

Trade Policy Review Body

TRADE POLICY REVIEW MECHANISM

COSTA RICA

MINUTES OF MEETING

Chairman: H.E. Mr. Nestor Osorio Londoño (Colombia)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN

1. The Chairman welcomed delegations to the second meeting of the Trade Policy Review Body (TPRB), held to conduct the Trade Policy Review of Costa Rica. The review would be held under the procedures of the Trade Policy Review Mechanism (TPRM), as contained in Annex III of the Marrakesh Agreement Establishing the World Trade Organization.
2. The Chairman welcomed Costa Rica's delegation headed by Mr. Francisco Chacón, Vice-Minister of Foreign Trade, Ministry of Foreign Trade. He also welcomed the discussants, Ambassador Gunnar Snorri Gunnarsson and Mr. Luis P. Niscovolos, and members of the TPRB. As usual, the discussants would speak in their personal capacities.
3. The Chairman recalled that the meeting was to base its work on two reports, one by the Government of Costa Rica (WT/TPR/G/1) and the other by the Secretariat (WT/TPR/S/1 and Corr.1). He recalled the procedures for conducting reviews, introduced in May 1993 (GATT document L/7208).
4. Australia, Canada and the United States had given advance notice in writing of points they wished to raise during the meeting.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF COSTA RICA

5. The representative of Costa Rica stated that, since his country's accession to the GATT in 1990, the adoption of further trade liberalization measures would assist export-oriented producers to operate more efficiently. Trade in goods and services now represented more than 90 per cent of the GDP. Costa Rica's unilateral trade liberalization included reduction of tariff peaks and elimination of measures such as tariff surcharges, prior import deposits, import licences and production subsidies. To foster reforms and strengthen its links with the world economy, Costa Rica supported outward-oriented regional integration initiatives with its Central American partners; it had concluded a bilateral trade agreement with Mexico and introduced legal changes to implement the results of the Uruguay Round.

6. In 1994, the Government decided to deal with the long-standing problem of fiscal imbalance, that had been ignored by its predecessors and could threaten the trade reforms. It was important to tackle this problem on a basis of political consensus and without prejudice to social welfare programmes, in particular those relating to health and education. A bill introducing significant reforms to the tax system and aimed at improving tax collection was awaiting the approval of the Legislative Assembly. Other matters where similar approval was expected included privatization of the National Liquors Company (FANAL); banking and pension reform; deregulation of rents for households, and commercial premises; and the de-linking of public service tariffs from political considerations. A constitutional amendment would prohibit fiscal deficits exceeding 1 per cent of GDP. The recent increase in import duties would be eliminated on the entry into force of these measures.

7. Reforms related to the reduction of public sector employment, comprising a voluntary labour mobility programme and the closing down or restructuring of certain ministries and other government agencies (including the State-owned railway company) were in progress.

8. Costa Rica's trade policy was based on the principles of non-discrimination and transparency; trade measures were in conformity with multilateral rules. His Government firmly believed in the multilateral trading system and Congress had unanimously ratified the WTO Agreement. It was hoped that the recent changes in the economy would help the integration of Costa Rica into the multilateral trading system.

III. STATEMENT BY THE FIRST DISCUSSANT

9. The first discussant (Ambassador Gunnar Snorri Gunnarsson) commended Costa Rica's achievements in a number of areas including economic and trade policy, employment, social responsibility and political stability. He was concerned, however, with government spending, particularly in election years. He believed that greater independence of the Central Bank could be useful.

10. In view of the unexpected increase in tariff rates, recently adopted without legislative approval, he expressed concern over the stability and predictability of the Costa Rican policy framework. Although Costa Rica had made significant tax reforms, further information was needed on the application and effects of the selective consumption tax. He also requested the total figure for fiscal exemptions granted under the various concession régimes. Export contracts and free-zone régimes could be incorporated into the general tax system; in this respect, he wondered whether the change would result in a loss of fiscal revenue. He asked whether the increased number of enterprises under the free-zone régimes reflected the creation of new firms or a move by firms from other areas.

11. He requested details on the impact on investment flows to other sectors of fiscal incentives in force for tourism, and whether they were regarded as temporary measures; the proportion of foreign direct investment (FDI) in tourism; and whether foreign ownership-restrictions in tourism development projects hindered FDI. Regarding State involvement in the economy, he asked whether the privatization of any State banks had been envisaged, and sought information on the possibilities for foreign financial institutions in Costa Rica. He sought clarification on the existence of any subsidization in crop insurance services provided by the State monopoly National Insurance Institute (INS). Additional information was requested on the method for determining the composition of the basket of consumer items (*canasta básica*).

