

## II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

### (1) Introduction

1. Costa Rica, which became an independent republic in 1848<sup>1</sup>, has enjoyed remarkable political stability and virtually uninterrupted democratic civilian rule since 1889. The present Government of President José María Figueres was elected in February 1994 and took office in May of the same year.

### (2) General Framework

2. Costa Rica is a unitary republic. The legislature, the executive and the judiciary are distinct and independent. General elections for the Legislative Assembly and the President are held every four years.

3. Executive power is in the hands of the President, who is elected by universal suffrage. The Cabinet is currently composed of 18 Ministers, selected by the President, usually from his own political party. Ministers need not be members of the legislature.

4. Legislative power is vested in a 57-member unicameral Legislative Assembly. Members are elected through a system of proportional representation, at the same time as the presidential elections.

5. The judiciary consists of the Supreme Court (consisting of 22 members elected by the Legislative Assembly for eight-year terms)<sup>2</sup>, four appellate courts, criminal courts, civil courts and special courts. A special Chamber of the Supreme Court (*Sala Constitucional* or *Sala IV*) has the responsibility of ruling on whether laws are constitutional.<sup>3</sup>

6. Each of Costa Rica's seven Provinces is composed of cantons and is administered by a Municipal Council, elected by popular vote every four years. These Councils are closely regulated by national law, particularly in matters of finance.

### (3) Structure of Trade Policy Formulation

#### (i) Legislative and executive branches of government

7. The Legislative Assembly may enact laws and impose or approve taxes. Bills may be introduced by members or by the Executive. After first reading and publication in the official journal (*La Gaceta*), they are considered by the relevant parliamentary committee and returned to the Assembly for final reading where they may be approved or debated by a Committee of the Whole (*Comisión Plena*). Amendments to the Constitution, approval of international agreements or treaties and reforms to the Laws of Constitutional Jurisdiction (*Ley de la Jurisdicción Constitucional*) must go through an obligatory process of constitutional consultation by the Constitutional Chamber after first reading in the Assembly.

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<sup>1</sup>After obtaining independence from Spain in 1821, Costa Rica became part of the Mexican Empire for two years (1821-23) and subsequently member of the Central American Federation (EIU, 1993, p. 10).

<sup>2</sup>They are automatically re-elected for a second term unless the Legislative Assembly decides to the contrary by a two-thirds majority vote.

<sup>3</sup>The Constitutional Chamber was created in 1989 (Law 7128, 18 August 1989).

The President may veto and return bills passed by the Assembly. The Assembly may not override the veto, but can initiate a new process on a similar law.

8. The Executive ensures that the laws and the provisions of the Constitution are carried out, and maintains order. The Executive (the President and the competent minister) has the power to negotiate international treaties and foreign loans; these, however, are subject to ratification or approval by the Legislative Assembly.

9. Trade policy formulation is directed by the Cabinet (*Consejo de Gobierno*) which comprises all ministers. The Ministry of Foreign Trade (*Ministerio de Comercio Exterior*, COMEX), established in 1986, has the main responsibility for trade policy formulation and implementation in co-ordination with other Government agencies.<sup>4</sup> These include the Ministry of Finance (*Ministerio de Hacienda*)<sup>5</sup>, the Ministry of Economy, Industry and Commerce (*Ministerio de Economía, Industria y Comercio*, MEIC), the Ministry of Agriculture and Livestock (*Ministerio de Agricultura y Ganadería*, MAG), the Ministry of External Relations (*Ministerio de Relaciones Exteriores y Culto*), the Ministry of Science and Technology (*Ministerio de Ciencia y Tecnología*) and certain product-specific institutions.

10. While COMEX is responsible for representing Costa Rican trade interests in multilateral negotiations and bilateral relations, MEIC deals with tariff policy and Central American integration issues.

11. Certain State, semi-private or private institutions which represent producer interests, are consulted on trade policy within their respective fields of responsibility. These cover items such as coffee, rice, meat, sugar and bananas. The main institutions are the Coffee Institute (*Instituto del Café*, ICAFE), the National Office for Rice (*Oficina Nacional del Arroz*, ONA), the Corporation for Livestock Promotion (*Corporación de Fomento Ganadero*, CORFOGA), the Agro-industrial Sugar Cane League (*Liga Agrícola Industrial de la Caña de Azúcar*, LAICA) and the National Banana Corporation (*Corporación Bananera Nacional*, CORBANA).

