10,327.3	18.9%	13,135.2
Not roasted, decaffeinated	0.0	0.0%	0.0	0.0%	0.0
Roasted, not decaffeinated	24.0	0.0%	26.7	0.0%	35.9
Roasted, decaffeinated	0.1	0.0%	0.1	0.0%	0.0
Others (instantaneous etc.)	2.4	0.0%	4.7	0.0%	4.8
Banana	9,239.0	18.9%	9,583.9	17.6%	8,998.0
Pineapple	2,174.0	4.4%	2,855.6	5.2%	3,534.1
Sugar	3,181.5	6.5%	3,208.8	5.9%	4,201.7
Raw cane	2,962.2	6.1%	2,950.2	5.4%	3,827.6
With flavouring	0.1	0.0%	0.0	0.0%	0.0
Others (sugar)	219.1	0.4%	258.6	0.5%	374.0
Melon	1,011.9	2.1%	1,080.1	2.0%	1,086.8
Palm oil	1,345.6	2.8%	1,823.5	3.3%	1,672.6
Raw palm oil	966.8	2.0%	1,250.8	2.3%	1,316.9
Others (palm oil)	378.9	0.8%	572.7	1.0%	355.6
Living plants, foliage and flowers	1,955.1	4.0%	2,058.0	3.8%	2,134.8
Bulbs, tubers and roots	1.1	0.0%	2.7	0.0%	1.3

	P-AGR	2006	P-AGR	PROM	2003-04	2004-05	2005-06	2006-07
	0.2%	49.0	0.1%	73.18	107%	-6.57%	-47.96%	50.02%
	0.1%	41.1	0.1%	58.47	121%	-2.42%	-46.92%	62.74%
	0.0%	7.9	0.0%	14.71	67%	-21.98%	-52.80%	14.47%
	0.3%	271.2	0.4%	146.91	65%	190.07%	33.14%	245.84%
	0.6%	441.9	0.6%	326.70	-1%	40.18%	24.44%	27.36%
	0.0%	1.2	0.0%	3.02	-48%	-83.28%	107.14%	-55.20%
	0.4%	361.0	0.5%	229.48	-7%	97.96%	32.92%	54.89%
	0.1%	79.7	0.1%	94.20	11%	-26.35%	-3.94%	-7.30%
	0.0%	0.1	0.0%	0.32	-86%	263.99%	-63.35%	-53.44%
	0.0%	28.9	0.0%	24.08	21%	-4.68%	25.22%	20.42%
	0.0%	2.0	0.0%	4.69	196%	-49.38%	-56.77%	52.78%
	0.0%	0.4	0.0%	0.83	46%	-49.59%	-43.06%	-9.82%
	0.0%	14.5	0.0%	10.38	-7%	25.46%	42.99%	19.00%
	0.0%	12.0	0.0%	8.18	-21%	34.24%	56.86%	12.30%
	0.0%	11.2	0.0%	22.74	-24%	2.74%	-54.36%	-27.59%
	0.0%	28.0	0.0%	21.83	31%	-32.88%	71.61%	17.40%
	0.1%	57.5	0.1%	46.81	-6%	136.00%	-16.85%	49.58%
	0.0%	0.0	0.0%	0.03	-94%	-39.08%	59.09%	-70.83%
	0.1%	57.5	0.1%	46.78	-6%	136.04%	-16.86%	49.97%
	0.0%	3.4	0.0%	6.41	84%	17.92%	-64.13%	44.91%
	21.2%	14,754.4	20.7%	11,744.15	19%	27.20%	11.98%	35.19%
	21.1%	14,702.5	20.6%	11,706.46	19%	27.19%	11.93%	35.16%
	0.0%	0.0	0.0%	0.00	-100%	N/A	-56.50%	19.25%
	0.1%	45.7	0.1%	33.07	11%	34.58%	27.34%	37.80%
	0.0%	1.0	0.0%	0.33	-5%	-69.68%	2438.58%	138.62%
	0.0%	5.2	0.0%	4.29	97%	1.49%	8.19%	78.24%
	14.5%	10,213.8	14.3%	9,508.66	4%	-6.11%	13.51%	2.92%
	5.7%	4,613.5	6.5%	3,294.28	31%	23.76%	30.54%	51.53%
	6.8%	5,038.0	7.1%	3,907.48	1%	30.94%	19.90%	22.82%
	6.2%	4,912.2	6.9%	3,663.04	0%	29.74%	28.34%	23.66%
	0.0%	0.0	0.0%	0.05	-85%	-14.91%	93.38%	-61.70%
	0.6%	125.7	0.2%	244.38	18%	44.63%	-66.38%	11.52%
	1.7%	1,223.2	1.7%	1,100.50	7%	0.63%	12.55%	8.76%
	2.7%	1,704.1	2.4%	1,636.44	36%	-8.28%	1.88%	21.61%
	2.1%	1,288.5	1.8%	1,205.74	29%	5.29%	-2.16%	24.72%
	0.6%	415.6	0.6%	430.70	51%	-37.90%	16.86%	13.69%
	3.4%	2,319.7	3.3%	2,116.91	5%	3.73%	8.67%	8.28%
	0.0%	3.2	0.0%	2.08	157%	-50.49%	140.73%	97.64%

PRODUCTS	2003	P-AGR	2004	P-AGR	2005	
Other living plants	910.0	1.9%	942.6	1.7%	912.4	
Flowers and buds	331.9	0.7%	330.9	0.6%	375.4	
Foliage, leaves and branches	712.1	1.5%	781.8	1.4%	845.7	
Manioc	258.8	0.5%	353.5	0.6%	441.9	
Peanut	285.4	0.6%	398.3	0.7%	436.1	
Peanut with husk	1.3	0.0%	1.9	0.0%	3.1	
Without husk, including cracked	284.1	0.6%	396.3	0.7%	433.0	
Cardamom	793.9	1.6%	742.0	1.4%	702.6	
Fruit juices	896.0	1.8%	1,076.3	2.0%	1,226.4	
Frozen orange juice	3.1	0.0%	3.0	0.0%	5.2	
Tomato juice	8.2	0.0%	11.8	0.0%	9.0	
Apple juice	12.2	0.0%	0.4	0.0%	0.1	
Other fruit or vegetable juice	239.4	0.5%	273.2	0.5%	322.0	
Mixed juices	12.7	0.0%	32.7	0.1%	38.4	
Unconcentrated milk	113.9	0.2%	133.5	0.2%	151.7	
With fat content less than 1%	31.8	0.1%	34.5	0.1%	34.7	
With fat content between 1% and 6%	78.4	0.2%	95.7	0.2%	113.4	
With fat content higher than 6%	3.8	0.0%	3.3	0.0%	3.6	
Concentrated milk	179.5	0.4%	231.2	0.4%	183.8	
Powdered milk, fat 1.5% or less	19.2	0.0%	17.1	0.0%	18.9	
Powdered milk, fat over 1.5% without added sugar	145.0	0.3%	176.9	0.3%	127.1	
Powdered milk, fat over 1.5% others	6.9	0.0%	23.5	0.0%	10.2	
Others, with sugar (cream and evaporated)	7.6	0.0%	11.9	0.0%	23.1	
Others (condensed)	0.8	0.0%	1.7	0.0%	4.5	
Cheese and cottage cheese	275.7	0.6%	304.9	0.6%	334.4	
Fresh cheese	29.4	0.1%	26.0	0.0%	23.6	
Grated or powdered cheese	22.1	0.0%	19.2	0.0%	21.5	
Processed cheese	99.3	0.2%	91.7	0.2%	100.1	
Blue cheese	0.0	0.0%	0.0	0.0%	0.0	
Other cheeses (fine cheeses)	124.9	0.3%	168.0	0.3%	188.4	
Beef	1,138.9	2.3%	1,436.1	2.6%	1,559.0	
Fresh or refrigerated	611.5	1.3%	768.7	1.4%	834.1	
Frozen	527.4	1.1%	667.5	1.2%	724.8	
Pork	3.1	0.0%	43.6	0.1%	76.0	
Poultry	15.1	0.0%	56.0	0.1%	99.2	
Onions	39.0	0.1%	39.1	0.1%	35.0	
TOTAL PRODUCTS	32,047.2	65.5%	36,317.4	66.6%	40,845.7	
TOTAL AGRICULTURE	48,894.2	100.0%	54,544.5	100.0%	62,204.0	
TOTAL EXPORTED	116,182.0		126,936.0		144,107.5	

SOURCE: EXTRAPOLATION BASED ON SIECA 2007A.