12. As progress in regional integration had frequently been a prelude to more general liberalization, he wondered whether this had been the case for Costa Rica. Regarding developments within the Central American Common Market (CACM), he asked for information on non-tariff measures such as harmonization of technical barriers to trade, surveillance and dispute settlement.

IV. STATEMENT BY THE SECOND DISCUSSANT

13. The second discussant (Mr. Luis P. Niscovolos) praised Costa Rica for its remarkably high social indicators and the efforts that had been made to reduce macroeconomic imbalances, including public sector deficits. He considered that economic stability was one of the most important reasons for having achieved that performance. He asked about the State reforms that were to have been introduced under the suspended Structural Adjustment Plan III (PAE III), and the guidelines for the fiscal reform under way, as well as the activities and taxes that would be affected. The elimination of the structural origin of the public expenditure should be an important aspect where the Government should emphasize its actions.

14. Costa Rica's recent efforts to adjust and integrate its economy to the world trading system had been reflected in the increasing share of foreign trade in GDP. Since 1990, competitiveness had improved and anti-export bias had been reduced. He sought information on the operation of the single-window system (*Ventanilla Unica*) and on technical assistance received on export promotion matters from international organizations. He also remarked the fact that all measures related to trade were implemented through laws and regulations which implied an important instrument of social accord.

15. He asked when Costa Rica expected to approve the Protocol Modifying the General Treaty on Central American Integration. He also sought information on the areas intended for faster progress. For Costa Rica, the CACM free-trade area provided a source of regional supplies in raw materials and certain manufactures as well as a market for its exports.

16. With respect to services, he considered that in spite of the significant liberalization effort implemented by the Costa Rican authorities, there were some areas that were still outside the international competitive environment.

V. STATEMENTS BY MEMBERS OF THE TRADE POLICY REVIEW BODY

17. Members of the TPRB commended Costa Rica for its efforts to modernize and liberalize its economy as well as to integrate it in the world market. They praised its active participation in GATT and its status as a WTO founder member. Nevertheless, delegations expressed concern over the April 1995 increase in the applied tariff levels by 8 percentage points on an ad hoc basis.

18. The representative of Argentina noted that recent reforms, including "tariffication" commitments had led to substantial increases in applied rates in particular on dairy products and poultry. He hoped that recent tariff increases were temporary. Wharfage rates differed between imports and exports; he was, therefore, interested in their relation to the cost of services rendered. He questioned the purpose of compulsory customs warehouse storage of imports. On government procurement, he sought information on the intention behind the bill of administrative contracts. He also asked how the fiscal deficit would be reduced.

19. With reference to the recent increase in applied tariff levels, the representative of Venezuela asked if prompt approval was likely for the legislation to introduce reforms and, hence, the return of import tariffs to their previous level. She said that before engaging in larger regional integration projects such as the Free Trade Area for the Americas, CACM countries should resume negotiations with Colombia and Venezuela; she asked whether Costa Rica could give a date for their resumption and conclusion. She was interested to know whether modification of the legislation on construction works was envisaged to provide equal treatment to domestic and foreign firms and engineers.

20. The representative of Canada took particular note of the steady increase in growth of trade in goods and tourism between Costa Rica and his country. He requested details on the recent tariff increases, including their WTO justification, and information on whether any of these changes would warrant renegotiation of concessions pursuant to Article XXVIII.

21. He enquired about the status of legislation in preparation to implement the Uruguay Round agreements, including in areas such as technical standards, certification procedures and phytosanitary protection. Clarification was sought on products subject to compulsory registration; whether there would be a comment period before the finalization of standards; and whether the forthcoming anti-dumping legislation would provide for different treatment for trade under preferential regional arrangements. He also asked for a copy of the new Competition Law.

22. He regretted Costa Rica's modest binding commitments in the Uruguay Round in the services sector, including the growing tourism industry. Further liberalization and improvement of multilateral commitments in this sector would be welcomed.

23. Although Costa Rican trade policy relied on multilateral or regional agreements, he recalled the obligation to notify and supply relevant information on the latter, in particular the bilateral agreement with Mexico which had already entered in force.

24. The representative of Japan hoped that the increase of tariff levels was temporary, noting that it had introduced an element of instability in trade conditions. He asked about the prospects for adoption of the bill on financial reform. Although his country had no access difficulties to the Costa Rican market, simplifying export formalities could promote imports. Improvements in the disclosure and accuracy of information on trade measures would be helpful to Japanese firms and potential investors.

25. The representative of Hong Kong commended Costa Rica for its GDP growth in recent years and strong commitment to the multilateral system. He hoped that efforts would be made to streamline the complex import duty structure (containing various levies and fees) and tedious documentation requirements. In view of the importance attached to regional and other preferential agreements, he wondered whether the erosion of preferential margins by m.f.n. concessions had any effect on the priorities of the Costa Rican trade policy.