12. The Central Bank of Costa Rica deals with foreign exchange, monetary and credit policy matters.

13. A number of public sector institutions, including the Ministry of Planning (*Ministerio de Planificación*, MIDEPLAN) and the Central Bank, publish analyses which also cover trade policy issues.

(ii) Advisory bodies

14. No formal, overall periodic review of trade policy is operated by any independent body. However, the Costa Rican authorities believe that successful trade policies depend on the degree of involvement and participation of the private sector in their elaboration. To this end, the Government informs and consults extensively with business interests within *ad hoc* working groups. Private sector associations publish annual reports, while the Economic Research Institute (*Instituto de Investigaciones en Ciencias Económicas*) of the University of Costa Rica publishes studies on specific policy issues. The *Academia de Centroamérica* also publishes studies, sometimes making recommendations on economic policies, including trade policy. Generally, the Government does not systematically seek assistance or advice on trade policy from universities or research institutes, unless there is special reason to do so.

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<sup>4</sup>COMEX's responsibilities also include the promotion of export-related investment activities.

<sup>5</sup>The customs authorities (*Dirección General de Aduanas*) form part of this Ministry.

(4) Trade Policy Objectives

(i) General trade policy objectives

15. Until the late 1970s, Costa Rica's trade policy objectives were set in a general framework of import substitution. However, as noted in Chapter I, in the context of a macroeconomic stabilization programme, efforts were initiated in 1986 to expand exports of non-traditional products. Since 1990, when it acceded to the GATT, Costa Rica's trade policy has further evolved towards a more neutral outward orientation, and import barriers have fallen (Chapter IV).

16. The Government has placed considerable emphasis on improving and securing access for Costa Rican exports to the world market. It is also trying to counter elements which create an anti-export bias, including administrative obstacles.<sup>6</sup> While the introduction of a simplified tariff schedule is under consideration, regional commitments may limit the possibilities for Costa Rica to act autonomously in this respect (see below and Chapter IV).

17. Regional and bilateral agreements constitute important elements in the trade policy framework. These are believed to help avoid trade and investment diversion, as well as to assist in the diversification of export markets. In this context, a priority objective for the authorities is to obtain conditions of access to the United States market similar to those granted to Mexico through NAFTA.

(ii) Sectoral trade policy objectives

18. In the past decade Costa Rica's trade policy objectives were shaped by the need to promote or defend its coffee and banana exports to developed countries, as well as domestically manufactured goods to the Central American market. In view of the changes in its export structure, Costa Rica is now also looking to the United States and the European Union, in particular, to expand its exports of fruit, other than bananas, and of clothing.

(iii) The Uruguay Round

19. Costa Rica has been a participant in the Uruguay Round from the outset, i.e., even before its accession to the GATT. Its prime objective in the negotiations was to improve market access for tropical products such as bananas and coffee, where it made specific proposals, either individually or in association with other Central American countries.<sup>7</sup> In the area of services, Costa Rica favoured a balanced treatment of the movement of production factors to ensure greater transfer of technology towards developing countries, and recognized the need for multilateral action to reduce the impact of restrictive business practices by dominant foreign enterprises on domestic service suppliers.<sup>8</sup>

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<sup>6</sup>The general trade policy objectives of each government are contained in a four-year National Development Plan (*Plan Nacional de Desarrollo*).

<sup>7</sup>Costa Rica was particularly concerned with the EU's banana import régime (see Chapters IV, V and IV), as well as the substantial increase in selective internal taxes on coffee and products thereof (*Imposti di Consumo su Caffè e Cacao*) in Italy (MTN.SB/SN/22/Rev.1, 27 June 1991; MTN.SB/SN/25, 23 March 1993).

<sup>8</sup>MTN.GNS/27, 22 December 1989.

20. Costa Rica signed the Marrakesh Agreement concluding the Uruguay Round, which it ratified on 26 December 1994 to become a founder member of the WTO. The strengthening of the multilateral legal framework in areas such as dispute settlement, trade in agriculture, subsidies and countervailing duties is seen as being of particular benefit to Costa Rica. The implementation of multilateral rules in sectors such as agriculture and textiles, the tariff reductions in the industrial sector and the establishment of a legal framework in the services sector are thought likely to boost world trade and stimulate the world economy. Although tariff reductions are expected to erode preferential treatment in developed country markets, the authorities recognize that m.f.n. bound rates provide more sound market access than unilateral preferences.