	P-AGR	2006	P-AGR	PROM	2003-04	2004-05	2005-06	2006-07
	1.5%	1,009.2	1.4%	943.54	4%	-3.21%	10.61%	3.69%
	0.6%	436.4	0.6%	368.67	0%	13.42%	16.27%	11.07%
	1.4%	870.9	1.2%	802.63	10%	8.17%	2.98%	12.71%
	0.7%	355.9	0.5%	352.53	37%	25.00%	-19.45%	36.23%
	0.7%	426.0	0.6%	386.46	40%	9.52%	-2.32%	35.39%
	0.0%	1.4	0.0%	1.95	45%	63.45%	-54.23%	47.79%
	0.7%	424.6	0.6%	384.51	39%	9.25%	-1.95%	35.33%
	1.1%	834.4	1.2%	768.23	-7%	-5.31%	18.76%	-3.23%
	2.0%	1,614.3	2.3%	1,203.24	20%	13.94%	31.64%	34.29%
	0.0%	12.9	0.0%	6.02	-3%	75.04%	148.51%	97.05%
	0.0%	10.3	0.0%	9.82	44%	-23.47%	14.67%	19.97%
	0.0%	0.2	0.0%	3.22	-97%	-82.52%	224.39%	-73.70%
	0.5%	403.4	0.6%	309.49	14%	17.86%	25.30%	29.29%
	0.1%	55.2	0.1%	34.73	158%	17.35%	43.92%	174.18%
	0.2%	146.3	0.2%	136.34	17%	13.69%	-3.62%	19.70%
	0.1%	39.9	0.1%	35.21	9%	0.70%	14.89%	10.83%
	0.2%	99.8	0.1%	96.80	22%	18.51%	-12.02%	23.50%
	0.0%	6.6	0.0%	4.33	-11%	9.50%	81.56%	15.49%
	0.3%	363.8	0.5%	239.57	29%	-20.50%	97.96%	33.46%
	0.0%	15.1	0.0%	17.56	-11%	10.35%	-20.31%	-8.37%
	0.2%	309.7	0.4%	189.69	22%	-28.18%	143.70%	30.78%
	0.0%	12.4	0.0%	13.24	243%	-56.66%	21.03%	92.96%
	0.0%	22.3	0.0%	16.21	57%	94.49%	-3.58%	113.78%
	0.0%	4.4	0.0%	2.87	99%	167.24%	-1.14%	239.08%
	0.5%	483.4	0.7%	349.59	11%	9.68%	44.55%	26.80%
	0.0%	38.2	0.1%	29.28	-11%	-9.41%	62.04%	-0.24%
	0.0%	11.9	0.0%	18.68	-13%	12.29%	-44.75%	-15.59%
	0.2%	136.3	0.2%	106.86	-8%	9.12%	36.23%	7.60%
	0.0%	0.0	0.0%	0.01	N/A	-100.00%	N/A	N/A
	0.3%	296.9	0.4%	194.55	34%	12.18%	57.59%	55.77%
	2.5%	1,811.6	2.5%	1,486.38	26%	8.55%	16.20%	30.52%
	1.3%	1,027.4	1.4%	810.43	26%	8.52%	23.17%	32.53%
	1.2%	784.2	1.1%	675.95	27%	8.59%	8.19%	28.18%
	0.1%	92.1	0.1%	53.71	1303%	74.48%	21.12%	1628.84%
	0.2%	66.3	0.1%	59.14	270%	77.15%	-33.19%	290.39%
	0.1%	49.1	0.1%	40.55	0%	-10.56%	40.17%	4.05%
	65.7%	47,001.0	66.0%	39,052.81	13%	12.47%	15.07%	21.86%
	100.0%	71,229.8	100.0%	59,218.12	12%	14.04%	14.51%	21.11%
		165,281.5						

Annex 4. European Union: basket of products for study with export dates, annual growth rate, average and percentage value. 2003-2006

PRODUCTS	2003	P-AGR	2004	P-AGR	2005	
Maize	1,218.9	0.22%	1,317.2	0.24%	1,077.3	
Seed maize	491.9	0.09%	553.8	0.10%	492.1	
Other (white, yellow and others)	727.0	0.13%	763.4	0.14%	585.2	
Palm nut	16.7	0.00%	20.3	0.00%	24.6	
Dried beans	134.7	0.02%	122.4	0.02%	142.0	
Beans (green, kidney) vigna mung	13.6	0.00%	19.8	0.00%	11.6	
Adzuki bean	2.0	0.00%	1.7	0.00%	117.1	
Phaseolus bean	119.2	0.02%	100.9	0.02%	13.3	
Other beans	16.4	0.00%	10.5	0.00%	3.7	
Rice	983.0	0.18%	897.2	0.16%	968.0	
Paddy rice	1.0	0.00%	15.3	0.00%	13.9	
Flaked rice (cargo or brown)	43.4	0.01%	49.8	0.01%	67.8	
Semi-white or white rice	934.2	0.17%	827.8	0.15%	879.9	
Split rice	4.4	0.00%	4.2	0.00%	6.4	
Orange	990.4	0.18%	909.1	0.17%	923.4	
Grapefruit	66.9	0.01%	77.3	0.01%	92.0	
Potato	2,735.0	0.50%	2,485.4	0.45%	2,051.0	
Seed potato	1,658.0	0.31%	1,722.0	0.31%	1,252.6	
Other potatoes	1,077.0	0.20%	763.4	0.14%	798.4	
Sorghum	10.1	0.00%	2.2	0.00%	26.6	
Coffee	3,905.9	0.72%	4,416.7	0.81%	5,187.9	
Not roasted, not decaffeinated	218.3	0.04%	333.5	0.06%	364.6	
Not roasted, decaffeinated	1,457.6	0.27%	1,593.4	0.29%	1,902.5	
Roasted, not decaffeinated	2,063.5	0.38%	2,279.8	0.42%	2,723.8	
Roasted, decaffeinated	131.8	0.02%	179.8	0.03%	170.9	
Others (instantaneous etc.)	34.7	0.01%	30.2	0.01%	26.1	
Banana	99.4	0.02%	88.9	0.02%	59.6	
Pineapple	117.5	0.02%	124.6	0.02%	184.7	
Sugar	9,481.5	1.74%	7,821.2	1.43%	13,878.4	
Raw cane	28.3	0.01%	33.6	0.01%	35.8	
Molasses	18.5	0.00%	17.2	0.00%	6.3	
With flavouring	45.7	0.01%	58.1	0.01%	60.9	
Others (sugar)	9,389.0	1.73%	7,712.3	1.41%	13,775.3	
Melon	304.3	0.06%	249.9	0.05%	276.3	
Palm oil	313.4	0.06%	378.1	0.07%	571.0	
Living plants, foliage and flowers	12,771.9	2.35%	12,508.0	2.28%	13,531.7	
Bulbs, tubers and roots	3,818.2	0.70%	3,546.3	0.65%	3,984.2	
Other living plants	4,621.5	0.85%	4,781.2	0.87%	5,305.7	
Flowers and buds	3,846.5	0.71%	3,683.0	0.67%	3,708.7	
Foliage, leaves and branches	485.7	0.09%	497.6	0.09%	533.1	

	P-AGR	2006	P-AGR	PROM	2003-04	2004-05	2005-06	2006-07
	0.18%	962.6	0.1%	1,143.98	8.07%	-18.21%	-10.65%	-6.14%
	0.08%	679.2	0.10%	554.25	12.58%	-11.13%	38.00%	12.68%
	0.10%	283.4	0.04%	589.73	5.01%	-23.34%	-51.57%	-18.88%
	0.00%	37.4	0.01%	24.75	21.28%	21.23%	52.40%	48.09%
	0.02%	114.5	0.02%	128.41	-9.14%	16.00%	-19.36%	-4.69%
	0.00%	9.3	0.00%	13.56	46.22%	-41.59%	-19.57%	0.08%
	0.02%	0.6	0.00%	30.37	-13.08%	6707.77%	-99.45%	1434.27%
	0.00%	104.5	0.02%	84.48	-15.36%	-86.82%	686.59%	-29.13%
	0.00%	43.7	0.01%	18.55	-36.18%	-65.08%	1095.08%	13.12%
	0.16%	850.5	0.13%	924.66	-8.73%	7.89%	-12.14%	-5.94%
	0.00%	14.6	0.00%	11.18	1466.34%	-9.64%	5.04%	1042.07%
	0.01%	64.2	0.01%	56.30	14.83%	36.16%	-5.39%	29.78%
	0.15%	760.4	0.11%	850.58	-11.39%	6.29%	-13.57%	-8.95%
	0.00%	11.3	0.00%	6.59	-4.62%	51.41%	76.46%	48.65%
	0.16%	1,078.4	0.16%	975.32	-8.21%	1.58%	16.78%	-1.52%
	0.02%	83.7	0.01%	79.96	15.54%	19.11%	-9.09%	19.56%
	0.34%	3,137.2	0.47%	2,602.17	-9.13%	-17.48%	52.96%	-4.86%
	0.21%	1,995.6	0.30%	1,657.06	3.86%	-27.26%	59.32%	-0.06%
	0.13%	1,141.6	0.17%	945.11	-29.12%	4.59%	42.97%	-12.25%
	0.00%	6.0	0.00%	11.20	-78.51%	1128.28%	-77.51%	11.22%
	0.87%	5,916.2	0.88%	4,856.69	13.08%	17.46%	14.04%	24.34%
	0.06%	361.5	0.05%	319.50	52.75%	9.34%	-0.86%	46.34%
	0.32%	2,116.5	0.31%	1,767.48	9.32%	19.40%	11.25%	21.26%
	0.46%	3,202.5	0.48%	2,567.39	10.48%	19.48%	17.58%	24.42%
	0.03%	197.4	0.03%	169.99	36.39%	-4.94%	15.45%	28.93%
	0.00%	38.4	0.01%	32.33	-12.92%	-13.50%	46.94%	-6.73%
	0.01%	86.0	0.01%	83.49	-10.56%	-32.92%	44.17%	-16.02%
	0.03%	263.4	0.04%	172.56	6.02%	48.25%	42.57%	46.82%
	2.33%	19,650.2	2.92%	12,707.81	-17.51%	77.45%	41.59%	34.03%
	0.01%	41.9	0.01%	34.93	18.85%	6.56%	17.05%	23.43%
	0.00%	46.3	0.01%	22.08	-7.32%	-63.07%	629.86%	19.18%
	0.01%	85.5	0.01%	62.54	27.24%	4.80%	40.31%	36.92%
	2.31%	19,476.5	2.89%	12,588.27	-17.86%	78.61%	41.39%	34.07%
	0.05%	315.6	0.05%	286.52	-17.89%	10.59%	14.22%	-5.84%
	0.10%	693.5	0.10%	488.99	20.65%	50.99%	21.46%	56.03%
	2.27%	15,592.7	2.32%	13,601.10	-2.07%	8.18%	15.23%	6.49%
	0.67%	4,751.6	0.71%	4,025.09	-7.12%	12.35%	19.26%	5.42%
	0.89%	5,908.6	0.88%	5,154.24	3.45%	10.97%	11.36%	11.53%
	0.62%	4,329.3	0.64%	3,891.87	-4.25%	0.70%	16.73%	1.18%
	0.09%	603.3	0.09%	529.90	2.45%	7.15%	13.16%	9.11%