26. The representative of the United States complimented Costa Rica's constructive steps to implement the results of the Uruguay Round, open markets and attract foreign capital. However, his authorities remained concerned with the recent tariff increases and Costa Rica's participation in the Framework Banana Agreement with the EU. He asked for a comprehensive list of tariff increases as well as information on their current status, implementation (m.f.n. or preferential), observance of binding levels and date of repeal.

27. On non-tariff measures, he asked the authorities to explain the requirement for consular authentication and the relationship of fees to the cost of services provided. His Government was concerned about the trade effects of certain internal taxes, and he requested detailed information on the nature, product coverage (including the share of domestic consumption supplied by imports) and rates of the selective consumption, IFAM and IDA taxes. He sought an explanation of the operation and status (domestic or CACM-wide) of the current customs valuation system, and asked when all provisions of GATT Article VII would be applied. He requested information on the operation of State-trading enterprises and the Government's intention to meet notification obligations, including those under Article XVII.

28. Referring to measures affecting trade in agricultural products, he asked about the status of changes in domestic legislation on import licensing, "tariffication", safeguards and unfair trade practices. Although all discretionary licensing had reportedly been removed as of January 1995, no exports of U.S. poultry had entered Costa Rica in the first three months of 1995. He asked whether all licensing requirements, other than those relating to tariff quotas, had been eliminated, including at the level of customs offices at the ports. He sought clarification on the nature of current sanitary restrictions and requirements on imports of poultry and asked whether these differed from those affecting domestic or regional poultry.

29. He queried the date of entry into force and the nature of export incentives under the "*Plan 5000 de Exportación*"; whether the CIEX export increment certificate legislation would be formally revoked in accordance with WTO obligations in the area of subsidies; and the qualifications needed for a firm to obtain fiscal concessions under the free-trade zone régime.

30. He noted Costa Rica's involvement in many regional trade agreements and sought clarification on their implementation and notification in the light of Article XXIV. He asked whether Costa Rica planned to harmonize tariffs with the rest of the CACM and what share of Costa Rican exports enjoyed unrestricted access to Panama's market.

31. On intellectual property rights, he invited the Government to examine the compatibility of the existing legal framework with the provisions of the Agreement on TRIPS, particularly with respect to compulsory licensing. Furthermore, he asked for a list of legal texts containing exceptions to the m.f.n. and national treatment principles; any plans for expanding the coverage of patent protection; the range of rights granted to patent holders as outlined in Article 28 of the Agreement on TRIPS; the scope of trademark protection; the judicial and administrative system for the enforcement of IPRs; and the average time of litigation of copyright suits.

32. The representative of the European Union noted that Costa Rica was Central America's leading trader, with increasingly diversified export markets and products as well as a high dependence on tourism. His delegation believed that the significant GDP growth in recent years was to a large extent due to the trade liberalization which followed Costa Rica's accession to the GATT.

33. The recent increase in applied tariff levels, which had not been notified to the Secretariat, had introduced a degree of uncertainty which could affect business confidence. In some cases phytosanitary measures had been taken without any justification, in particular with respect to imports of fresh cheese and meat. He noted that State monopolies remained in oil importing and refining as well as in certain banking and telecommunication operations. Costa Rica had not indicated any intention to participate in the negotiations on basic telecommunications, financial services and maritime transport services. In the area of government procurement, he noted the preference given to domestic suppliers and considered prohibitive legalism as an impediment to access for foreign companies. His delegation was satisfied with the recent rise in protection of intellectual property rights and hoped that domestic legislation would be brought in conformity with the provisions of the Agreement on TRIPS within the given time period.

34. Trade liberalization was not an easy task for a developing country, particularly in the new areas covered by the WTO. In this context, despite the favourable picture on Costa Rica's trade policy, he urged the authorities to avoid resorting to ad hoc measures.

35. The representative of India recognized the importance of coffee, bananas and tourism for the Costa Rican economy. He expressed the hope that regional integration efforts would not be to the detriment of the multilateralism.

36. The representative of New Zealand commended Costa Rica for its trade liberalization efforts, particularly those related to binding commitments, since its accession to the GATT and in the Uruguay Round. While noting Costa Rica's interest in participating in regional or bilateral agreements, he expressed the hope that undertakings in this area would not be to the disadvantage of third countries. These agreements should be notified to the WTO. His delegation looked forward to seeing a consolidation of Costa Rica's efforts.