21. Regarding the WTO agenda, Costa Rica is seriously concerned by the possible inclusion of issues which may disguise protectionist trends. It will, therefore, oppose the inclusion of items like labour conditions. While Costa Rica welcomes the establishment of a programme of work on trade and the environment, it will be mindful of its interests in this area.<sup>9</sup>

(5) Trade Laws and Regulations

22. Although inferior to Costa Rica's Constitution, international treaties, including the GATT and the WTO multilateral agreements, prevail over domestic legislation, and can be directly invoked before the courts including when domestic laws are considered as infringing their rules.

23. Article 46 of the Costa Rican Constitution prohibits private monopolies, requires *de facto* monopolies to be subject to special legislation, and also requires new State or municipal monopolies to be approved by two thirds of the membership of the Legislative Assembly. Article 121, paragraph 14, of the Constitution, although allowing for private sector exploitation for a limited period of time<sup>10</sup>, prohibits definitive loss of State ownership over power-generating activities which are dependent on the use of waters in the public domain; natural resource deposits (beds of coal, wells and deposits of petroleum, any other hydrocarbons and radioactive materials); and wireless services (Chapter IV). Ownership and control of the national railroads, docks and airports are reserved exclusively for the State.

24. No basic trade law as such exists in Costa Rica. Trade laws in certain areas (e.g. customs procedures, anti-dumping and safeguards) incorporate provisions of legal texts agreed at Central American, multilateral or international level into domestic legislation.

25. To harmonize domestic legislation with the provisions of the WTO Agreements, changes are to be undertaken in certain areas, including the abolition of import licensing for agricultural products, tariffication, and legislation on safeguards and unfair trade practices. Bills on a number of trade-related issues, including the detailed implementation of the Uruguay Round results in specific areas, are expected to receive the approval of the Legislative Assembly in the course of 1995 (Chapter IV).<sup>11</sup> The Free

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<sup>9</sup>MTN.TNC/MIN(94)/ST/96, 14 April 1994.

<sup>10</sup>Exploitation is authorized in accordance with the law or by special concession on the basis of the conditions and stipulations set by the Legislative Assembly.

<sup>11</sup>Apart from the implementation of the Uruguay Round results, additional bills covered key trade matters such as industrial secrets and industrial property rights, customs matters, safeguards, technical standards, phytosanitary protection, government procurement, Central American integration, promotion of competition, consumer protection, broadcasting and maritime transport.

Trade Agreement with Mexico and the new law on competition and consumer protection were approved in December 1994.<sup>12</sup> The Paris Convention on the protection of industrial property was expected to be approved in March 1995.

26. Trade regulations are implemented mainly by laws, but decrees or resolutions (*reglamento*) may also be issued by Government institutions or agencies. The wide use of laws rather than decrees provides a stable and predictable legal framework, which appears to be appreciated by the business community.

(6) Trade Agreements and Arrangements

(i) Multilateral agreements

27. Following procedures initiated in June 1987, Costa Rica's accession to GATT was approved by the CONTRACTING PARTIES on 20 November 1989.<sup>13</sup> Its Protocol of Accession was ratified on 25 October 1990 and Costa Rica became the 100th contracting party one month later, on 24 November 1990.

28. Upon accession, as well as making tariff commitments, Costa Rica pledged to eliminate import surtaxes and surcharges which, together with applied rates, exceeded the newly bound rates. It also agreed to eliminate all import licensing and quantitative restrictions then in force (Chapter IV).

29. Costa Rica was not a signatory to any of the MTN (Tokyo Round) Agreements or Arrangements, although it maintained observer status of the Arrangement Regarding Bovine Meat. The main reason for its non-adherence to any of these Codes related to the coincidence of its accession with the re-negotiation of these agreements in the context of the Uruguay Round. The authorities considered it preferable to wait for the conclusion of the negotiations before undertaking any such commitment.