PRODUCTS	2003	P-AGR	2004	P-AGR	2005	
Manioc	4.9	0.00%	3.5	0.00%	3.7	
Peanut	38.3	0.01%	48.6	0.01%	47.5	
Peanut with husk	7.5	0.00%	9.4	0.00%	6.7	
Without husk, including cracked	30.8	0.01%	39.1	0.01%	40.9	
Cardamom	5.9	0.00%	3.8	0.00%	3.7	
Fruit juices	3,567.3	0.66%	3,588.5	0.65%	3,847.1	
Frozen orange juice	131.6	0.02%	126.3	0.02%	115.9	
	158.5	0.03%	153.4	0.03%	160.5	
Other orange juices (concentrated)	158.0	0.03%	143.5	0.03%	201.2	
Grapefruit juice	48.8	0.01%	37.6	0.01%	60.8	
Citrus juices	189.4	0.03%	196.0	0.04%	214.0	
Pineapple juice	112.2	0.02%	145.9	0.03%	146.3	
Tomato juice	38.8	0.01%	36.0	0.01%	31.8	
Grape juice	382.3	0.07%	422.8	0.08%	547.3	
Apple juice	788.4	0.15%	845.0	0.15%	668.5	
Other fruit or vegetable juice	853.0	0.16%	865.9	0.16%	985.1	
Mixed juices	706.2	0.13%	616.0	0.11%	715.7	
Unconcentrated milk	1,887.1	0.35%	1,814.1	0.33%	4,578.8	
With fat content less than 1%	48.6	0.01%	48.9	0.01%	55.4	
With fat content between 1% and 6%	770.9	0.14%	722.5	0.13%	1,102.7	
With fat content higher than 6%	1,067.6	0.20%	1,042.8	0.19%	3,420.6	
Concentrated milk	18,089.4	3.33%	17,530.6	3.20%	16,564.2	
Powdered milk, fat 1.5% or less	4,954.6	0.91%	4,482.8	0.82%	3,420.6	
Powdered milk, fat over 1.5% without added sugar	9,967.3	1.83%	10,585.3	1.93%	10,730.6	
Powdered milk, fat over 1.5% others	78.1	0.01%	79.2	0.01%	28.9	
Others, with sugar (cream and evaporated)	2,587.9	0.48%	1,924.7	0.35%	2,054.6	
Others (condensed)	501.5	0.09%	458.7	0.08%	329.4	
Cheese and cottage cheese	19,855.9	3.65%	20,331.5	3.71%	20,328.7	
Fresh cheese	1,332.4	0.25%	1,795.5	0.33%	1,778.1	
Grated or powdered cheese	305.2	0.06%	336.4	0.06%	349.8	
Processed cheese	2,820.1	0.52%	2,739.9	0.50%	2,771.4	
Blue cheese	792.1	0.15%	853.6	0.16%	844.1	
Other cheeses (fine cheeses)	14,606.1	2.69%	14,606.1	2.66%	14,585.3	
Beef	3,231.7	0.59%	3,218.3	0.59%	2,756.2	
Fresh or refrigerated	920.1	0.17%	1,069.5	0.19%	1,370.6	
Frozen	2,311.6	0.43%	2,148.9	0.39%	1,385.6	
Pork	15,486.4	2.85%	19,111.5	3.48%	17,852.6	
Poultry	5,431.6	1.00%	5,413.4	0.99%	5,342.2	
Onions	1.027.1	0.19%	925.3	0.17%	812.2	
TOTAL PRODUCTS	101,775.1	18.72%	103,407.5	18.85%	111,131.5	
TOTAL AGRICULTURE	543,529.0	100.00%	548,468.8	100.00%	595,444.1	
TOTAL EXPORTED	8,692,356.6		9,529,250.0		10,531,974.6	

SOURCE: EXTRAPOLATION BASED ON CE 2007A.

	P-AGR	2006	P-AGR	PROM	2003-04	2004-05	2005-06	2006-07
	0.00%	4.3	0.00%	4.09	-27.06%	3.12%	17.82%	-15.81%
	0.01%	69.1	0.01%	50.88	26.82%	-2.13%	45.44%	32.86%
	0.00%	10.8	0.00%	8.61	24.87%	-29.20%	62.10%	14.15%
	0.01%	58.3	0.01%	42.27	27.30%	4.38%	42.72%	37.45%
	0.00%	4.9	0.00%	4.57	-36.03%	-2.18%	31.75%	-22.75%
	0.65%	4,568.7	0.68%	3,892.89	0.59%	7.21%	18.76%	9.13%
	0.02%	134.9	0.02%	127.17	-4.06%	-8.21%	16.37%	-3.38%
	0.03%	176.3	0.03%	162.19	-3.19%	4.60%	9.84%	2.32%
	0.03%	293.9	0.04%	199.17	-9.16%	40.14%	46.13%	26.04%
	0.01%	48.7	0.01%	48.97	-22.90%	61.37%	-19.92%	0.29%
	0.04%	239.2	0.04%	209.65	3.49%	9.19%	11.75%	10.69%
	0.02%	175.0	0.03%	144.87	30.04%	0.26%	19.57%	29.08%
	0.01%	33.7	0.01%	35.08	-7.27%	-11.46%	5.82%	-9.57%
	0.09%	639.4	0.10%	497.95	10.57%	29.45%	16.84%	30.24%
	0.11%	660.5	0.10%	740.61	7.18%	-20.88%	-1.20%	-6.06%
	0.17%	1,259.7	0.19%	990.90	1.52%	13.76%	27.88%	16.17%
	0.12%	907.4	0.13%	736.33	-12.76%	16.18%	26.79%	4.27%
	0.77%	1,842.7	0.27%	2,530.69	-3.87%	152.40%	-59.75%	34.10%
	0.01%	63.7	0.01%	54.17	0.56%	13.37%	14.94%	11.41%
	0.19%	658.6	0.10%	813.66	-6.28%	52.63%	-40.28%	5.55%
	0.57%	1,120.5	0.17%	1,662.86	-2.33%	228.04%	-67.24%	55.76%
	2.78%	13,601.5	2.02%	16,446.42	-3.09%	-5.51%	-17.89%	-9.08%
	0.57%	1,700.8	0.25%	3,639.71	-9.52%	-23.69%	-50.28%	-26.54%
	1.80%	9,330.9	1.39%	10,153.52	6.20%	1.37%	-13.04%	1.87%
	0.00%	30.3	0.00%	54.10	1.37%	-63.53%	4.86%	-30.72%
	0.35%	2,215.6	0.33%	2,195.69	-25.63%	6.75%	7.84%	-15.16%
	0.06%	323.9	0.05%	403.39	-8.54%	-28.17%	-1.68%	-19.57%
	3.41%	22,081.0	3.28%	20,649.27	2.40%	-0.01%	8.62%	4.00%
	0.30%	1,853.3	0.28%	1,689.83	34.75%	-0.97%	4.23%	26.82%
	0.06%	390.1	0.06%	345.38	10.22%	3.97%	11.52%	13.15%
	0.47%	2,606.0	0.39%	2,734.35	-2.84%	1.15%	-5.97%	-3.04%
	0.14%	975.4	0.14%	866.29	7.76%	-1.11%	15.56%	9.37%
	2.45%	16,256.1	2.42%	15,013.42	0.00%	-0.14%	11.46%	2.79%
	0.46%	2,668.9	0.40%	2,968.78	-0.41%	-14.36%	-3.17%	-8.14%
	0.23%	1.297.1	0.19%	1,164.34	16.23%	28.16%	-5.36%	26.54%
	0.23%	1.371.7	0.20%	1,804.44	-7.04%	-35.52%	-1.00%	-21.94%
	3.00%	20,656.8	3.07%	18,276.81	23.41%	-6.59%	15.71%	18.02%
	0.90%	4,337.8	0.64%	5,131.24	-0.34%	-1.31%	-18.80%	-5.53%
	0.14%	1,270.1	0.19%	1,008.67	-9.91%	-12.23%	56.38%	-1.79%
	18.66%	119,893.6	17.82%	109,051.91	1.60%	7.47%	7.88%	7.15%
	100.00%	672,766.9	100.00%	590,052.18	0.91%	8.56%	12.99%	8.56%
		11,562,579.7		10,079,040.20	9.63%	10.52%	9.79%	15.95%