37. The representative of Australia observed that trade policy reforms had led to a more neutral régime. He hoped that the tariff increase would be reversed and regional or bilateral agreements would be trade liberalizing.

VI. REPLIES BY THE REPRESENTATIVE OF COSTA RICA
AND ADDITIONAL COMMENTS

38. The Chairman invited the representative of Costa Rica, in giving his responses¹, to focus on four major themes: the overall economic situation; trade policy in the post-Uruguay Round period; regional integration; and other more specific policy issues.

(1) The overall economic situation

39. The representative of Costa Rica noted that his country's macroeconomic stability had been seriously affected in recent years mainly due to increased fiscal and central government deficits. A decision had been taken to drastically reduce the fiscal deficit in two stages. In accordance with Costa Rica's legislative procedures and tradition, the Government had sought the necessary political consensus to allow the implementation of a long-term, politically and socially viable solution.

40. The core elements of the proposed deficit reduction strategy included the introduction of a two-tier fiscal package (legislation on fiscal obligations, tax reforms) to be approved in July and August 1995; modernization of the tax and customs administration; institutional reforms of the public sector (including the elimination of 8,000 jobs in 1995); elaboration of a programme for curtailing public expenditure; and promotion of structural reforms by including in the constitution a number of "economic guarantees" and adopting or amending legislation on financial administration (revenue and expenditure), the pension schemes paid out of the State's Budget, the ending of the liquor monopoly and the transformation of the National Electricity Service into a regulatory authority.

41. Since 29 March 1995, due to short-term financial obligations and until the entire legislative package was adopted, the Government had raised the level of import duties on most items in the customs tariff by eight percentage points, in a manner consistent with its binding and notification obligations to the WTO; it did not, therefore, intend to use the provisions of Article XXVIII. This measure was expected to generate about US\$90 million of additional fiscal revenue each year. The floor and ceiling levels of applied tariff rates were to be reduced when public finance returned to normal. Tariff reductions on high-tariff items subject to commitments under the Agreement on Agriculture were to be implemented as agreed.

42. Other legislative reforms were under way or already accomplished in priority areas such as standardization, government contracts, radio-communications, generation of electric power, banking, insurance and intellectual property rights, with the objective of introducing adjustments or changes in line with the recent and planned liberalization.

43. In the context of Central America, Costa Rica had participated in discussions on the modification of the existing legal instruments on unfair trade practices and safeguards to bring them into conformity with the Uruguay Round texts. Costa Rica had reserved the right to implement the Agreement on Customs Valuation over a five-year period.

44. The first discussant recognized that the statement and response of the representative of Costa Rica had clarified the scale of reforms. The results that had been obtained so far were impressive; tariffs

¹The response of the representative of Costa Rica is reproduced in extenso in WTO document WT/TPR/M/1 Add.1, as agreed at the TPRB meeting.

were to fall soon. The fiscal deficit was a major problem but reform of the pension schemes could contribute to its reduction. A number of well-prepared reforms were still in the pipeline.

45. The second discussant thanked the Costa Rican delegation for the comprehensive response, in particular on the mechanisms for cutting the fiscal deficit. He understood that exchange and monetary policies were not to be affected in the context of these reforms and asked whether the fiscal reform included a significant increase in the tax on hydrocarbons. It was also apparent that reform of the public sector would imply staff reductions. He was interested in the participation of the services sector in reducing public expenditure.

46. The Chairman underlined the disparity between fiscal revenue and public expenditure as well as the need for a comprehensive strategy covering all relevant aspects of this problem. Not only fiscal measures were required to improve the public revenue but also State modernization. He appreciated the clear explanation of Costa Rican policies and actions to be taken. He observed that the debt burden constituted an additional problem which needed to be resolved through increases in fiscal revenue.

47. The representative of the United States sought clarification on the notification procedure for the recent tariff increase.

48. The representative of Costa Rica stated that the notification, shortly to be circulated as document WT/L/74, would be made under the 1979 Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance.

(2) Trade policy in the post-Uruguay Round period

49. The representative of Costa Rica recalled that the WTO Agreements and their implementing legislation, which covered most of his country's commitments, had been in force since 1 January 1995. He considered that Costa Rica had met all its notification obligations on time and had supplied a full list of such notifications. While the agreement on bananas was contained in the EU's schedule of specific commitments in the Uruguay Round, he regretted that the United States had sought recourse to unilateral action rather than using the reinforced multilateral dispute settlement system.

50. Tariff changes had been introduced to implement the "tariffication" and tariff quota commitments. He explained the stock exchange procedure used to allocate tariff quotas and supplied a table containing information on items subject to these quotas. Replies to the questionnaire on import licensing procedures would be delivered by his authorities within the agreed time-limit.