30. Under the Agreement Establishing the WTO, Costa Rica assumed, as part of the Single Undertaking, all commitments under the Multilateral Trade Agreements which apply to Members. Costa Rica intends to adhere to the International Dairy Agreement, but has no plans to adhere to any other plurilateral trade agreements, which are binding only on those who have accepted them.<sup>14</sup>

31. From March 1988 Costa Rica was a signatory to the Arrangement Regarding International Trade in Textiles (the Multifibre Arrangement (MFA)).<sup>15</sup> Under the MFA, Costa Rica maintained bilateral agreements with the United States and Canada.

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<sup>12</sup>Law 7474, 20 December 1994; Law 7472, 20 December 1994.

<sup>13</sup>GATT document L/6607, 27 November 1989.

<sup>14</sup>The Uruguay Round plurilateral trade agreements comprise the Agreement on Trade in Civil Aircraft, the Agreement on Government Procurement, the International Dairy Agreement and the International Bovine Meat Agreement.

<sup>15</sup>Costa Rica initially signed the MFA on 14 March 1988, before becoming a GATT contracting party. It subsequently signed extensions to the Arrangement in August 1991 and March 1993 (COM.TEX/51/Add.6, 31 October 1988; COM.TEX/70, 29 November 1991; COM.TEX/74, 20 April 1993).

32. Since 1971 Costa Rica has been a beneficiary under various GSP (Generalized System of Preferences) schemes. However, most of these are of minor importance to Costa Rica, given the limited value of exports to donor countries other than the EU and the United States.<sup>16</sup> Nevertheless, the authorities are of the view that Costa Rica's graduation from the Polish GSP scheme in 1994 adversely affected banana, coffee, flower and other exports to this market. In 1994, Costa Rica decided to amend its labour legislation so as to avert suspension of trade privileges under the U.S. GSP.<sup>17</sup>

33. Since 1 January 1992, the EU has granted exceptional temporary assistance to members of the Central American Common Market (*Mercado Común Centroamericano*, CACM) and Panama by extending to their agricultural exports GSP tariff preferences similar to those already provided to Bolivia, Colombia, Ecuador and Peru. This treatment is intended to assist these countries in their fight against the cultivation and trade of illegal drugs by boosting export earnings. It consists of full suspension of the common customs tariff duties levied on EU imports of certain agricultural goods from the region. The Costa Rican authorities consider that in 1993 the scheme contributed to a significant increase in non-traditional exports, which had amounted to only 20 per cent of exports to the EU market. This scheme, which was to due to expire in December 1994, has been renewed for another year.

34. Costa Rica has been a beneficiary of the Caribbean Basin Initiative (CBI) since 1984.<sup>18</sup> The CBI provides for duty-free access to the United States' market for most products, with certain exceptions including textiles and clothing. Since almost 80 per cent of the region's exports were already covered by the U.S. GSP scheme, the CBI product list meant an estimated increase of 15 per cent in trade coverage.<sup>19</sup> Costa Rica views the scheme as a means of helping to reduce unemployment, foreign exchange shortages and its heavy debt burden by opening the U.S. market and inducing greater foreign investment in the region.<sup>20</sup> The CBI has helped in stimulating diversification in agricultural and industrial activities. For example, in 1983, two thirds of all Costa Rica's exports to the United States were "traditional" products, while in 1989 two thirds were "non-traditional" exports (mainly fresh fish, crustaceans, molluscs, flowers, bulbs, vegetables, banana plantains, pineapples, mangoes, avocados, jewellery articles, plastics, etc.).

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<sup>16</sup>According to CENPRO, between January and August 1994, 39 per cent of Costa Rica's exports to the EU were estimated to have benefited from GSP treatment. The corresponding shares for the United States (including CBI), Canada and Japan were 24 per cent, 28 per cent and 66 per cent.

<sup>17</sup>Amendments were expected to consist of the legalization of public sector strikes, barred for the past 16 years, and the ratification of 13 ILO (International Labour Office) Conventions (EIU, 1994a, p. 12).

<sup>18</sup>The CBI entered into force in 1984 for a period of 12 years under the Caribbean Basin Economic Recovery Act of 1983 (CBERA). The Caribbean Basin Economic Recovery Expansion Act of 1990 (CBERSA) converted the CBI into a permanent programme and expanded preferential treatment to certain goods until then excluded under CBERA. In 1991 and 1992, two Presidential Proclamations further extended the scope of duty free treatment under the scheme. Currently 24 countries qualify for such treatment. Beneficiaries include Central-American countries such as Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, as well as Panama and virtually the whole of the Caribbean (L/7304, 10 November 1993). For a detailed analysis of the scheme, see R.L. Breiteneker (1992), p. 920.