Annex 5. Central America and the EU. Comparison of the revealed comparative advantage index

PRODUCTS	EUROPEAN UNION			CENTRAL AMERICA			PRODUCTS
	VCI	VCE	RCAI	RCAI	VCE	VCI	
Maize	0.117	0.033	-0.084	-0.110	0.003	0.113	Maize
Seed maize	0.020	0.016	-0.004	-0.021	0.002	0.024	Seed maize
Other (white, yellow and others)	0.096	0.017	-0.079	-0.089	0.001	0.090	Other (white, yellow and others)
Palm nut	0.001	0.001	0.000	0.005	0.006	0.001	Palm nut
Dried beans	0.046	0.004	-0.042	-0.004	0.013	0.017	Dried beans
Beans (green, kidney) vigna mung	0.003	0.000	-0.003	-0.001	0.003	0.003	Beans (green, kidney) vigna mung
Adzuki bean	0.001	0.001	0.000	0.007	0.008	0.001	Adzuki bean
Phaseolus bean	0.042	0.002	-0.040	-0.010	0.004	0.014	Phaseolus bean
Other beans	0.005	0.001	-0.005	-0.001	0.001	0.002	Other beans
Rice	0.093	0.027	-0.066	-0.045	0.001	0.046	Rice
Paddy rice	0.001	0.000	-0.001	-0.042	0.000	0.042	Paddy rice
Flaked rice (cargo or brown)	0.059	0.002	-0.057	-0.001	0.000	0.001	Flaked rice (cargo or brown)
Semi-white or white rice	0.024	0.025	0.001	-0.002	0.000	0.003	Semi-white or white rice
Split rice	0.009	0.000	-0.009	0.000	0.000	0.001	Split rice
Orange	0.084	0.028	-0.056	-0.002	0.001	0.003	Orange
Grapefruit	0.050	0.002	-0.048	0.001	0.001	0.000	Grapefruit
Potato	0.033	0.075	0.042	-0.003	0.002	0.005	Potato
Seed potato	0.000	0.048	0.048	-0.001	0.000	0.002	Seed potato
Other potatoes	0.033	0.027	-0.006	-0.002	0.002	0.003	Other potatoes
Sorghum	0.014	0.000	-0.014	0.000	0.000	0.000	Sorghum
Coffee	0.720	0.141	-0.579	0.461	0.463	0.002	Coffee
Not roasted, not decaffeinated	0.698	0.009	-0.689	0.460	0.461	0.001	Not roasted, not decaffeinated
Not roasted, decaffeinated	0.001	0.051	0.050	0.085	0.085	0.000	Not roasted, decaffeinated
Roasted, not decaffeinated	0.018	0.074	0.057	0.001	0.001	0.000	Roasted, not decaffeinated
Roasted, decaffeinated	0.002	0.005	0.002	0.000	0.000	0.000	Roasted, decaffeinated
Others (instantaneous etc.)	0.000	0.001	0.001	0.000	0.000	0.000	Others (instantaneous etc.)
Banana	0.517	0.002	-0.514	0.369	0.375	0.006	Banana
Pineapple	0.096	0.005	-0.091	0.129	0.130	0.001	Pineapple
Sugar	0.283	0.368	0.085	0.153	0.154	0.001	Sugar
Raw cane	0.218	0.001	-0.217	0.144	0.144	0.001	Raw cane
Molasses	0.000	0.001	0.001	0.000	0.000	0.000	Molasses
With flavouring	0.000	0.002	0.002	0.000	0.000	0.000	With flavouring
Others (sugar)	0.064	0.364	0.301	0.010	0.010	0.000	Others (sugar)
Melon	0.044	0.008	-0.036	0.043	0.043	0.001	Melon
Palm oil	0.112	0.014	-0.098	0.037	0.064	0.027	Palm oil
Raw palm oil	0.000	0.000	0.000	0.037	0.047	0.010	Raw palm oil
Others (palm oil)	0.000	0.000	0.000	0.000	0.017	0.017	Others (palm oil)
Living plants, foliage and flowers	0.260	0.394	0.133	0.077	0.083	0.006	Living plants, foliage and flowers
Bulbs, tubers and roots	0.009	0.117	0.107	-0.003	0.000	0.003	Bulbs, tubers and roots

PRODUCTS	EUROPEAN UNION			CENTRAL AMERICA			PRODUCTS
	VCI	VCE	RCAI	RCAI	VCE	VCI	
Other living plants	0.051	0.149	0.098	0.035	0.037	0.002	Other living plants
Flowers and buds	0.146	0.113	-0.034	0.014	0.015	0.001	Flowers and buds
Foliage, leaves and branches	0.054	0.015	-0.039	0.031	0.032	0.000	Foliage, leaves and branches
Manioc	0.020	0.000	-0.020	0.014	0.014	0.000	Manioc
Peanut	0.083	0.001	-0.082	0.013	0.015	0.003	Peanut
Peanut with husk	0.016	0.000	-0.015	0.000	0.000	0.000	Peanut with husk
Without husk, including cracked	0.068	0.001	-0.067	0.013	0.015	0.002	Without husk, including cracked
Cardamom	0.001	0.000	-0.001	0.030	0.030	0.000	Cardamom
Fruit juices	0.262	0.113	-0.150	0.022	0.047	0.026	Fruit juices
Frozen orange juice	0.009	0.004	-0.006	0.000	0.000	0.000	Frozen orange juice
Other orange juices (concentrated)	0.114	0.006	-0.108	-0.004	0.000	0.004	Other orange juices (concentrated)
Tomato juice	0.000	0.001	0.001	0.000	0.000	0.000	Tomato juice
Grape juice	0.001	0.014	0.013	0.000			Grape juice
Apple juice	0.035	0.021	-0.014	0.000	0.000	0.000	Apple juice
Other fruit or vegetable juice	0.024	0.029	0.004	0.001	0.012	0.011	Other fruit or vegetable juice
Mixed juices	0.004	0.021	0.017	0.000	0.001	0.002	Mixed juices
Unconcentrated milk	0.003	0.073	0.071	-0.001	0.005	0.006	Unconcentrated milk
With fat content less than 1%	0.000	0.002	0.002	0.000	0.001	0.002	With fat content less than 1%
With fat content between 1% and 6%	0.000	0.024	0.023	-0.001	0.004	0.004	With fat content between 1% and 6%
With fat content higher than 6%	0.002	0.048	0.046	0.000	0.000	0.000	With fat content higher than 6%
Concentrated milk	0.011	0.476	0.465	-0.040	0.009	0.049	Concentrated milk
Powdered milk. fat 1.5% or less	0.009	0.105	0.097	-0.004	0.001	0.005	Powdered milk, fat 1.5% or less
Powdered milk, fat over 1.5% without added sugar	0.001	0.294	0.293	-0.027	0.007	0.035	Powdered milk, fat over 1.5% without added sugar
Powdered milk, fat over 1.5% others	0.000	0.002	0.002	-0.001	0.001	0.002	Powdered milk, fat over 1.5% others
Others, with sugar (cream and evaporated)	0.001	0.064	0.063	-0.002	0.001	0.003	Others, with sugar (cream and evaporated)
Others (condensed)	0.000	0.012	0.011	-0.005	0.000	0.005	Others (condensed)
Cheese and cottage cheese	0.084	0.598	0.513	-0.002	0.014	0.016	Cheese and cottage cheese
Fresh cheese	0.001	0.049	0.048	0.000	0.001	0.001	Fresh cheese
Grated or powdered cheese	0.000	0.010	0.010	-0.005	0.001	0.006	Grated or powdered cheese
Processed cheese	0.004	0.079	0.075	-0.001	0.004	0.006	Processed cheese
Blue cheese	0.000	0.025	0.025	0.000	0.000	0.000	Blue cheese
Other cheeses (fine cheeses)	0.079	0.435	0.356	-0.005	0.008	0.012	Other cheeses (fine cheeses)
Beef	0.246	0.086	-0.160	0.030	0.059	0.029	Beef
Fresh or refrigerated	0.162	0.034	-0.128	0.010	0.032	0.022	Fresh or refrigerated
Frozen	0.084	0.052	-0.032	0.019	0.027	0.007	Frozen
Pork	0.024	0.529	0.505	-0.006	0.002	0.009	Pork
Poultry	0.087	0.149	0.062	-0.012	0.002	0.015	Poultry
Onions	0.020	0.029	0.009	-0.002	0.002	0.004	Onions

SOURCE: CEPA EXTRAPOLATION.