51. On customs valuation, he explained that although Costa Rica was using the existing Central American regulations, new provisions were being elaborated at CACM level; these should enter into force within five years. He confirmed that until then his Government would fully implement Article VII of GATT 1994; this was expected to have a positive effect on imports. The database which was required in this area was not intended to implement a system of minimum import prices but to fight under-invoicing and to exercise greater control over ports and customs agencies.

52. Costa Rica had submitted a notification on the operation of State-trading enterprises. He confirmed that the trading activities of the National Production Council (CNP) had been progressively phased-out. At the time of Costa Rica's accession to the GATT, it had been stated that no State monopolies existed in the sectors of energy, fertilizers and cement. The sole enterprise with exclusive import rights, the State-owned oil company, RECOPE SA, was operating in conformity with the non-discrimination principles established under Article XVII.

53. Concerning the protection of intellectual property rights, Costa Rica had meticulously revised domestic legislation in order to determine its compatibility with the Agreement on TRIPS and had decided to use of the transition period for implementation. Action had been taken through amendments to domestic and CACM legislation as well as accelerated ratification of the Paris Convention for the Protection of Industrial Property. He recognized that there was ground for improvement in areas such as border measures and the reversal of the burden of proof. He also provided detailed information and explained Costa Rica's position on general and specific provisions of domestic or CACM legislation in this area, including patents, semi-conductors, copyright and trademarks.

54. On services, he considered that his country's commitments under the GATS were consistent with both its level of development and domestic consensus on this matter. His country was to pursue its constructive participation in discussions in areas of interest to it.

55. The first discussant requested the legal texts on the implementation of the "tariffication" commitments and the tariff quotas régime. He recalled his questions on tourism incentives and asked for a description of the policy in this area.

56. The representative of Costa Rica gave assurances that the legal texts in question would be supplied. Policies affecting tourism would be covered by his response under the final theme of the debate.

57. The second discussant sought information on the observance of obligations under the Agreement on TRIPS; asked what enforcement and border measures were to be adopted.

58. The representative of Costa Rica explained the enforcement procedures, measures and mechanisms as well as the legal basis for the protection of intellectual property rights. These included preventive measures, seizure and confiscation of goods infringing rights. Although the possibility for reversal of the burden of proof did not exist in his country, the practice when a trademark had been infringed was to order the removal of the trademark from the offending goods and the donation or sale by auction of the products. Border measures were yet to be introduced into customs legislation; at present, judges could order the customs to adopt certain measures.

59. The representative of Canada recalled that the response with respect to notification obligations referred to one State-trading enterprise in the petroleum industry. He sought information on State-trading operations in agricultural products such as wheat, maize and dry beans as well as on their notification under Article XVII.

60. The representative of Costa Rica replied that in March 1995 the CNP had ceased its trading activities.

61. The representative of the European Union noted that recent legislative action covered areas where problems had been encountered (e.g., intellectual property, public procurement, telecommunications) and he was looking forward to seeing whether these would be resolved in practice. He noted the lack of information on maritime transport services as well as on the reasons for abstaining from the negotiations.

62. The representative of Costa Rica replied that his country could not participate in negotiations in a number of areas, including maritime transport services, at present.

(3) Regional integration

63. The representative of Costa Rica emphasized that his country's objective in participating in regional integration schemes was to achieve the rapid development of reciprocal trade relations compatible with its commitments in the multilateral trading system. Costa Rica's unilateral trade liberalization efforts at multilateral level had been supported by regional initiatives.

64. He referred to the CACM's importance for Costa Rica's foreign trade and described its rôle in the development of certain regional legal instruments. With reference to the harmonization of individual customs tariffs in line with the common external tariff, he said that the matter was still under discussion. Costa Rica did not use tariff escalation to protect domestic manufacturers and raw materials of CACM origin. He commented on institutional and procedural aspects of the CACM integration scheme; the establishment of a regional dispute settlement mechanism was under way. Costa Rica considered that obligations for the notification of the CACM integration scheme had been satisfied much earlier by Nicaragua.

65. The Free Trade Agreement with Mexico would cover virtually all tariff items within fifteen years. The preferential sugar quota granted to his country, was an option based on the purchasing needs of Mexico. He stated that a decision was to be made on the most appropriate WTO regulatory framework for the notification of trade agreements with Mexico, Panama and the Dominican Republic. Costa Rica was shortly to submit information on NAFTA's effects on diversion of trade and investment to Mexico.

66. He explained that the use of different tariff nomenclatures, the range of trade restrictive measures and the restrictions on access for preferential imports to the Panamanian market made difficult any assessment of the preferential scheme with this country. To improve access to this market, Costa Rica had requested bilateral consultations with Panama in the context of its accession to the WTO. Negotiations for the conclusion of a free-trade agreement among CACM countries, Colombia and Venezuela were to resume shortly.