<sup>19</sup>EIU (1993), p. 8.

<sup>20</sup>Statement made in 1987 by Muni Figueres de Jimenez, ex-Minister of Trade of Costa Rica, at the Sub-Committee on Trade of the House Committee on Ways and Means, cited in R.L. Breiteneker (1992).

35. CBI benefits seem to have dovetailed well with the creation of free-trade zones (including the establishment of an off-shore assembly régime (*maquiladoras*)) and other "self-help" measures instituted by Costa Rica to improve its investment climate, which created a strong base for business development in the 1980s (Chapters III and IV). Indeed, foreign investment appears to have been directed to CBI-eligible non-traditional agricultural products and low-capital, labour-intensive industries, requiring medium-skill complexity in production.<sup>21</sup>

36. Generally, the bilaterally negotiated Guaranteed Access Levels (GALs) for textile and clothing items excluded from the CBI have been of limited value to Costa Rica, except that quota utilization by the Costa Rican exporters for cotton trousers, slacks and shorts stood at 91 per cent and 63 per cent for 1993 and 1994, respectively. To a large degree, the GALs are intended to promote the use of textiles made in the United States; Costa Rican exporters of finished goods complain that these textiles are not always available in adequate quantities, proper quality and competitive prices, compared to other foreign supplies. While Costa Rica is entitled to national treatment status under the CBI Government Procurement Initiative, it has not been able to take advantage of this scheme.

37. Under Partial-Scope agreements based on the 1980 Montevideo Treaty establishing the Latin American Integration Association (LAIA), Colombia and Venezuela unilaterally grant tariff preferences to certain Costa Rican exports.<sup>22</sup> Venezuela provides tariff reductions, ranging between 50 per cent and 100 per cent, for some 23 eight-digit items. The Agreement with Colombia ensures tariff and non-tariff preferences for 26 eight-digit items; tariff preferences range from 10 to 100 per cent. Between 1990 and 1992, exports under these agreements attained US\$2.4 million and were concentrated in a few items such as paper waste, machinery for grains selection, hides and skins, and ammonium nitrate. Similar treatment, offered by Mexico, is now incorporated in the 1994 Free Trade Agreement with this country (see section on CACM).

38. In June 1994 Costa Rica joined the Association of Caribbean States (*Asociación de Estados del Caribe*).<sup>23</sup> Its objective is to establish a framework for flexible co-operation on issues such as economic integration, trade, investment, transport, communications, science and technology and environmental protection.

39. Costa Rica does not participate in the Global System of Trade Preferences.

40. Costa Rica is a member of the United Nations, the International Monetary Fund (IMF), the International Maritime Organization (IMO) and the World Bank, as well as regional bodies such as the Inter-American Development Bank (IDB), the Organization of American States (OAS) and the Latin American Economic System (SELA). It is also a signatory of the UN Code of Conduct for Liner Conferences and the WIPO Convention (see Chapter IV).

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<sup>21</sup>R.L. Breitenecker (1992), p. 934.

<sup>22</sup>Costa Rica is not a LAIA member. Previous GATT TPRM reports on Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Peru and Uruguay provide background material on LAIA.

<sup>23</sup>The Association of Caribbean States was established in 23 June 1993. Apart from Caribbean island States, other participants are Colombia, El Salvador, Honduras, Mexico, Nicaragua, Suriname and Venezuela (Journal of Commerce, 6 December 1994).

41. Costa Rica has signed the Common Fund for Commodities. It is also a member of the International Coffee Agreement, International Cocoa Agreement, the International Sugar Agreement, the International Agreement on Olive Oil and the International Grain Arrangements.