XI. 3. Comparative annex

For the present work, two tables were assembled comparing the farming production of the Central American and European blocks. The first provides a comparison of the products from the export lists of both blocks in order to determine the most sensitive and important items. This table also includes data such as the import tariff rates and the RCAI. The second table lists the conflicts that can be identified from the former. These are presented in a more reduced form in the study's main text.

Annex 6. Comparative table of sensitive and important products between the EU and Central America.

European Union vs Central America					
Product	**European Union**			**Revealed comparative advantage (RCA)**	
	Subproduct	**Importance**	**Import tariffs**	**EU**	
Maize	Seed maize	• Total average export of maize between 2003 and 2006 was €1.47 billion (0.7% of agricultural export). • Essential as cereal in European production of cereals and grains, 18% of produced grains (2004). • Seed maize is equivalent to 25%, or € 505 million.	• Tariff-free	-0.004	
	Other types of maize (primarily yellow)	• Yellow maize equivalent to 74% of European exports • Essential in European diet and food sustainability policy • Compete with US exports through CAFTA	• € 94 per metric ton	-0.079	
Palm nut	• Average exports of € 3.2 million (insignificant in terms of agricultural exports) • Little value national production • Little importance for production in ACP		• Tariff-free	0.000	
Dried beans	Phaseolus beans, white beans	• Average exports of €78.4 million • 63 million are this type of bean, equal to 82.7%	• Tariff-free through GSP-Plus • Tariff-free	-0.040	
	Adzuki beans, kidney beans	• Exports low, around € 400,000 in 2006	• Tariff-free	0.000	
Rice	Paddy rice	• The EU exported € 915 million of rice in 2006, equal to 0.3%. • Paddy rice also produces € 112 million in exports	• Tariff of 7.7% for paddy rice • Not included in GSP-Plus	-0.001	
	White or processed rice	• Principally semi-white or white rice with 70%, € 640 million. Exports US$ 76 million to the world • Tariff-free access for ACP countries, though does not include precooked, white or semi-white rice	• € 211 per metric ton • Not included in GSP-Plus	0.001	

	European Union vs Central America				
	Revealed comparative advantage (RCA)	Central America			Product
	CA	Protectionism / import tariffs (ACI/DAI)	Importance	Subproduct	
	-0.021	• CR: 10-15% • SAL: 5-20% • GUA: 20-35% • HON: 15% • NIC: 10-15%	• Average export between 2003 and 2006 was US$ 7.3 million • Product for internal consumption • Particularly sensitive for Guatemala 37 million work days per year (1998). • Currently being reduced through CAFTA • Seed maize most exported, US$ 4 million	Seed maize (84.2%)	Maize
	-0.089	• CR: 0% • SAL: 0-15% • GUA: 0-35% • HON: 15% • NIC: 0-15%	• Small and insignificant export amount of US$ 788,000, though highly protected by Guatemala.	Other types of maize	
	0.005	• 0-5%	• Average exports of US$ 14 million (0.2% of exports), with a growth rate of 33% • Important in particular for Honduras with 21 million in 2006 • 2.67 million metric tons of production		Palm nut
	-0.010	• 15%	• US$ 44 million in exports • Less than US$ 1 million exports to EU • Second highest exports at almost US$ 8 million	Phaseolus beans, white beans	Dried beans
	0.007	• 15%	• Adzuki beans are equivalent to 81.6% of total exports of dried beans, or RS$ 36 million	Adzuki beans, kidney beans	
	-0.042	• CR: 35% • SAL: 0-40% • GUA: 0-237% • HON: 0-45% • NIC: 20-45%	• 579,000 tons of rice produced over the year, principally in NIC and CR • Produces US$ 199,000 of paddy rice	Paddy rice	Rice
	-0.002	• CR: 35% • SAL: 40% • GUA: 118-237% • HON: 45% • NIC: 60%	• CA's main production of rice is semi-white with US$ 1.4 million and split rice with US$1.2 million • Total exportation of rice is 2 million	White rice	

Orange	• EU exported € 1.2 billion in oranges in 2006, with 0.4% of total • Exports just € 108 million outside the EU, hence more used on the internal market	• Depends on the value of the export price, 16% + € 0.7 to 7.1/ kg • Not included in GSP-Plus	**-0.056**	
Potato	• Exports worth € 1.6 billion, principally non-seed potatoes, 0.6% of agricultural production	• 5.8% to 11.5% when potato like exported kind, 4.5% for seed potato • Tariff-free through GSP	**0.042**	
Coffee	• EU exports € 4 billion in coffee, most of which is directed towards internal consumption and comprises re-exported products • Likewise, exports are based on roasted and processed coffee rather than raw product	• Between 7.5 and 11.5% according to the degree of processing • Unroasted coffee enters tariff-free • Tariff-free through GSP-Plus	**-0.579**	
Banana	• EU exports € 1.6 billion in banana for internal consumption, but exports just € 8 million outside the EU, plus re-exports a significant portion • The ACP countries export € 503.9 million, 1.4% of export total, fourth agricultural product in importance, essential for Africa and Caribbean, which have a quota of exports to supply the market	• Tariff of € 680 per 1000 kg net • Not included in GSP-Plus	**-0.514**	
Pineapple	• Exports US$ 431 million in pineapple, however only US$ 26 million are for exports outside the EU, making it a product for internal consumption • For ACP signifies € 158 million, 0.5% of Africa's total, no preferential treatment	• Tariff of 5.8% for agricultural export • Tariff-free through GSP-Plus	**-0.091**	
Sugarcane	• EU is world's biggest exporter of white sugar, equivalent to € 4 billion in 2006, 1.5% of total production • Its production of sugar is derived from beetroot not sugarcane • Key product for the CAP • Some ACP countries produce sugar within agreements with the EU with which they obtain market export quotas • Emphasis on production of refined sugar, 95% of exports	• Tariff base of €33.9 to 41.9 per 100 kg, additional protection tariffs, €419/MT for raw sugar, €339/MT + €115/MT for refined sugar • Not included in GSP-Plus • Free export quotas for ACP • High level of agricultural subsidies	**0.085**	
Melon	• EU exports € 31 million of melon per year with a value lower than 0.1% of agricultural exports	• Tariff of 8.8%. • Tariff-free through GSP-Plus	**-0.036**	
Palm oil	• EU exported 682 million in 2006, 0.2% of its agricultural exports, with only 69 million exported outside the EU, meaning the product is mainly for internal consumption • Principal importer of raw palm oil, mainly for use in biodiesel	• Granted an import tariff of 3.8% • Tariff-free through GSP-Plus	**-0.098**	

	-0.002	• 15%	• US$ 1.1 million in exports in 2006, relatively insignificant • Entered into decline following CAFTA. • Value for internal production of juices	Orange
	-0.003	• CR: 45% • SAL: 15% • GUA: 15% • HON: 15% • NIC: 15%	• US$ 5.7 million in exports and in decline • Sensitive product in Costa Rica and subject to a degree of protectionism	Potato
	0.461	• Uniform tariff of 15%	• CA's main export product. US$ 1.5 billion, 8.9% of total • Main export product to EU. US$ 700.3 million, 30.7% of total • Main export product to CA-4 • 99% of exported coffee is unroasted and non-decaffeinated	Coffee
	0.369	• Uniform tariff of 15%	• Third largest export product to world. US$ 1 billion, 6.2% of total • Second largest export product to EU. €317.1 million, 13.9% of total • Important for Costa Rica, which exports 94.8% of CA total to EU	Banana
	0.129	• Uniform tariff of 15%	• Seventh largest export product US$ 461.3 million, 2.8% of total • Third largest export product to EU. US$ 228.1 million, 10% of total • Highest importance for Costa Rica, 94.2% of CA exports to world and 94.5% of total to EU	Pineapple
	0.153	• CR 45% • GUA 20% • NIC 55% • SAL-HON 40%	• CA exported US$ 503 million to the world, 7.1% of agricultural exports. One of the main products. • However CA only exports US$ 5 million to EU. • Important at regional level as one of the top ten export products • High national protectionism	Sugarcane
	0.043	• Uniform tariff of 15%	• Exports of US$ 122 million, 1.7% of agricultural exports, important product • Costa Rica controls a significant part, US$ 84 million	Melon
	0.037	• Uniform tariff of 5%	• Exported US$ 170 million in 2006, 2.4% of total exports	Palm oil