67. The first discussant noted that regional integration could help the process of liberalization. He wondered whether fisheries products were covered by regional trade agreements signed by Costa Rica.

68. The representative of Costa Rica confirmed that such products were covered by these agreements. For example, under the Free Trade Agreement with Mexico these were contained in a 10-year plan for the phase-out of import duties.

69. The second discussant noted that the Caribbean Basin Initiative (CBI) had assisted Costa Rica's agricultural and industrial development. It was also coupled with investment and trade opportunities. He asked whether Costa Rica's adherence to regional agreements could erode CBI benefits.

70. The representative of Costa Rica said that in future greater emphasis would be placed on the work leading to a free-trade agreement covering the hemisphere. He recognized that the CBI had benefited Costa Rica's investment and trade expansion; it had facilitated its process of trade liberalization. Nevertheless, the CBI was a unilateral measure which was subject to limitations in product (e.g., textiles) and trade barriers coverage. This was the reason for the priority being given to the plan for a Free Trade Area for the Americas.

(4) Specific policy issues

71. In view of the time limitations and the wide range of issues to discuss, the representative of Costa Rica proposed that his oral responses be restricted to matters of major interest to most delegations and the discussants, such as the free zones, the selective consumption tax, banking legislation and tourism.

72. The Chairman agreed and stated that the full text of the responses by Costa Rica would be circulated as a separate document (WT/TPR/M/Add.1).

73. Despite the significant contribution of the free zones régime in investment, employment and exports, the representative of Costa Rica disagreed with a statement made at the meeting that a large part of the Costa Rican economy was operating under this régime. On the other hand, it was not possible to incorporate this type of incentive in the general tax system because of potential fiscal revenue losses. He confirmed that the granting of free-zone status to companies outside the specified zones was limited and was intended to provide employment in less-developed areas. Tax incentives in force in the context of free zones were fully compatible with the provisions of the WTO Agreement on Subsidies and Countervailing measures. Those that were prohibited (e.g., exemptions from the profit tax) were to be eliminated within eight years.

74. While explaining the background for the creation and operation of the selective consumption tax, he clarified that this was applied in a non-discriminatory manner. Changes to the list of taxable products and tax levels could be introduced only within strict limits. A full list of these products was to be delivered shortly.

75. He explained aspects of Costa Rican banking legislation which provided differential treatment for the establishment and operation of foreign (subsidiaries or branches), private and State banks. This legislation was being revised and access requirements for foreign banks were to be based on legal criteria rather than administrative discretion.

76. Tourism had developed in Costa Rica for a number of reasons. Although incentives had been rationalized in 1992, no date had been fixed for their termination. No evidence existed on the total amount of foreign direct investment in this sector or on its impact on other areas of economic activity. There was no proof that foreign ownership limitations constituted an obstacle to foreign direct investment inflows.

77. The first discussant acknowledged that all his questions under this theme had received a satisfactory response.

78. The second discussant was of the view that, although the timing for opening the market could vary according to the sector, the area of services required greater liberalization efforts. These should be made progressively so that they could be consolidated in the country.

79. The representative of the United States recalled that he had requested clarification on the nature of sanitary requirements and restrictions affecting imports of poultry. Regarding consular fees, he wondered whether consular authentication prior to submission at the port of entry was still required and whether these documents were examined at the time of entry. Regarding port services, he sought information on the type of services provided. He also asked how consular and port service fees were justified.

80. The representative of Costa Rica explained that customs procedures required consular authentication of certain documents which were drafted and agreed in foreign territory. He cited all the documents subject to this procedure. The level of fees was directly related to the cost of the service.

81. The sanitary regulations affecting poultry imports, in force since March 1993, were consistent with international rules and very similar to those applied by the United States. All zoo-sanitary regulations, including those affecting poultry, were applied on the basis of national treatment. A copy of the relevant regulations was to be submitted.

82. The representative of the European Union was of the view that phytosanitary measures on imports of cheese and fresh meat had no scientific justification and urged the authorities to revise these measures. Referring to the draft law for the adoption of phytosanitary measures, he expressed the hope that these would be more in conformity with international rules.

83. The representative of Costa Rica replied that his country's policy on sanitary and phytosanitary measures was strict and these were not used as non-tariff barriers. To further elaborate on the cheese and meat cases he needed more information.

84. The representative of the United States said that he would examine Costa Rica's written replies regarding the specifics of sanitary and phytosanitary measures. In recent years the practice of consular formalities had been greatly reduced in many countries and he urged Costa Rica to review this measure.