(ii) Regional agreements

CACM

42. Since 1963, Costa Rica has been a signatory of the General Treaty on Central American Integration (*Tratado General de Integración Económica Centroamericana*) establishing the Central American Common Market (CACM) one of the earliest regional groupings in Latin America.<sup>24</sup> The CACM's objectives are: to create a common market; to promote and co-ordinate industrial development; to co-operate in monetary and financial areas; to develop an integrated infrastructure; and, to facilitate intra-regional investment. All CACM members are now contracting parties to the GATT.<sup>25</sup>

43. During the 1960s CACM members succeeded in removing tariffs on 94 per cent of intra-regional trade, establishing a common external tariff covering almost 80 per cent of extra-regional trade and adopting a common tariff nomenclature. Import substitution at regional level was fostered both by the structure of the common external tariff and the industrial integration arrangement of the General Treaty. However, in the 1970s and the early 1980s, under pressure of increased external indebtedness and the economic slowdown, CACM members acted individually to protect their industries by restricting imports through priority lists, including goods of CACM origin. They also increased import duties and introduced temporary import surcharges, a main set-back for the implementation of the common external tariff and intra-regional trade flows. In addition, friction was generated by the uneven distribution of benefits from the entire scheme.

44. Efforts to revive and modernize the scheme were initiated on 14 December 1984, when the Central American Tariff and Customs Agreement was concluded. It stipulated the introduction of a common CCCN nomenclature (NAUCA II); the transformation of all duties from specific to ad valorem; the elimination of all tariff exemptions on raw materials, intermediates and capital goods; the abrogation of regional investment incentives; and, the creation of a Central American Council for Tariffs and Customs (*Consejo Arancelario y Aduanero Centroamericano*), with authority to establish and modify import tariffs without the need for legislative action by individual member countries. It also contained a commitment to accelerate the negotiation of new tariffs for intermediates, raw materials, capital and consumer goods. These changes were to be put in place no later than October 1985.

45. In 1990, work started on the establishment of a new Central American Import Tariff (*Arancel Centroamericano de Importación*); revision of the CACM Treaty; and the implementation of a new customs nomenclature based on the Harmonized System. Non-tariff preferences were not envisaged. To guarantee food security in the region consideration was given to the establishment of price bands for certain agricultural products, such as maize and dried beans, although Costa Rica chose not to support or adopt this proposal.

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<sup>24</sup>CACM was created on 12 October 1961 by the entry into force of the General Treaty on Central American Integration signed in Managua on 13 December 1960.

<sup>25</sup>CACM members other than Costa Rica are: El Salvador, Guatemala, Honduras and Nicaragua.



46. Plans for improving free trade between CACM countries have been implemented, and the Central American Import Tariff, now expressed in the Harmonized System, has been rationalized. This tariff, which is not a common external tariff and is applied with significant variations by members of the CACM, seeks to harmonize tariff levels at rates of 5, 10, 15 and 20 per cent ad valorem.<sup>26</sup> In this context, a Central American Uniform Customs Code (*Código Aduanero Uniforme Centroamericano*, CAUCA II), defining the future customs regulations of CACM, establishing the system and setting customs valuation procedures, has entered into force, except for Costa Rica (Chapter IV). In October 1993, Costa Rica signed the Protocol Modifying the General Treaty (*Protocolo Modificadorio del Tratado General de Integración Económica Centroamericana*) which, *inter alia*, creates a sub-system of economic integration (*Subsistema de Integración Económica Centroamericana*), allowing CACM members to proceed towards economic union at different speeds. As stated earlier, agenda- and procedure-related delays have impeded the Legislative Assembly's approval of the protocol.

47. Costa Rica has strongly supported the full implementation of the free-trade area within CACM. Nevertheless, at present it cannot accept further movement in matters such as the establishment of a common tariff, a tax collection body or the free movement of persons. Without prejudice to rights deriving from the provisions of the Enabling Clause, Costa Rica would not object to the examination of the CACM scheme under Article XXIV.

48. The CACM free-trade area seems to have resulted in a shift to regional sources of supply for light manufactures, processed foods, and other standardized industrial and agricultural items (Chapter IV). However, third countries appear to have benefited from a consequential increase in demand for imported capital goods for the manufacturing processes, while rising standards of living have also generated a demand for more sophisticated consumer goods, also imported from outside the region.<sup>27</sup>

49. Today, the importance of the CACM for Costa Rica appears to rest on the export side rather than on imports. In 1992 CACM countries accounted for more than 7 per cent and about 15 per cent of Costa Rican imports and exports, or US\$181 million and US\$249 million, while in January-September 1993 these figures stood at US\$147 million and US\$190 million.<sup>28</sup> Between 1987 and 1992, the share of intra-CACM imports in Costa Rica's total fell by 12 per cent, while that of Costa Rican exports to CACM markets rose by about 49 per cent. Major suppliers were Guatemala and El Salvador, while Guatemala and Nicaragua took the larger part of Costa Rican exports to the region.