Living plants, foliage and flowers	Bulbs, tubers and roots	• EU exported US$ 895 million, 0.3% of total agricultural exports • Mainly in flower bulbs	• Tariff of 5.1% in general except for tulips at 9.6%. • Tariff-free through GSP-Plus	**0.107**	
	Flowers and buds	• EU exported € 3.8 billion in flowers, 1.3% of agricultural exports • ACP countries export 353 million per year, especially East Africa and RSA	• Tariff varies seasonally between 8.5% and 12% • Tariff-free through GSP-Plus	**-0.034**	
	Foliage, leaves and branches	• Exported € 2.7 billion in 2006, 1% of total agricultural exports	• Free for lichens and from 2.5% to 5% for other plants • Tariff-free through GSP-Plus	**-0.039**	
	Other living plants	• Exported € 2.8 billion in 2006, 1% of total agricultural exports	• Between 6.5% and 8.3% for all goods • Tariff-free through GSP-Plus	**0.098**	
Manioc	• Exports € 463 million, equivalent to 0.2% of total agricultural exports • Also produces other related goods • Establishes a safeguard of 6% at the discretion of EU authorities		• Fixed tariff of €9.5/100kg. • ACP countries only obtain a reduction of € 8.3 euros per 100 kg • Not included in GSP	**-0.020**	
Peanut	• Exports € 92 million in peanuts, making it an important part of total exports and concentrated on shelled peanuts • Just € 6 million are exported outside the EU which means part of this volume may be re-exportation		• Exempt from paying the common tariff	**-0.082**	
Cardamom	• EU exports € 2.98 billion of cardamom in 2006, though just € 488,000 outside the EU. • ACP countries send a small amount from CARICOM, 1.9% of total exports		• Exempt from paying the common tariff	**-0.001**	
Fruit juices	Orange juice	• EU exported € 1.69 billion in different forms of orange juice • The main form was concentrated orange juice	• Subject to a percentage tariff of 15% to 33% and a weight tariff of € 20.6 per 100 kg net • Not included in GSP-Plus	**-0.150**	
	Other juices	• EU exported almost € 2.46 billion in 2006 in other fruit juices, in particular apple juice with € 782 million	• Variable tariffs for all juices according to level of production • Between 14 and 18% fixed and € 20.6 per 100 kg net according to degree of processing • Not included in GSP-Plus		

	-0.003	• Exempt from uniform tariff	• US$ 322,000 of exports, relatively unimportant for CA, little significance in agricultural exports	Bulbs, tubers and roots	Living plants, foliage and flowers
	0.014	• Uniform tariff of 15%	• Exported US$ 43 million in 2006, 0.6% of total.	Flowers and buds	
	0.031	• Uniform tariff of 15%	• Most exports in plants: US$ 87 million, 1.2% of total agricultural exports	Foliage and branches	
	0.035	• 0-10% (only in seedlings and tobacco)	• CA exported US$ 100 million in these goods, 1.4% of total agricultural exports	Other living plants	
	0.014	• Uniform tariff of 15%	• US$ 35.5 million, 0.5% of agricultural exports • Costa Rica exports US$ 34.4 million in manioc to the world (96%) and all manioc to the EU (US$ 35.5 million) • EU exports show a continuing fall		Manioc
	0.013	• Uniform tariff of 10%	• Exports US$ 42.6 million to the world, 0.6% of total agricultural exports, US$ 10.7 million to the EU • Nicaragua is extremely important, producing US$ 42.3 million for exportation		Peanut
	0.030	• Uniform tariff of 15%	• US$ 83.4 million to the world, 1.2% of agricultural exports • A very small amount is exported to the EU • Guatemala accounts for almost all exports with US$ 83.4 million to the world, including US% 2 million to the EU		Cardamom
	0.022	• CA imposes 15% on unfrozen • 0% on frozen, though HON imposes 30%	• CA exported US$ 161.4 million to the world, 2.3% of farming exports • CR concentrates the market with US$ 49.9, HON, US$ 1 million of US$ 50 million exported to the EU	Orange juice	Fruit juices
		• CA imposes ACI uniformly • Between 0 and 15% according to degree of processing	• CA exported more than US$ 60 million in a variety of juices • Concentrates on various fruit or vegetable juices, comprising US$ 40 million	Other juices	

Dairy produce	Unconcentrated milk	• EU exported € 3.34 billion in 2006, equivalent to 1.2% of total agricultural exports	• Between € 12.9/TM and € 182/TM • Not included in GSP-Plus	**0.071**	
	Concentrated milk	• Includes powdered, skimmed, evaporated and condensed milk • EU exported € 3.59 billion in 2006, equivalent to 1.2% of total agricultural exports	• Between € 1,.9 and 130.4 per 100 kg of powdered milk • Between 34.7 and 183.7 per 100 kg of other types • Not included in GSP-Plus	**0.465**	
	Cheeses	• Includes fresh cheese, as well as powdered, grated, processed and blue and fine cheeses • The EU exported € 11.7 billion in 2006, comprising 4.1% of agricultural exports • The main subproduct is fine cheese, accounting for € 7.6 billion this year, 67% of the total	• From € 139.9 to 215 per 100 kg net in the case of the first types • Between € 151, 167 and 188 per 100 kg net for fine cheeses • Not included in GSP-Plus	**0.513**	
Meat	Beef	• EU exported € 7.5 billion in 2006, 2.6% of total agricultural exports • Mainly fresh meat, € 6.66 million, 88.6% of the total	• Two tariff rates, one at € 12.8 and the other between € 176 and 303 per 100 kg • Not included in GSP-Plus	**-0.160**	
	Pork	• EU exported € 10.35 billion in 2006, 3.6% of total agricultural exports	• From € 46 to 86 per 100 kg net, the tariff rises with the degree of processing • Not included in GSP-Plus	**0.505**	
	Poultry	• EU exported €2.989 billion of poultry in 2006, 1.1% of total agricultural exports	• Between € 26 and 32 per 100 kg net, for cuts • € 102 per 100 kg net for deboned poultry • Not included in GSP-Plus	**0.062**	
Onions	• EU exported € 492 million in 2006, equivalent to 0.2% of total agricultural production		• Single tariff of 9.6% on import price • Tariff-free for CA through GSP-Plus	**0.009**	

SOURCE: CEPA EXTRAPOLATION BASED ON SIECA 2007A; EC 2007A AND BITD 2006.

	-0.001	• CR: 65% • SAL: 40% • HON: 35% • GUA-NIC: 15%	• CA exported US$ 14 million in 2006, accounting for 0.2% of total agricultural exports	Unconcentrated milk	Dairy produce
	-0.040	• CR: 65% • NIC: 60% • SAL-HON-GUA: 15-20%	• CA exported US$ 36 million in 2006, equivalent to 0.5% of total agricultural exports	Concentrated milk	
	-0.002	• CR: 65-50% between fresh and fine cheeses • SAL: 40% • GUA: 15% • HON: 15-35% (fine cheese) • NIC: 35-40%	• CA exported US$ 48 million in 2006, equivalent to 0.7% • Mainly fine cheeses with almost US$ 30 million • Uncompetitive and highly protected product, with potential for conflict	Cheeses	
	0.030	• NIC-HON: 30% • GUA-SAL-CR: 15%	• CA exported US$ 181 million, equivalent to 2.5% of total agricultural exports • Exports are butchered, fresh and congealed • Particularly important for Nicaragua which possesses advantages	Beef	Meat
	-0.006	• CR: 45% • NIC: 40% • GUA-HON-SAL: 15%	• CA exported US$ 9 million in 2006, equivalent to 0.1% of total agricultural exports	Pork	
	-0.012	• Varies greatly according to the type of cut (dark cuts are higher) • CRC: up to 150% • SAL-NIC-HON: up to 164% • GUA: 5-15%	• CA exported US$ 6 million in 2006, equivalent to 0.1% of total agricultural exports. Faces a negative growth rate • Highly protected according to the type of cut	Poultry	
	-0.002	• CR: 45% • CA-4: 15%	• CA exported just US$ 4 million in 2006, equivalent to 0.1% of total agricultural exports • Product highly protected and sensitive in Costa Rica		Onions

Annex 7. Distribution of agricultural products according to the level of conflicts expected between the blocks

Product	Explanation	
	Very probable conflicts	
Banana	Central America and especially Costa Rica (the world's second biggest exporter) are net exporters of banana, generating US$ 1.02 billion in 2006 and highly competitive (0.369) European production of banana is uncompetitive (-0.514) though highly protected, with very high import tariffs (€ 630/MT). It also offers some protection to its former colonies of the ACP, providing preferential quotas The EU absorbs bananas from CA and other countries, but applies import quotas, meaning entry is always limited Banana as a product has involved conflicts in the past	
Sugarcane	Central American is a net exporter, generating US$ 503 million in 2006. The product is also highly competitive The EU has a very high production of sugarcane and is the world's largest exporter; the difference in comparison to CA is that the latter exports the product raw while the EU exports only the processed product (white sugar). However, the production of beetroot and sugarcane in the EU could be heavily affected by competition, meaning very high import tariffs exist The EU offers preferential export quotas to ACP countries ACP and India through bilateral agreements and other EAAs	
Dairy produce	The EU is a net exporter of dairy produce, especially milk – in particular in powdered form – and fine cheeses. This is achieved through the use of high subsidies for its internal production and considerable protection against foreign competition CA has a less competitive dairy sector, although it manages to export in certain areas, which incidentally are the same as were the EU is strong (cheese and processed dairy produce). Nonetheless its dairy sector is strongly protected from European imports, especially in Costa Rica (between 50% and 65%), Nicaragua (between 15% and 60%) and El Salvador (between 15% and 40%)	