VII. CONCLUDING REMARKS BY THE CHAIRMAN

85. At its second meeting, the Trade Policy Review Body of the WTO completed the first review of the trade policies and practices of Costa Rica. These remarks, made on my own responsibility, summarize the salient points of the discussion and are not intended to substitute the collective evaluation and appreciation of Costa Rica's trade policies and practices.

86. The discussion developed under four main themes: (i) the overall economic situation, (ii) trade policy in the post-Uruguay Round period, (iii) regional integration, and (iv) other, more specific policy issues.

(a) Overall economic situation

87. Members praised Costa Rica's achievements in a number of areas including economic, social and trade policy. However, it was unfortunate that the imbalance in public finances, mainly due to increases in government spending, had led the Government to increase tariffs earlier this year. While this was said to be a temporary measure, it had introduced an element of uncertainty in the trade régime, despite the general stability that characterized Costa Rica's legal framework. Members sought further details on these increases, such as their coverage, expected date of suppression, and whether they were being applied on an m.f.n. basis.

88. Members requested further efforts towards simplifying the tax system. Concern was expressed over the use of fiscal incentives; and the varying rates of the selective consumption tax which appeared to be applied in non-neutral manner. Information was sought on the product coverage of indirect taxes as well as the portion of domestic consumption of items subject to the selective consumption tax that was supplied by imported items.

89. Clarification was requested on the type of measures to be adopted to reduce fiscal expenditure to 2 per cent of the GDP. A question was asked about the prospects for approval by the Legislative Assembly of the legal texts to implement the reforms (*Ley de Reforma Financiera*).

90. A number of questions were asked about public sector reforms, in particular institutional reforms and reduction of the number of employees. Further explanation was sought on the privatization programme as well as government procurement procedures.

91. Market access in services, particularly banking and insurance, where there was extensive State involvement, was a matter of concern for a number of participants. The question was raised whether there were any plans for modifying discriminatory legislation on construction services. Questions on tourism incentives related to their status (permanent or temporary) and their impact on other sectors of economic activity. How had restrictions on the share of foreign ownership of tourism firms affected Foreign Direct Investment in this sector?

92. A copy of the New Competition Law was requested.

93. In response, the representative of Costa Rica said that the Government had been seeking a political consensus on a drastic programme for the reduction of the fiscal deficit to re-establish stability and promote growth. In the meantime, the recent, temporary tariff increases - within bound levels - to generate revenues were less problematic than means such as monetary expansion. They had been necessary to meet the State's obligations, including foreign debt. He gave details of the strategy to resolve these problems over the longer term, including reform of the State. This required a legislative

programme, but the major political parties had now reached consensus on the general reform programme. This programme would include, inter alia, modernization in the areas of public procurement procedures, telecommunications and insurance. Financial sector reforms would increase the independence of the Central Bank and allow a greater rôle for private banks.

(b) Post-Uruguay Round trade policy

94. Costa Rica was widely commended for the trade liberalization efforts undertaken since 1990, the improvement of its binding commitments during the Uruguay Round and its participation as a founder member of the WTO. One member considered that "tariffication" had resulted in high bound rates on certain items.

95. A number of questions were raised on the status of implementing legislation of the Uruguay Round results in areas such as technical standards, certification procedures and phytosanitary protection. A question was asked on how the new anti-dumping legislation would be applied, particularly in the light of the requirements of the relevant WTO Agreement? Information was requested on whether all import licences other than those required for tariff quotas had been eliminated in conformity with Uruguay Round commitments.

96. Regarding the new areas, clarification was sought on the compatibility of current legal provisions on intellectual property with those of the WTO Agreement on TRIPS, including the timetable for achieving such conformity. Information was requested on exceptions to m.f.n. or national treatment in this area, the coverage of trademark protection and the enforcement of intellectual property rights.

97. Market access commitments by Costa Rica in the services sector, including tourism, were considered modest and further improvement would be welcome. As Costa Rica had not manifested any interest in participating in negotiations on basic telecommunications, financial services and maritime transport services, participants wondered about its intentions in the current negotiations in these areas.

98. In response, the representative of Costa Rica gave details of the legislative programme to incorporate the results of the Uruguay Round. Costa Rica had met notification obligations under the agreements within the requisite timeframe. Information was provided on the legal steps which had been taken to implement the obligations on elimination of import licences, tariffication and on special safeguards. Extensive details were provided on the draft law on intellectual property to bring it into alignment with the TRIPS Agreement. This was before the Congress. In services, Costa Rica had made commitments in tourism, informatics, health and education. As consensus developed, Costa Rica hoped to participate constructively in discussion in other services sectors.