50. On 20 August 1992 the five CACM members signed a framework agreement setting common guidelines for separate bilateral talks with Mexico. The objective was to boost intra-regional trade and investment, as well as to attain economic complementarity. The Costa Rica-Mexico agreement is discussed below.

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<sup>26</sup>The Central American Import Tariff was expected to cover 98 per cent of all tariff lines by 31 December 1994. Essential (e.g. agricultural inputs, medicines) and "fiscal" goods (e.g. vehicles, perfume, jewellery), subject to 1 per cent and 25 per cent duty, respectively, would be excluded from this commitment (L/7160/Add.3).

<sup>27</sup>Bureau of National Affairs (1990).

<sup>28</sup>Data supplied by CENPRO.

51. In February 1993, CACM members signed an agreement with Colombia and Venezuela to launch negotiations aiming at the establishment of a free-trade area by 2003. Apart from the elimination of duties, the agreement is also expected to cover non-trade-related areas such as employment, health, shipping and natural resources. At present, the negotiations are suspended.

52. The second five-year framework Cooperation Agreement between the European Union and the CACM was signed in 1993, although it has not been formally approved by the Costa Rican Legislative Assembly. The agreement guarantees mutual m.f.n. treatment in trade, and is aimed at facilitating and strengthening linkages in a number of areas such as trade, agriculture, forestry, fisheries, mining, industry, investment, science and technology, protection of industrial and intellectual property, transport, information technology and telecommunications, tourism, environment, biological diversity, health, etc.<sup>29</sup> Under the Agreement, the CACM countries as a group are reported to have, so far, received US\$170 million of financial aid from the EU. In addition, a special programme to assist municipal authorities has contributed US\$180 million since 1992.<sup>30</sup>

53. Costa Rica could have an interest in joining the North American Free Trade Agreement (NAFTA).<sup>31</sup> The approval and entry into force of the NAFTA may have adverse effects on the growth of non-traditional exports to the United States as well as U.S. investment in Costa Rica (Chapter III). CBI benefits for certain items may also be eroded by the scheme.<sup>32</sup> A proposal to give CACM exports of clothing and textiles NAFTA parity is expected to be approved by the U.S. Congress late in 1995.<sup>33</sup>

54. In December 1994, Costa Rica participated in the Summit of the Americas, at which Heads of State from all countries in the western hemisphere (except Cuba) agreed on a programme for a Free Trade Area for the Americas (FTAA) by the year 2005. The Plan of Action calls for the Organization of American States (OAS) and the Inter-American Development Bank (IDB) to take the lead in following up the Summit's decisions, and lays out a programme of meetings for Trade Ministers in June 1995 and March 1996 to work on the FTAA.

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<sup>29</sup>Official Journal of the European Communities No. C77, 18 March 1993.

<sup>30</sup>Caribbean and Central America Report, 1 September 1994.

<sup>31</sup>EIU (1994c), p. 10.

<sup>32</sup>The most vulnerable items to Mexican competition are expected to be textiles and apparel, and goods excluded from the CBI (footwear, leather products, canned tuna, watches). CBI preferences are to be eroded for items which are excluded from the U.S. GSP (fruits and vegetables such as pineapples, cantaloupes, etc.). Finally, Mexico, as a NAFTA partner, should now have access to the U.S. dairy market which has been practically closed to highly competitive Costa Rican products so far.

<sup>33</sup>EIU (1994d), p. 1.

(iii) Bilateral agreements

55. Costa Rica signed a Free Trade Agreement (*Tratado de Libre Comercio*) with Mexico in April 1994.<sup>34</sup> This agreement, which entered into force on 1 January 1995, provides for the progressive elimination of tariffs on nearly all goods in less than ten years and the suppression of all non-tariff barriers (except for certain items such as mineral oils and fuels, rubber and made-up textile articles for Costa Rica; and mineral oils and fuels, organic chemicals and transport equipment for Mexico). Preferential arrangements on trade in sugar are established in favour of Costa Rica. The Agreement also allows for national treatment for investors from each country. It contains provisions on government procurement, intellectual property rights, dispute settlement procedures and trade in services.<sup>35</sup>