	Interests in conflict
	Very probable conflicts
	Central America aims towards an opening of the European market, primarily through a complete lifting of customs barriers The EU aims to gain freer access to the CA and CAN, recognizing that its products are highly competitive and their exports would be more profitable than to ACP countries, particularly CARICOM, where its market advantages have been removed (PWC and Solagral 2005).
	For CA the product has a double value. Although an important export product in the form of sugar, cane as a raw material for producing biofuels is also important. Increased liberalization of the EU market is anticipated in this area The EU will look to protect the sugar farming sector, especially if this receives significant and powerful lobbying; however, it may show a more flexible stance in relation to biofuels
	The EU will probably seek trade openings for this sector, achieving parity with the access obtained by the USA Central America adopted a posture of liberalization over very long periods (almost 20 years) and including safeguard measures in its negotiations with the USA, taking into account that its dairy sector is relatively uncompetitive at international level. It may therefore be reluctant to negotiate trade openings with the EU

Product	*Probable conflicts*	
Meat	The meat sector, especially beef, is highly competitive for Central America, especially Nicaragua. In 2006 it exported US$ 181 million, equivalent to 2.5% of total agricultural exports In contrast, this situation is not found in the pork and poultry sectors, where regional exports are insignificant. However, the sectors are subject to high tariff protections The EU's meat exports are primarily directed towards the internal market; in the case of beef 96.5% of exports, poultry 90% and pork 80%. However, pork exports are very high (US$ 2 billion) The main problem is in relation to meat cuts; CA is more competitive in fine cuts than the EU, but at the same time 'dark' cuts are less favoured in the EU, meaning that they enter CA in more competitive form Both blocks impose high tariffs on meat imports	
Manioc	A very important export product for Costa Rica, although it faces a tariff of €9.5 per 100 kg and is imported through a small quota in contrast to the benefit obtained by some Southeast Asian countries	
Potato	A domestically important product, especially for Costa Rica; exports are not very strong and the product is heavily protected through price controls and very high import tariffs An important export product for the EU	
Onions	A domestically important product, especially for Costa Rica; exports are not very strong and the product is heavily protected through price controls and very high import tariffs An important export product for the EU	

	Probable conflicts
	Central America would expect to obtain trade openings in the beef sector, but some degree of protection in the pork and poultry sector The EU will probably seek a degree of protectionism in the beef and poultry sectors, but more opening in the pork sector Since the conflicts between the two blocks are not likely to be so large and that the production of one block substitutes the production of the other in a specific area in which the economies are not themselves competitive, it is probable that there would not be a great problem in the EU gaining CAFTA parity in this area
	Costa Rica will probably seek a higher quota for the product so that it can export larger quantities at a lower tariff The EU will probably allowing openings to the point that it does not threaten other sources of the product or the limit offered to the ACP block for which the tariff was reduced to €8.3
	Costa Rica will aim to keep its protective import tariffs, the sector has declared itself in favour of excluding the same The EU would prefer to greater trade openings to be able to export its surpluses
	Costa Rica will aim to keep its protective import tariffs, the sector has declared itself in favour of excluding the same The EU would prefer to greater trade openings to be able to export its surpluses

Product	*Unlikely conflicts*	
Coffee	Although Central America's main export product to the world and to the EU, almost all the exported amount comprises unroasted and undecaffeinated coffee (99.6%); in the case of the EU, it is comprised of unroasted, decaffeinated coffee (41.4%) or roasted undecaffeinated coffee (44.1%), meaning there is little risk of confrontation On the contrary, Central American coffee serves to provide the EU with the possibility of processing and selling it with a higher added value abroad The product exported by CA enters as a sensitive good within the GSP, meaning it is exempted from the ad valorem tariff.	
Fruit juices	Both regions have highly competitive industries, although only the EU has high levels of protection in this area. However, seen in more broken down form, CA specializes in certain vegetable juices or specific fruit juices, while the EU specializes in apple and grape juices, meaning that no conflict is anticipated in these sectors. On the other hand, orange juice maintains a greater potential for conflict between the blocks	
Cardamom	An important product for Guatemala, which exports almost all the product from CA to the EU The EU produces very little cardamom and exports an insignificant amount, meaning that demand is met from outside the EU and receives complete exemption from tariffs through GSP-Plus	
Peanut	An essential product for Nicaragua which exports almost all the product from CA to the EU For the EU, peanut exports are high, but very little is exported outside the EU (€7 million). It currently offers a tariff-free regime	
Palm oil	Essential for the EU, especially due to its importance in biofuel production; it should be stressed that the block is a net importer of the product An important product for CA in terms of exports; it could benefit from the EU's interest in importing raw material for non-fossil fuels	
Pineapple	For CA, pineapple is an important export product, comprising 6.5% of agricultural exports For the EU, pineapple is a non-essential product whose exportation outside the block is insignificant; it relies on CA to supply some of the internal demand	
Melon	For CA, melon is an important export product, comprising 1.7% of agricultural exports For the EU, melon is a non-essential product whose exportation outside the block is insignificant; it relies on CA to supply some of the internal demand	
Orange	For CA its importance is internal, as in the EU case, since of the €billion produced, only €100 million are exported outside the region Central American production is directed towards internal consumption and supplying the fruit juice industry, which is far more competitive	
Dried beans	For CA, dried beans include some products less important than other fruits and vegetables; exports are equivalent to 0.6% of agricultural exports For the EU, dried beans are a non-essential product whose exportation outside the block is insignificant; it relies on CA to supply some of the internal demand	
Palm nut	Although important for CA (0.4% of agricultural exports), this is not the case for the EU, whose imports are fairly low	
Maize	The sector has already been strongly affected by CAFTA-DR and the importation of maize from the USA. No additional impact is expected with the EU; on the contrary, it may act as a competitor for the USA Maize retains a value as a biofuel along with sugarcane and palm oil; the region is likely to take this course of action	
Rice	Relatively uncompetitive for both sectors, both of which direct their production towards their internal markets	

SOURCE: PRODUCED BY CEPA.

	Unlikely conflicts
	Central American interests are aimed at maintaining the GSP-Plus advantages The EU has other, more important interests and requires the exportation of unprocessed coffee to maintain its own exports of the processed product; hence it is very unlikely to cause a premeditated conflict in relation to this product
	The interests of both blocks will be to exploit their respective specialist produce for exportation, except in the case of orange juice
	If CA looks to maintain the exemption and free access of the product to the EU, it is unlikely that the European block will threaten its free entry
	Nicaragua will probably look to maintain free access in the negotiations. It is relatively unimportant for the EU, meaning that this aim is not expected to meet any problems
	Both blocks will probably maintain the tariff-free scheme currently in operation in order to favour their trade and production interests
	The product is included in the EU's generalized preferences scheme (GSP-Plus), meaning it enters virtually tariff-free; no conflicts are anticipated in this area
	The product is included in the EU's generalized preferences scheme (GSP-Plus), meaning it enters virtually tariff-free; no conflicts are anticipated in this area
	Both blocks will aim for market liberalization, since their mutual idea is to supply their own agroindustries with this product as an input
	The product is included in the EU's generalized preferences scheme (GSP-Plus), meaning it enters virtually tariff-free; no conflicts are anticipated in this area
	The EU will probably maintain the entry benefits on this specific product
	A conflict in relation to trade opening is not anticipated
	The most likely outcome is that the market is opened to allow access to the imported product for CA, although European interest in taking this course of action is not expected to be great

X. 4. Annex of Economic Association Agreements

Annex 8. Comparative analysis of the Trade Association Agreements between the EU and Chile and the EU and Mexico