(c) Regional integration

99. Hopes were expressed that efforts towards expanding regional and preferential arrangements would not be to the detriment of Costa Rica's multilateral commitments including the possibility of making further m.f.n. tariff reductions. Participants asked about problems in harmonizing the common external tariff of the CACM and when a move towards an economic union within CACM could be expected. Others were interested in the timetable for negotiations between the CACM, Colombia and Venezuela for the establishment of a Free Trade Area.

100. Certain participants invited Costa Rica to notify its Free Trade Area agreement with Mexico and the Northern Triangle Agreement (Mexico and CACM countries) under Article XXIV of the GATT.

Information was requested on the operation of the Guaranteed Access Levels device in the context of the Caribbean Basin Initiative, as well as preferential market access conditions agreed with Panama.

101. In response, the representative of Costa Rica said that regional integration efforts were totally compatible with the multilateral trading system and existing commitments. In the CACM, Costa Rica was seeking harmonization of tariff ceilings and floors for most items, but this was being discussed with its partners in the region. No other areas of economic integration were envisaged at present within CACM. The CACM agreement had already been notified by Nicaragua. Details were also provided on the agreement with Mexico as well as the negotiations with Colombia and Venezuela. Discussions would be held on notifying the agreements with the Dominican Republic and Panama. It was difficult to assess the effects of the preferences with Panama.

(d) Specific policy issues

102. One participant considered that import duties, internal taxes and import procedures should be simplified. Information was sought on the reasons for the discrepancy in rates applied on port fees for imports and exports; these should be adjusted to reflect the cost of services. The rationale was requested for maintaining compulsory customs warehousing procedures for fiscal revenue purposes. Questions were also asked about the present customs valuation system and the purpose of the database to be used under the new customs valuation regulations. Two participants requested explanations on how sanitary requirements for imports of poultry, meat and cheese were operated.

103. Although the State holding company, CODESA, had been liquidated, remaining State firms constituted a potentially distorting element (e.g., in areas such as oil refining and imports, transportation, electricity, telecommunications, banking, insurance). Several participants requested additional information on State-trading activities. Costa Rica was asked to indicate whether and when it planned to comply with the notification requirements under Article XVII.

104. Free trade zones were a well-recognized export promotion tool. Nevertheless, fiscal incentives provided to companies in these zones should conform to the relevant WTO provisions on subsidies. Clarification was sought on whether State subsidies were provided by the National Insurance Institute (INS) through crop insurance services.

105. Export promotion could be further improved by providing prompt and accurate information on new measures. Transparency was required to help exports and investment. Information was requested on new export incentives under the "*Plan 5000 de exportación*" as well as whether the CIEX export increment certificate legislation was to be revoked.

106. In response, the representative of Costa Rica said that the incentives provided for free trade zones were in conformity with the Agreement on Subsidies and Countervailing Duties, and as such did not constitute a subsidy in the GATT sense. The measures applied to any domestic or foreign firm operating in the zones. Income tax exoneration for such firms was being eliminated. Details were given of the Plan 5000 for export promotion, which were also GATT consistent. He also explained that new customs valuation procedures, designed to increase transparency, were yet to be discussed at the CACM level. He also explained the system for making available quotas on items which were now subject to tariff quotas.

107. The representative explained the criteria used for setting the varying rates of the selective consumption tax and confirmed that the tax was neutral as far as foreign trade was concerned. Information was also provided on the operation of Costa Rica's legislation on technical standards.

Sanitary regulations, in place since March 1993, met international standards and were very similar to those of the United States. WTO notification obligations on State-trading had been met recently.

108. He clarified aspects of the banking legislation relating to the establishment of subsidiaries of foreign banks and explained that during the current revisions of this legislation consensus had been reached on the use of legal rather than arbitrary criteria for the access of foreign banks. Regarding tourism, he explained that several fiscal incentives remained in force and there were no plans for a phase-out. No evidence was available on the impact of the incentives on other sectors and the lack of a Foreign Direct Investment registry impeded any appraisal in this area.

109. Finally, the representative of Costa Rica made the full text of his replies available to all interested delegations. This would be reflected in extenso in the records of the meeting prepared by the WTO Secretariat.

110. In conclusion, the TPRB greatly appreciated Costa Rica's considerable efforts to liberalize its trade policy, and its active participation in the GATT/WTO system since its accession in 1990. We are sure that the Costa Rican authorities will give due consideration to the concerns raised during the review. We wish the Costa Rican authorities well in the ongoing process of restructuring the economy, and hope that Costa Rica will continue with both the pursuit of integrating its trade policies and practices into the global economy in the spirit of multilateralism, and the reshaping and modernization of the public sector.