56. In 1973 Costa Rica signed a Free Trade Agreement with Panama (*Tratado de Libre Comercio e Intercambio Preferencial*). According to the Government, this Agreement covers 991 eight-digit NAUCA II tariff items, 84 per cent of which enjoy unrestricted duty-free access in Costa Rica, 8 per cent are subject to surveillance by import licences issued by MEIC, 7 per cent are, in principle, covered by tariff quotas (Chapter IV), and tariff cuts of 8, 25 or 50 per cent apply to around 1 per cent.<sup>36</sup> In 1991 the Agreement covered 87 per cent of Costa Rica's exports to Panama and 58 per cent of imports from that country.

57. Since 1981 Costa Rica has had a trade agreement with the Dominican Republic (*Convenio Comercial*). At present, zero duties apply to few goods (22 CCCN eight-digit items).

58. Costa Rica has also concluded reciprocal trade agreements with Albania (not ratified), Argentina, Austria, Germany, Bulgaria, Chinese Taipei, the former Czechoslovakia, Denmark, France, Hungary, Honduras, Italy, Japan (not ratified), Jamaica, the Republic of Korea, Norway, Poland, Romania, the former Soviet Union, Spain, the United States and the former Yugoslavia.

(iv) Other agreements or arrangements

59. Under a 1980 agreement, known as the San José Pact, Mexico and Venezuela supply oil to Central American and Caribbean countries on concessionary terms. Part of the invoice value (20 per cent) is reserved in favour of the importing countries and can be returned as development aid in the form of soft loans. Preferential treatment is given to loans for energy sector projects. The agreement is automatically renewed each year. However, little use has been made of this facility since 1988.

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<sup>34</sup>COMEX (1994b). This agreement was notified to the GATT at the Council meeting of March 1994 (C/M/271, 7 April 1994).

<sup>35</sup>Some concern has been expressed in some business and political circles over the impact of the devaluation of the Mexican peso on the bilateral trade balance. This could disadvantage Costa Rican exports to the Mexican market while favouring imports from Mexico. In this context, the Costa Rican Government has announced that, if necessary, the emergency clauses of the Agreement could be invoked (*Caribbean and Central America Report*, 26 January 1995).

<sup>36</sup>Developments in CACM's Customs Tariff Nomenclature are also discussed in Chapter IV.

60. Between 1979 and 1990 Costa Rica is estimated to have received financial aid of more than US\$1.0 billion from the United States, although assistance levels to Costa Rica have declined significantly in recent years.<sup>37</sup> In the past, aid took various forms; for example, the United States Agency for International Development (USAID) funded projects providing training in the United States for Costa Ricans, family planning services and natural resource conservation.<sup>38</sup> It also created and funded the Costa Rican Coalition for Development Initiatives (*Coalición Costarricense de Iniciativas de Desarrollo*, CINDE), entrusted with promoting foreign investment, training farmers and marketing non-traditional products. In 1990 the USAID assisted Costa Rica in negotiating successfully the buy-back of US\$767 million of its principal debt plus US\$223 million of default interest payments, thereby reducing the commercial bank debt by 61.5 per cent.

61. On 30 September 1994, an agreement was signed with the United States to channel funds from US companies which produce carbon dioxide emissions into protecting tropical forests in Costa Rica. The idea consists of providing environmental aid to neighbouring countries whose forests help in cleaning the air in the United States.<sup>39</sup> The agreement contains provisions relating to technology and information transfer to facilitate the development of projects aimed at reducing the emission of gases responsible for the "greenhouse effect".

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<sup>37</sup>In 1991 economic aid to Costa Rica through USAID (16 per cent), P.L. 480 (30 per cent) and economic support funds (50 per cent) were estimated at US\$50.3 million or 28 per cent of the 1987 level. This was mainly due to a decline in economic support funds to one-sixth of their 1987 level and a 50 per cent reduction in the USAID contribution (EIU, 1993, p. 25). Since 1983 the amounts provided under P.L. 480 have also been declining; they fell from US\$28 million in 1983 to US\$15 million in 1986. In 1991, 1993, 1994 and 1995 no assistance of this type was given to Costa Rica.

<sup>38</sup>R.L. Breitenecker (1992), pp. 939-942.

<sup>39</sup>EIU (1994d), p. 20.