Main features		
General provisions	**Chile**	
General description/ implementation	Trade Association Agreement between Chile and the EU. It came into force in 2003 (in partial form). it is now in full operation.	
Agreed objectives	The ultimate aim of this association is to achieve: reciprocity, respect for the common interests of both parties and a deepening of relations in all areas. It has an evolving nature (meaning that it is revised and changed over time). The three fundamental pillars of this agreement are: – Deepen the political dialogue in bilateral, multilateral and international matters. – Strengthen cooperation, especially in the areas of economics, politics, society, science and technology, education and culture, state reform and public administration. – Expand and diversify the economic exchanges	
Political institutionality	Political dialogue (democracy, human rights, rule of law, international peace and security). Institutional framework: – Association Council (executive body; supervises application of the treaty) – Association Committee (responsible for general application of the agreement) – Parliamentary Association Committee (composed of parliamentary members from both parties; holds annual meetings) – Consultative Committee (business and workers; responsible for attending meetings of the Association Council to promote dialogue between the different parts. Has not been possible to set up due to the lack of a Chilean forum of business and workers, similar to the EU's EESC) – Conflict Resolution Mechanism (list of 15 arbitrators: 5 appointed by each party and 5 by mutual accord) – Civil Society (pending)	
Negotiation process	Due to its joint nature, only those agreements that did not need national ratification (EU) were applied from February 1st 2003: – Institutional framework – Trade in goods – Liberalization program – Trade disciplines – Public contracting – Conflict resolution mechanism – Cooperation in the previous areas Om March 1st 2005, following the process of ratification of 'the Fifteen,' the treaty came into full effect (Chile and the 25 European countries): – Political dialogue – Trade in services and financial services – Establishment (investments) – International payments – Intellectual property – Competition – Cooperation in these areas	

	Main features
	Mexico
	Economic Association, Political Harmonization and Cooperation Agreement. Also called the Global Agreement (AGMUE). Came into force in 2000.
	The objective of this agreement is to establish a more balanced framework of relations. Likewise it also aims to ensure reciprocal access to the EU and Mexican markets, consolidate deeper economic integration that will involve trade in goods and services, capital movements, public purchases, protection of intellectual property and conflict resolution. The three pillars sustaining this agreement are to: – Obtain and consolidate an economic association between the nations. – Develop a political dialogue of harmonization of interests among the countries. – Achieve cooperation between the countries in various areas: trade, politics, economics and education, among others.
	– Democracy: Democratic clause that sustains the Agreement (not applied in practice). – Institutional framework: – Joint Agreement Council (governing body of the trade negotiations) – Joint Committee (responsible for the trade regulations) – Special Committee for Customs Cooperation – Special Committee for Technical Norms and Regulations – Special Committee for Sanitary and Phytosanitary Measures – Special Committee for Public Sector Purchases – Special Committee for Financial Services – Special Committee for Liquor Protection
	Negotiations began in 1997. In April 1998, the Mexican Congress and the EU authorities ratified the process and trade negotiations began via the Joint Council. Until 2001, time of the ratification of the Association Agreement by the European Union's Council of Ministers, the chapters related to the following came into effect: – Trade in services – Payments – Investments – Capital movements – Intellectual property

Main features		
General provisions	**Chile**	
Economic Trade Environments	– Access to markets – Customs procedures – Rules of origin – Sanitary and phytosanitary norms – Technical norms and standards – Services – Financial services – Investments – Wines and liquors – Trade policy – Trade defence – Intellectual property – Public sector purchases – Conflict resolution – Transparency	
Commercial safeguards and tariff elimination periods	The following are applicable: • Stand still clause (prohibition on creating new obstacles to entry of Chilean exports). • Evolving clause (liberalizing revision every 3 years concerning product tariffs). • Maintenance of draw-back* for 4 years to EU • Asymmetry in tariff elimination periods: – Chile: 0, 5, 7 and 10 years – EU: 0, 3, 4, 7 and 10 years • Total or partial elimination of specific tariffs, agricultural quotas freed • Includes special agricultural safeguards	
Farming sector	On agricultural products: Quotas for red meats (1,000 tons), white meats (7,250 tons), pork (3,500 tons), lamb (2,000 tons) and dairy produce. Most favoured fruits: Apples and grapes in immediate tariff elimination. Sensitive products duly safeguarded (dairy produce)	
Agroindustry	Most products on list of immediate tariff elimination and 4 years (fruit juices, tomato concentrates, fruit jams).	
Application of trade discipline	– Rules of origin – Customs issues – Technical norms – Sanitary and phytosanitary measures – Safeguards – Antidumping – Public contracting	
Commercial conflicts	• Due to problems outside their mutual trade, the EU and Chile have had to include situations related to safeguard measures, as stipulated in the norms of the WTO. – Imports of salmon and fish meal Both situations have resulted from the consultation process that allowed the agreement to be institutionalized	

	Main features
	Mexico
	– Access to markets – Rules of origin – Technical norms – Sanitary and phytosanitary norms – Safeguards – Investments and related payments – Trade in services – Public sector purchases – Competition – Intellectual property – Conflict resolution
	Bilateral in response to sudden and substantial increases in imports resulting from the treaty; Global Safeguard, which will be adopted in the face of sudden increases in imports coming from the rest of the world. Asymmetry in tariff elimination periods: – EU: total elimination of tariffs after 3 years of agreement coming into force (from 2003). – Mexico: three stages according to the category of products from the Mexico Tariff Elimination Schedule (to 2007). – Reduction or elimination of processed agricultural tariffs. – Prohibition on applying different quotas or measures in the quantitative tariffs to those in effect. – Scarcity clause.
	95% of the agricultural products exported from Mexico to the EU receive preferential access; however, there are sensitive products on waiting lists: cereals: maize, wheat, barley, beans, flour. Dairy produce: cheeses, milk. Meat products: offal, entrails (pigs, sheep, goats, poultry, etc.). Sugar, chocolates and temperate fruits.
	86% of the agroindustrial products from Mexico entered the EU tax free in 2003. Tariff elimination period of 8 years on tropical fruit and grapefruit juices.
	– Rules of origin – Sanitary and phytosanitary measures – Safeguards – Compensatory or antidumping quotas – Customs tariffs – WTO technical norms of agreement
	None observed.

Main features		
General provisions	**Chile**	
Cooperation	35 areas: • Economic cooperation (18 areas) • Cooperation in science, technology and information society (2 areas) • Culture, education and audiovisual (3 areas) • Social cooperation • Other areas	
Local exports	Chile's exports – Copper: main product. Other exports: – Most dynamic products: Wine, molybdenum, wood pulp, methanol, fruits, poultry, timber, card, seafood and seed maize. – Diversification (new products): manufactured (boats, vehicles, shrimps and langoustines, salt, combed wool, curry, turbojets, drilling tubes, injection ampoules, trousers and enzymes). – Non-traditional products: Molybdenum, potassium nitrate, southern hake and salmon steaks.	
EU exports	Intermediate industrial goods (manufacturing machines, wood pulp, foods and drinks); automobiles, mobile phones, medicines, petrol.	
General Assessment	February 2006: three years of trade liberalization. In these three years, the international trade context has shown an overall increase in the prices of raw materials –especially copper, Chile's main product for exportation – and by the rapid process of revaluation of the Euro, which promotes exports to the EU but slows down imports from the region. Chile's trade balance with the EU has significantly improved and is today in the black. Although the agreement has succeeded in diversifying Chile's exports to Europe, these are concentrated around a few companies and there is a limited contribution in SMB exports.	
Other	In contrast to the Agreement with Mexico, the EU-Chile Agreement anticipates a dialogue on social issues and cooperation in the social area. It encourages the participation of civil society and the dialogue between civil societies of Europe and Chile.	

SOURCE: TEXT OF BOTH AGREEMENTS; CELARE 2006; CALDERÓN 2005; DOMÍNGUEZ AND VELÁSQUEZ 2004.

	Main features
	Mexico
	On the following themes: Economics Customs technical norms State purchasing techniques Information and scientific technologies In its chapter on cooperation, the Global Agreement includes 29 different areas, ranging from industrial cooperation, encouraging investments and PYMES, knowledge society, refuge and human rights, to cooperation in the farming sector, poverty and healthcare. The funds targeted at Mexico are small (€56 million for the 2002-2006 period, which represents 4.5% of the funds targeted at Latin America).
	Mexico exports mainly the following products to Europe: – Machinery and mobile equipment parts. Motor parts for automobiles, boats, etc. Turbine parts, etc. (secondary exports). – Petroleum and its derivatives. – Transport equipment. – Chemical products. – Agricultural products: onions, beans, apple, mango, guava, avocado, maize, tomato, peppers, meat, cucumber. – Metals and textiles.
	– Machinery and manufactured equipment. – Transport equipment. – Chemical products. – Agricultural products: soya, maize, meat, wheat, cotton fibre, sorghum, cereals. – Iron and steel. – Textiles.
	In 2006, six years after its implementation, the Global Agreement has not met expectations. Mexico confronts a trade deficit with the EU and only exports to Europe 7% of total national exports, primarily in oil products and derivatives. The European FDI in Mexico does not create new companies or jobs; rather, the trend has been the purchase of the assets of national companies. European companies have looked to prepare better conditions for ensuring the profitability of their investments through the signing of Agreements for Mutual Promotion and Protection of Investments (AMPPI): 16 of the 23 agreements negotiated by Mexico have been with European countries. There is a very low involvement of SMBs in the trade exchange with the large companies mostly benefiting.
In contrast to the Agreement with Mexico, the EU-Chile Agreement anticipates a dialogue on social issues and cooperation in the social area. It encourages the participation of civil society and the dialogue between civil societies of Europe and Chile.	

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